

# *unofficial*

MINUTES OF THE SPECIAL MEETING/MICRO RETREAT OF THE HONORABLE MAYOR AND CITY COUNCIL OF THE CITY OF CHANDLER, ARIZONA, held in the Council Conference Room, 88 E. Chicago Street, on Monday, October 19, 2015.

THE MEETING WAS CALLED TO ORDER BY MAYOR JAY TIBSHRAENY AT 6:00 P.M.

The following members answered roll call:

Jay Tibshraeny	Mayor
Kevin Hartke	Vice-Mayor
Nora Ellen	Councilmember (telephone)
Rick Heumann	Councilmember
René Lopez	Councilmember
Terry Roe	Councilmember
Jack Sellers	Councilmember

Also in attendance: Marsha Reed, Acting City Manager; Nachie Marquez, Assistant City Manager; Marla Paddock, City Clerk; Matt Burdick, CAPA Director; Police Chief Sean Duggan; Fire Chief Jeff Clark; Human Resource Director Debra Stapleton; Management Services Director Dawn Lang; Patrice Kraus, Intergovernmental Liaison.

## Updated Financial Reserve Policy

Ms. Lang noted none of the funds that have reserves established in the updated policy have been changed. She explained more substance has been added to it based on the Government Finance Officers Association (GFOA) Best Practices.

She reviewed the proposed policy and noticed the changes will document the City's approach to establishing and maintaining adequate reserves. She said in order to look at something as substantial as the PSPRS (Public Safety Personnel Retirement System) pension problems and ways to address the unfunded liability, there was a need to review the level of General Fund reserves the City has.

She said the policy also identifies all funds supporting City operations that reserves should be maintained, and consider all types of risks when determining the amounts.

She noted that establishing target reserve levels and the methodology for calculating reserve levels has been established on the Enterprise funds, but not in the General Fund. Criteria is established for the use of reserves and the process and timeframe to replenish reserves, but needs to be clarified and expanded for some funds

She stated the current policy identifies specific types of reserves, whether appropriated or not, and level of restriction based on use, but again will be clarified and expanded.

She said one of the most important topics in this reserve policy is the Proposed Minimum Reserve Target. She said the City has been fortunate over the years in having a healthy reserve that has helped maintain a very high bond rating and provided opportunities to cash fund some capital needs.

She explained the FY2015-16 General Fund Reserves by Category. She said the overall General Fund balance at the end of FY 2015-16 is \$105,975,533. Out of that there is

\$31,125,000 which represents the 15% General Fund Contingency and \$400,000 of Council Contingency. She explained that is considered “unassigned” because it can be used for any purpose.

The \$73,168,105 is considered “assigned” and consists of the Budget Stabilization Reserve, Capital and Economic Development Reserves, Public Safety Early Hire Reserve, Fuel and Utility Reserve, and Domestic Violence Reserve.

Ms. Lang said there is a small portion that is considered Nonspendable and Restricted. The Reserve Policy does not apply to this amount (\$1,682,428) consisting of Court Enhancement Funding – the spending of these funds are dictated by an outside agency.

She said the Proposed Minimum Reserve Target that is an imaginary line that when reserves are spent down over time, we would like to maintain 4 months of budgeted operating revenues in the event of catastrophic or economic downturn. She said 50% of the General Fund revenue comes from local sales tax that is extremely susceptible to economic volatility. 30% of General Fund revenue comes from State Shared Revenue that can quickly be impacted by a legislative change. She noted the GFOA recommends a two month reserve. Staff is recommending four months. She reiterated this is only the General Fund Balance.

#### Public Safety Personnel Retirement System Unfunded Liability:

Ms. Lang said every city has this issue. Chandler’s liability is \$106,525,010 between police and fire. She said an interesting note is that in August, the City of Prescott went out for a referendum for a .55% sales tax measure to specifically pay this public safety liability. She said the voters did not pass it and the city is in the process of reviewing budget cuts. She noted some cities have decided to bond or use General Fund balance.

Ms. Lang reviewed the following:

Percentage funded: Fire pension is 66.9% funded and Police is funded at 59.5%  
Percent Active: Fire 72% and Police 69%  
Percentage Retired/DROP/Inactive: Fire 28% and Police 31%  
Unfunded Liability or DEBT Balance 6/30/2014: Fire \$34,965,775 and Police \$71,559,235  
FY2014-15 City Contribution to PSPRS: Police \$2,962,169 and \$6,370,251 Police  
FY2015-16 City Contribution to PSPRS: \$3,718,149 and Police \$8,299,038  
FY2014-15 to FY2015-16 Rate: Fire: 21.45% / 26.84% Police: 24.73% / 31.58%  
Normal Rate Portion: Fire: 11.84% / 11.76% Police: 12.10% / 21.9%  
Unfunded Liability Portion: Fire: 9.61% / 15.08% Police: 12.63% / 19.39%

She noted this was a critical year. The rate consists of the normal rate and an unfunded liability portion of the rate. The State, over the next 22 years, at a rate of 8%, they have built in to the rate, a portion that will go towards the unfunded liability. She related that to paying a minimum payment on a credit card.

She explained every city is actuarialized individually. She noted a critical case that had impacts on this was the Fields Case that restored Permanent Benefit Increases to retirees, which grew the unfunded liability. She stated then the Hall case, which has not been decided, but that would restore the Permanent Benefit increases to “actives” and reduce employee contributions back to 7.65%. As of the passage of SB1609, the actives are paying 11.65%. 4% goes directly toward

the unfunded liability debt. She stated if the Hall case is upheld, the unfunded liability will increase over the current \$106 million. Ms. Lang said the case is currently in the Supreme Court.

She reiterated the unfunded liability debt must be paid down. The plan changes will only effect future members, not existing.

Ms. Lang said the PSPRS Taskforce was formed in June 2014. She recalled the Employer recommended practices that were reviewed with Council in March. Then reviewed the ones that have been accomplished:

\*Do not defer the Fields Case. There was an option to implementing that increase over a 3 year period; however we did not.

\*Prepay Budgeted Contribution for FY2015-16. \$12 million was our employer liability in FY2015-16. That was paid in full to the State on July 1, 2015. As a pension fund, they are allowed to invest out 20 years. They can opt to invest that and any interest earned on those dollars can be a one-time payment against the unfunded liability.

\*Review Local Board Practices – this is in process.

\*Budget Contributions for DROP Members - she explained when a member enters the DROP Program, both the employee and employer retirement contribution stops. She says what happens then is you have an active person working for a number of years and there is no money going in for their future retirement cost, so it actually hurts the system. The recommendation would be to start budgeting as if you were to pay those in and make it a lump sum payment against the liability an include in one-time payment projections.

\*Create a Pension Funding Policy and payoff unfunded liability earlier.

		PSPRS ANNUAL CONTRIBUTION ONGOING VS. ONE-TIME				
		Year	1	2	5	9
		FY15/16	FY16/17	FY19/20	FY23/24	FY24/25
<b>■ Council Approved New Approach for Annual Contribution</b>						
➤ Cap Ongoing at FY 2014-15 Contribution of \$9.3M						
➤ Pay Cumulative Future Contribution Increases with One-Time Beginning FY 2015-16						
<b>Ongoing vs. One-Time Analysis</b>						
Actual Ongoing Normal Rate Portion		4,832,575	5,245,719	6,460,913	8,326,475	8,840,814
Actual One-Time Unfunded Rate Portion		7,184,612	7,688,934	9,461,734	12,182,996	-
Total Employer Contribution		12,017,187	12,934,653	15,922,647	20,509,471	8,840,814
Ongoing Capped at \$9,332,420		9,332,420	9,332,420	9,332,420	9,332,420	9,332,420
One-Time Balance Drawdown - Option 1		2,684,767	3,602,233	6,590,227	11,177,051	-
Total Employer Contribution		12,017,187	12,934,653	15,922,647	20,509,471	9,332,420
Additional One-Time - Option 2		-	2,500,000	2,500,000	38,596	-
Total One-Time Balance Drawdown - Option 2		2,684,767	6,102,233	9,090,227	11,215,647	-

She explained we do not have enough capacity in our ongoing revenue to support increases every year in public safety retirement. She explained the Council agreed upon a new approach to the annual contribution in capping on the ongoing contribution at the end of FY2014-15 Contribution at the \$9.3 million. That amount would continue to be paid out of ongoing and every

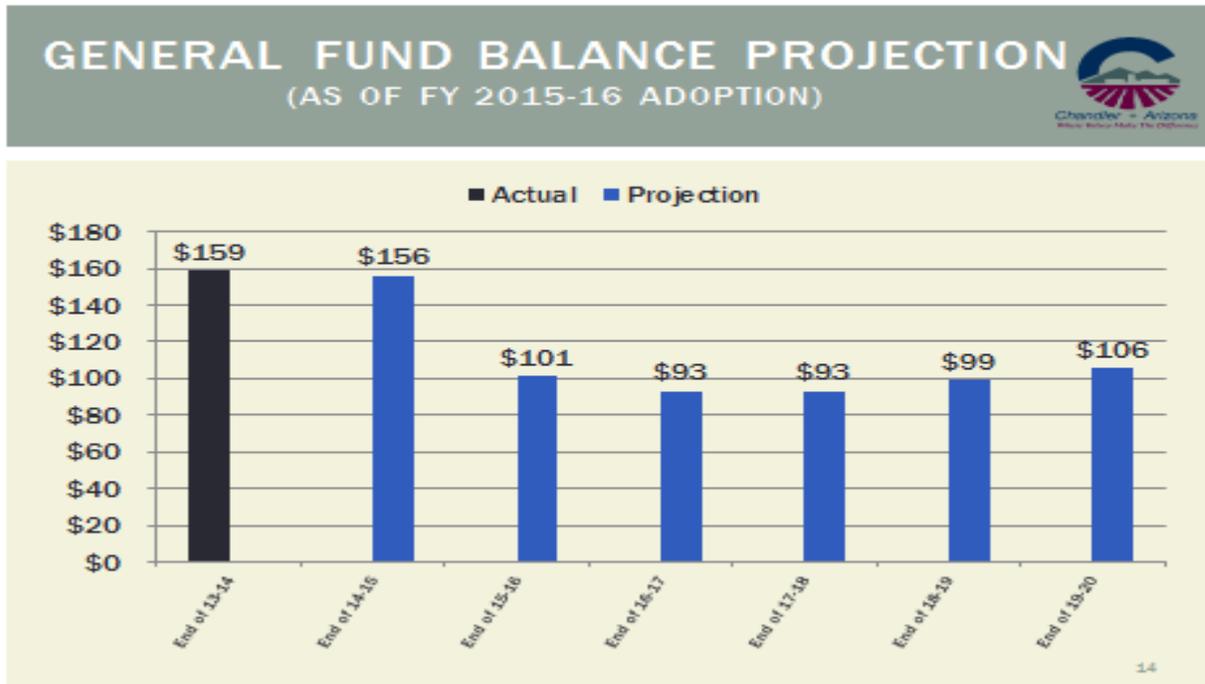
increase each year following, would be paid from a one-time General Fund balance. She said the number is based on the current police and fire count. She noted the ongoing normal portion of the rate should always be paid for out of the ongoing dollars. The unfunded portion is really one time because once the debt goes away, the rate goes back down. She said the amounts are budgeted every year even though the chart presentation is showing a few of those years. She said by Year 10, there is an estimated 2.5% increase built in for police and fire wage on average. Also built in is a 1.5% for the rate on an annual basis. With those increases and that projection into the future, by FY2023/24 if there are no additional payments made to the unfunded liability, the total employer contribution will be up to \$20.5 million.

Ms. Lang noted that at Year 9, and the number is \$20,509,471, by year 10 the normal portion of the rate is at \$8.8 million. She stressed the \$9.3 would be an appropriate level of ongoing. Councilmember Hartke emphasized that this information is only based on current assumptions. She reiterated that Option 1 pays the cumulative increase over time out of the one-time fund balance. Option 2 would be to make an additional \$2.5 million payment every year and by Year 9, the unfunded portion would almost be paid off. The difference is a 2 year payoff between options. She emphasized that is if the Hall case is not upheld.

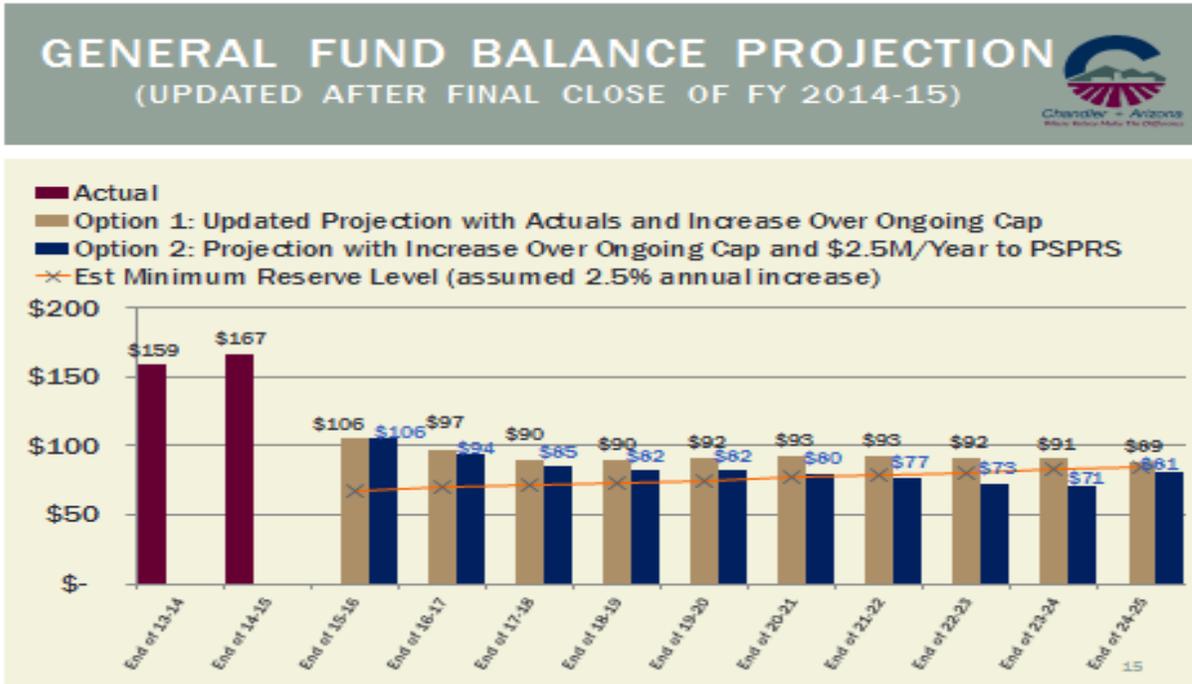
PROPOSED PSPRS UNFUNDED LIABILITY PAY-DOWN PLAN OPTIONS					
<ul style="list-style-type: none"> <li>■ Council Approved Developing Unfunded Liability Pay-Down Plan</li> <li>■ Option 1 Pays Unfunded Liability in Year 11                             <ul style="list-style-type: none"> <li>➢ Cap Ongoing at FY 2014-15 Contribution of \$9.3M</li> <li>➢ Pay Cumulative Future Contribution Increases with One-Time Beginning FY 2015-16</li> </ul> </li> <li>■ Option 2 Pays Unfunded Liability in Year 9                             <ul style="list-style-type: none"> <li>➢ Same as Option 1, But Pay Additional \$2.5 M Beginning FY 2016-17</li> </ul> </li> </ul>					
	Year	1	2	5	9
		FY15/16	FY16/17	FY19/20	FY23/24
Unfunded Liability as of 6/30/2014		\$ 106,525,010	\$ 99,003,358	\$ 65,700,559	\$ 12,558,632
1 Less: Annual Employer Unfunded Contribution		(7,184,612)	(7,688,934)	(9,461,734)	(12,182,996)
2 Less: Interest Earned on Prepaid Contribution		(337,040)	(337,040)	(337,040)	(337,040)
3 Less: Budgeted DROP		-	-	-	-
4 Less: Additional One-Time Payment Lump-Sum		-	(2,500,000)	(2,500,000)	(38,596)
Unfunded Liability Remaining		99,003,358	88,477,384	53,401,784	0

Ms. Lang reviewed that the unfunded liability begins at \$106,525,000, less the unfunded portion of our rate that is going toward that debt. She said the "Interest Earned on Prepaid Contribution" is the calculation of earning additional interest by sending the \$12 million to the pension system on July 1. This would be the present value of that money at 6% interest over time. The additional lump sum would then take it down to zero by Year 9.

Mayor Tibshraeny asked Ms. Reed if this would be included as part of the budget process. Ms. Reed responded that if Mayor and Council agreed to this approach, it would be incorporated into the FY 2016-17 budget.



Ms. Lang explained the impact on the General Fund balance of using one-time as recommended. First she showed the above chart, prior to incorporating the General Fund dollars towards the PSPRS Unfunded liability. She said these projections assume that we are going to spend every dollar set aside for capital projects and other things, but prior to incorporating using General Fund balance to pay the unfunded liability. She noted at the end of 2014-15 they gained about \$5 million over projection going into the FY 2015-16 budget.



She displayed the above chart and explained the impact of the unfunded liability paydown options on the General Fund. She said they have also taken into consideration other discussions impacting the budget, such as additional parking commitments for downtown. The normal trend of spending has been added to the second five year period and that every year the forecast is updated. She again noted the Hall Case, once decided, could cause the unfunded liability to grow.

She stated she is recommending Option 2 and once the decision is made on the Hall Case, this information will be updated. She suggested making the biggest dent in the amount in the beginning years and start paying the additional \$2.5 million and readjust as necessary.

The Mayor asked if the current budget structure was under Option 1. Ms. Lang said the budget is currently under Option 1. Ms. Lang said the first year Option 2 would be in play would be the FY2016-17 budget.

She noted every year this liability is sitting on our balance sheet so each year during the rating review the General Fund balance and strength of reserve policy is looked at.

In response to a question from Councilmember Heumann, Ms. Lang said the forecasted employment assumptions only assume existing levels of public safety, with only one remaining planned fire station personnel added in the out years.

There was support for option 2.

**OTHER FINANCIAL POLICIES  
IN PROCESS**



- **Existing Financial Policies**
  - Reserve Policy – Update Proposed
  - Operating Management Policy
  - Capital Management Policy
  - Debt Management Policy
  - Investment Policy
  - Financial Reporting Policy

**Updates In Process  
for Discussion  
in November**

- **New Financial Policies to be Proposed**
  - Grant Management Policy
    - \$30K Contract Threshold for Council Consideration

**Maintaining Strong Fiscal Policies Contributes to Higher Bond Ratings**

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Ms. Lang stated all of the Reserve Policies in the City and there are updates being reviewed. She explained that in the future, any changes to the plans will be done by resolution of the City Council. All the policies will be included in the budget book as usual. She said a new Grant Management Policy is currently being developed. The City Code sets a threshold for professional services at \$30,000 for Council approval. Any amount under that can be approved by the City Manager. The amount is set at \$50,000 for goods and services. Staff would like to apply the \$30,000 threshold to grants for City Council authorization. However a summary of all grants in the City would be made to Council.

In response to a question from Councilmember Hartke, Ms. Lang said Public Safety receives the majority of the smaller grants; but there are many that have not come before Council. She noted some require contracts. There was support to allow City Council authorization at the \$30,000 threshold.

Adjournment: The meeting was adjourned at approximately 7:00 p.m.

ATTEST: \_\_\_\_\_  
City Clerk

\_\_\_\_\_  
Mayor

Approved: March 17, 2016

### CERTIFICATION

I hereby certify that the foregoing minutes are a true and correct copy of the minutes of the Special meeting/Micro Retreat of the City Council of Chandler, Arizona, held on the 19th day of October 2015. I further certify that the meeting was duly called and held and that a quorum was present.

DATED this \_\_\_\_\_ day of March, 2016.

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City Clerk