

Executive Summary

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Fiscal Year 2016-17 City Manager Budget Message

To the City of Chandler Mayor and Council, and Citizens of Chandler:



As the prior Acting and now newly appointed City Manager, I am pleased to provide to you the Fiscal Year (FY) 2016-17 Proposed Budget and 2017-2026 Capital Improvement Program (CIP) for the City of Chandler. This proposed budget was created with the help of Department Directors collaborating to identify funding priorities based on Council's updated Strategic Policy Goals and supports ongoing service, public safety, amenity and infrastructure needs within the community. Citizen input was received through a successful Citizen Budget Survey that reflected overall high scores on "City Government Performance," "Quality of Life," and "Great Return on My Tax Dollars," as well as our fifth annual "Budget Connect" virtual community meeting. As is the case every year, the budget reflects Chandler's continued commitment to provide the highest quality services in the most cost-effective manner, while maintaining the City's long-term financial sustainability.

The total budget (operating and capital) is \$971.2 million for FY 2016-17, which represents a 6.7 percent increase from the FY 2015-16 budget. The total operating budget is decreasing 3.3 percent, and the total capital budget is increasing by 21.1 percent for planned spending of new and carryforward projects.

Total General Fund, which includes debt service, operating, and capital spending, represents 35.2 percent or \$341 million of the City's total budget, and increases by 7.6 percent primarily due to increased capital projects. Additional details on the components of the total and General Fund budget are shown in the Highlights section.

"Another Year of Fiscal Strength and Low-Cost Services"

Our past and current leaders have provided vision for our community, making it a progressive, dynamic destination with hometown traditions amid a world-class innovation hub. Council's updated Strategic Policy Goals continue to build on this vision, maintaining fiscal sustainability and providing great value to our Citizens through conservative planning and forward thinking. FY 2016-17 continues to be *"Another Year of Fiscal Strength and Low-Cost Services"*, by providing the second lowest cost of City services to our citizens, compared to other valley cities. Although we are proud of our current fiscal position, which includes AAA bond ratings and strong economic development, we are not resting on past successes. An extensive effort took place to ensure the City's Financial Policies were reviewed, updated, and adopted by Mayor and Council, setting the financial standards for the FY 2016-17 budget and future years to come. It is my belief that the measures outlined below and detailed throughout the budget will continue to set the tone for sustained financial strength and exceptional service to the citizens of Chandler.

The City is Stable, But State Legislative Actions Keep Chandler Cautious

The City's sustainable ongoing revenues have seen slow and steady growth since the great recession, as Chandler's economic development remains strong and the City continues to enhance its downtown, plan towards build-out and manage expenditure growth. Meanwhile, City staff continue to monitor local legislative actions that threaten future City funding. The 2013 State Legislature passed House Bill 2111 that will shift the administration of the City's Transaction Privilege Tax (TPT), commonly referred to as sales tax, to the Arizona Department of Revenue (ADOR). This has been extended to an unknown period as the State works to reprogram their tax system, but changes in how TPT Audit and Prime Contracting are administered went into effect January 2015. These impending administrative changes came with an ongoing payment to the State of \$513,292 anticipated in FY 2016-17.

Additionally, the City conducted a mid-decade Census to ensure our citizens are counted, since the population determines the amount of State Shared revenues Chandler receives. Proposed legislation may go into effect that will adjust all cities population figures annually, leaving cities unsure of the State Shared revenue amounts from year to year. Due to the uncertainties about future revenues from the transition of TPT Administration from the City to the ADOR, and State legislative actions that could reduce City revenues, the Budget Stabilization Reserve has been continued in the amount of \$15 million in the FY 2016-17 Budget.

Operating Budget

When setting Chandler's long-term operating forecast, managing costs for services is imperative with only slow and steady operating revenue growth anticipated. Our General Fund 5-Year Ongoing Forecast (page 5) reflects a



cautious approach, with *ongoing* operating expenditures supported by *ongoing* revenues, creating a structurally balanced budget. Following are Operating Highlights included in the FY 2016-17 Proposed Budget:

- ✓ Reduction of the City Property Tax rate: \$1.16 per \$100 of Assessed Value, from \$1.1792, minimizing the impact of the 7.29% increase in Property Values.
- ✓ No increase to the City Transaction Privilege Tax rates: one of the lowest compared to other valley cities.
- ✓ Decision Packages: maintains/enhances existing service levels by adding ongoing (\$2.2 million) and one-time funding (\$4.3 million) for a total of \$6.5 million to General Fund and \$2.3 million to all Other Funds.
 - This includes adding 11.75 positions in General Fund and 4 in Other Funds, bringing total Full Time Equivalents (FTE) to 1,650.9 Citywide. This equates to 6.7 employees per 1,000 in population, the second lowest compared to other valley cities, keeping Chandler lean as well as efficient in providing services.
- ✓ Adds funding for employee compensation: a combination of merit, cost of living, and union commitments.
- ✓ Allocates \$5.7 million in one-time funding for Public Safety Personnel Retirement System (PSPRS) increases towards the goal of fully funding future retirement commitments of sworn City personnel.
- ✓ Adds a \$350,000 ongoing General Fund Technology Reserve to fund future upgrades.
- ✓ Maintains a 15% appropriated General Fund Contingency Reserve, as well as other important reserves.

Chandler's continued reliance on solid financial management practices detailed in the City Financial Policies has kept the City of Chandler fiscally strong, and this budget continues that tradition.

Capital and Debt Management

As we look to the future of Chandler and strive to improve the quality of life for our citizens, it is vital that we continue to provide well designed and maintained infrastructure and amenities. As noted above, the total capital budget is increasing by 21 percent for new and continuing projects, due mainly to larger than normal carryforward amounts for projects in process, such as the Ocotillo Water Reclamation Facility expansion, and funding for five different arterial street projects that are in design or construction. The current year also includes funding for the Public Safety Training Facility, a new Downtown Parking Garage, and the expansion of the Joint Water Treatment Plant in Gilbert as well as planned projects for street repaving, community and neighborhood park improvement and repairs, downtown street and utility improvements, and other infrastructure maintenance and repair projects.

Debt management is also a critical component in a strong capital plan to ensure maximum savings through bond refunding and minimizing impacts to the secondary tax rate (whose levy pays principal and interest on General Obligation (GO) bonds). I am happy to report that the 2017-2026 Capital Improvement Program (CIP) continues the Council priorities of maintaining existing infrastructure and finishing planned construction of neighborhood parks and southeast arterial streets (Capital project details in CIP section).

Ensuring Fiscal Strength and Low-Cost Services

As with previous budgets, we have taken measures to ensure that the City is able to balance its operating and capital budgets over the short term as well as the long run. To ensure continued fiscal strength and manage expenditure growth to keep the cost of services low, the City will need to continue the tradition of transparency, maintaining strong financial policies, adding efficiencies, providing essential public services, and maintaining infrastructure to make it attractive for businesses and their employees. I am pleased to report that FY 2016-17 is anticipated to be "*Another Year of Fiscal Strength and Low-Cost Services*" for our City and citizens.

Acknowledgements

I would like to thank the City Council for their guidance and support throughout the development of this budget. As always, this budget was a collaborative effort which involved employees at all levels of the organization: City Manager's Office, Department Directors and their Department Budget Liaisons; Human Resources Department staff; and all of the employees of the City who have contributed. A very special thanks to Management Services Director, Dawn Lang, Budget Manager, Greg Westrum, and the Budget staff who spent long hours providing analysis and compiling this detailed budget document.

Respectfully,

Marsha Reed
City Manager



General Fund 5-Year Ongoing Operating Forecast

An important part of the budget process is the preparation of the General Fund 5-Year Ongoing Forecast to assist the City with sound financial decisions. A preliminary version of the forecast was reviewed in February with the Mayor and Council, using estimates based on actuals through December 2015 for revenues and expenditures and preliminary projections for the Fiscal Year (FY) 2015-16 State Shared Revenues, Local Sales Tax, Property Tax, and other key revenues. Through February and March, we continued to receive updated information from the State of Arizona, the League of Arizona Cities and Towns, and internal City departments to update anticipated FY 2015-16 revenues and expenditures. This has resulted in a revised forecast that forms the basis for the FY 2016-17 Budget and future projections.

The forecast assumes modest ongoing revenue and expenditure growth of 1.7% to 3.2% annually. The expenditure assumptions anticipate increases in retirement, health care, and other operations and maintenance (O&M) costs, including items such as utilities, software system contract maintenance and additions to the operating budget resulting from new capital improvements (e.g., additional staff, landscape costs, asphalt pavement repair costs, utilities).

Major assumptions used in developing the General Fund 5-Year Ongoing Forecast are shown in the table below. The five columns reflect the projected percentage or dollar changes of the ongoing portion of anticipated revenues and expenditures.

MAJOR REVENUE ASSUMPTIONS	FY16-17 Ongoing Change	FY17-18 Ongoing Change	FY18-19 Ongoing Change	FY19-20 Ongoing Change	FY20-21 Ongoing Change
Local Sales Tax	+3%	+3%	+3%	+2%	+2%
Primary Property Tax	+4%	+4%	+4%	+4%	+4%
State Shared Sales Tax	+3%	+3%	+2%	+2%	+2%
Urban Revenue Sharing	+1%	+3%	+3%	+2%	+2%
Vehicle License Tax	+3%	+3%	+2%	+2%	+2%

EXPENDITURE ASSUMPTIONS	FY16-17 Ongoing Change	FY17-18 Ongoing Change	FY18-19 Ongoing Change	FY19-20 Ongoing Change	FY20-21 Ongoing Change
Vacancy Savings Rate 1.5%	No change				
Employee Compensation*	+5%	0%	0%	0%	0%
Health Care Premium Costs	+9% As of 1/1/17	+8% As of 1/1/18	+8% As of 1/1/19	+8% As of 1/1/20	+8% As of 1/1/21
AZ State Retirement System	+0.01%	+1%	+1%	+1%	+1%
Public Safety Retirement System (PSPRS)					
PSPRS - Police	+0.60%	+1.5%	+1.5%	+1.5%	+1.5%
PSPRS - Fire	+0.43%	+1.5%	+1.5%	+1.5%	+1.5%
New Personnel and Operation & Maintenance (O&M) Adds	\$2,768,722	\$1,200,000	\$1,200,000	\$1,200,000	\$1,200,000
Capital Project O&M Adds	\$295,210	\$1,507,100	\$1,636,000	\$578,400	\$246,500
Potential HURF Revenue Reduction; Expenditure Shift to General Fund	\$0	\$1,000,000	\$0	\$0	\$0

*Percentage for FY 2016-17 varies by employee group. The 5% figure represents a general average for all Merit, Cost of Living and union commitments.



General Fund 5-Year Ongoing Operating Forecast (Cont')

This forecast reflects future revenue estimates based on Fiscal Year (FY) 2015-16 revised revenue and trend history. Further analysis is then completed to determine what portion of the total revenues will continue (ongoing) to support ongoing operating expenditures. This forecast excludes employee salary increase assumptions for FY 2017-18 through FY 2020-21 and General Fund balance that has accumulated from prior years. The General Fund Balance Projection can be found on the next page.

Descriptions	2016-17 Proposed Ongoing & One-Time	% Change over 15-16 Revised	2016-17 Ongoing Amount	On-Going % of budget	% Change in On-Going	2017-18 Ongoing Amount	% Change in On-Going	2018-19 Ongoing Amount	% Change in On-Going	2019-20 Ongoing Amount	% Change in On-Going	2020-21 Ongoing Amount	% Change in On-Going
Revenues and Other Sources													
Local Taxes and Licenses													
Franchise Fees	3,275,000	-0.3%	3,065,000	93.6%	3.0%	3,126,300	2.0%	3,189,000	2.0%	3,253,000	2.0%	3,318,300	2.0%
Transaction/Privilege Tax	107,391,000	-1.0%	99,777,905	92.9%	2.7%	103,267,600	3.5%	106,350,900	3.0%	108,486,200	2.0%	110,661,500	2.0%
Other Licenses	446,000	-0.7%	446,000	100.0%	-1.1%	455,100	1.9%	464,600	2.0%	474,300	2.0%	484,100	2.1%
State Shared Revenues													
State Shared Sales Tax	23,407,000	4.0%	20,500,000	87.6%	3.0%	21,200,000	3.4%	21,630,000	2.0%	22,070,000	2.0%	22,520,000	2.0%
Vehicle License Tax	9,500,000	2.2%	8,650,000	91.1%	3.0%	8,910,000	2.9%	9,090,000	1.9%	9,280,000	2.0%	9,470,000	2.0%
Urban Revenue Sharing	30,000,000	5.4%	27,270,000	90.9%	1.0%	28,200,000	3.4%	29,050,000	3.0%	29,640,000	2.0%	30,240,000	2.0%
Charges for Services													
Engineering Fees	1,510,000	-3.2%	750,000	49.7%	0.0%	772,000	2.9%	794,400	2.9%	817,000	2.8%	839,800	2.8%
Building Division Fees	5,130,000	-12.7%	3,462,100	67.5%	0.0%	3,565,300	3.0%	3,636,700	2.0%	3,709,500	2.0%	3,783,700	2.0%
Planning Fees	417,200	-2.1%	245,100	58.7%	3.2%	249,700	1.9%	253,400	1.5%	257,100	1.5%	260,900	1.5%
Public Safety Miscellaneous	4,718,100	-8.4%	3,984,400	84.4%	-10.5%	4,067,400	2.1%	4,121,000	1.3%	4,175,600	1.3%	4,230,900	1.3%
Library Revenues	406,000	-1.6%	403,000	99.3%	-3.7%	411,200	2.0%	419,700	2.1%	428,300	2.0%	437,100	2.1%
Parks & Recreation Fees	3,225,857	2.1%	3,191,575	98.9%	7.0%	3,256,300	2.0%	3,322,300	2.0%	3,389,700	2.0%	3,458,500	2.0%
Miscellaneous Receipts													
Sale of Fixed Assets	120,000	4.3%	30,600	25.5%	2.0%	31,300	2.0%	32,000	2.0%	32,700	2.0%	33,400	2.1%
Other Receipts	1,476,000	5.0%	1,086,500	73.6%	14.3%	1,097,200	1.0%	1,108,500	1.0%	1,120,000	1.0%	1,131,700	1.0%
Leases	711,100	-28.0%	128,000	18.0%	-83.0%	130,600	2.0%	133,300	2.1%	136,000	2.0%	138,800	2.1%
Court Fines	3,240,900	5.5%	3,123,700	96.4%	-3.8%	3,185,100	2.0%	3,248,200	2.0%	3,312,800	2.0%	3,378,600	2.0%
Interest on Investments	1,222,000	14.4%	1,050,000	85.9%	5.0%	1,102,500	5.0%	1,157,700	5.0%	1,215,600	5.0%	1,276,400	5.0%
Property Tax													
Primary Property Taxes	7,556,520	3.9%	7,406,520	98.0%	3.9%	7,710,000	4.1%	8,020,000	4.0%	8,350,000	4.0%	8,690,000	4.1%
Indirect Cost Allocation/Transfers In													
	7,868,600	-2.5%	7,068,600	89.8%	-1.5%	6,962,900	-1.5%	6,964,000	0.0%	6,964,000	0.0%	6,964,000	0.0%
Total Revenues	211,621,277	0.3%	191,639,000	91%	1.7%	197,700,500	3.2%	202,985,700	2.7%	207,111,800	2.0%	211,317,700	2.0%
Expenditures & Other Uses													
Ongoing Personnel Services	152,279,300		152,279,300	1.7%		154,669,700	1.6%	156,450,700	1.2%	158,483,700	1.3%	160,808,700	1.5%
Less Vacancy Savings (15%)	(2,284,000)		(2,284,000)			(2,320,000)		(2,347,000)		(2,377,000)		(2,412,000)	
Ongoing Base Budget	41,643,700		41,643,700	1.6%		42,843,700	2.9%	44,043,700	2.8%	45,243,700	2.7%	46,443,700	2.7%
Expenditures Shifted from HURF Funding	-		-			1,000,000		1,000,000	0.0%	1,000,000	0.0%	1,000,000	0.0%
CIP Operations & Maintenance	-		-			1,507,100		3,143,100	108.6%	3,721,500	18.4%	3,968,000	6.6%
One-Time Operating Expenditures	19,982,277		-			-		-		-		-	
Total Expenditures	211,621,277		191,639,000	1.7%		197,700,500	3.2%	202,290,500	2.3%	206,071,900	1.9%	209,808,400	1.8%
Cumulative Ongoing Surplus(Deficit)	0		0			0		695,200		1,039,900		1,509,300	

Ongoing vs. One-Time

The City projects current General Fund revenues and determines what portion can be sustained as ongoing revenues to support ongoing operating expenditures. Ongoing current revenues are not expected to exceed 91% of total estimated revenues for FY 2016-17. The 9.0% portion of one-time revenues are mainly increases in local sales tax collections and state shared revenues as a result of continued development projects and overall growth in the Arizona economy. While the economy remains strong, these revenues are not expected to continue year over year, therefore are considered one-time and not available to support ongoing operations.

Budget Stabilization Reserve

The FY 2016-17 Proposed Budget keeps the Budget Stabilization Reserve at the amount of \$15 million, which is the same amount as FY 2014-15 and FY 2015-16. The amount is set at this higher level due to the uncertainties about future revenues from the transition of Transaction Privilege Tax (TPT) Administration from the City to the Arizona Department of Revenue (ADOR) which is still pending. This reserve provides the opportunity to balance the budget in the future for no more than three consecutive years, until permanent ongoing reductions can be implemented, should state legislation, unexpected decreases in property values, or other economic issues cause operating revenues to suddenly decrease.

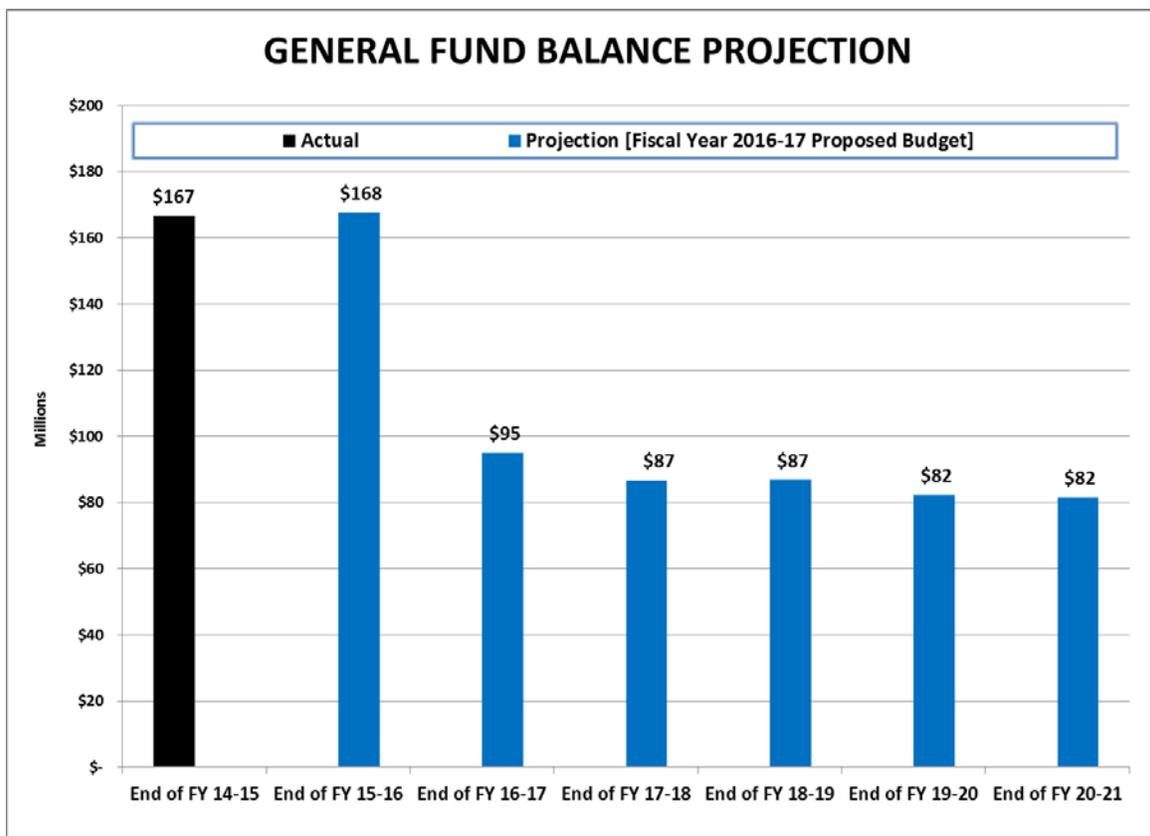
General Fund Balance 5-Year One-Time Forecast

The graph below shows the actual General Fund balance at the end of Fiscal Year (FY) 2014-15 (\$167 million) and projected ending General Fund balance for FY 2015-16 through FY 2020-21. The decline from the end of FY 2015-16 to FY 2016-17 assumes full spending of all appropriated projects in order to determine the remaining balance, although typically there are many projects in process at year end that are carried over into the following year which delays the full spending of budgets.

The General Fund balance projection includes new one-time revenues received each year in General Fund and drawdowns for one-time Economic Development commitments, capital projects (paid without borrowing), and non-recurring operating needs (e.g., one-time decision packages and contributions to self-insurance funds). General Funded capital and operating FY 2016-17 highlights include:

- Capital funding for the final year of the \$34.6 million Infrastructure Maintenance Reserve (IMR) established for streets and parks capital maintenance projects of \$10.25 million.
- Capital investment in Downtown Chandler of \$16.3 million, including a parking garage and improvements to various streets.
- Capital funding for facility improvements (\$3.5 million), large vehicles and equipment (\$1.5 million), public infrastructure improvements (\$1.1 million), and technology upgrades (\$2.9 million).
- Operating funding of \$5.7 million for Public Safety Personnel Retirement System (PSPRS) increases, applied towards the unfunded liability to support future retirement commitments of sworn City personnel.
- Operating funding of \$4.2 million for one-time Department decision packages, which includes \$1 million for street maintenance and \$811,000 for public safety purposes.

By the end of FY 2020-21, the fund balance is projected to be \$82 million, which is allocated to various reserves as outlined in the Budget Highlights section. The City’s Reserve Policy, adopted in January 2016, sets a new minimum fund balance to be maintained of at least four months of budgeted General Fund operating revenues, which equates to \$70.3 million for FY 2016-17.





Capital Improvement Program Summary

The tables below show a three-year history of Capital Improvement Program (CIP) spending for comparable 10-year periods. The full 10-year plan is provided in a separate book dedicated to the CIP. The sources and uses tables show adopted amounts for Fiscal Year (FY) 2015-2024 and FY 2016-2025, and the proposed amounts for FY 2017-2026.

The 10-year CIP reflects a \$77 million decrease (-7%) from 2016-2025 to 2017-2026 due to continued emphasis on maintaining existing infrastructure and living within capital financing constraints for any new construction. However, the CIP does include new construction, making maximum use of improved General Obligation (GO) bond capacity, available Impact Fees, one-time General Funds, and Enterprise Funds (Water, Wastewater, Solid Waste, and Airport). These sources will be used to fund neighborhood and community parks, a museum, parking garages, major improvements to key arterial streets and intersections, a new public safety training center, and continued construction and expansion of various water and wastewater systems and facilities.

Changes in Departmental programs reflect the addition of new projects noted above for General Government, Transportation & Development (Streets/Traffic), and Fire, Health and Medical. The General Government increase from the prior year is primarily attributable to a new Downtown Parking Garage project using funds dedicated to the Downtown Redevelopment Reserve and another parking garage project that did not materialize. Full details on all projects and Department requirements are contained in the 2017-2026 CIP book.

CIP Sources and Uses of Funds (10 Year Totals)

Sources	Adopted 2015-2024 CIP	Adopted 2016-2025 CIP	Proposed 2017-2026 CIP	Proposed % Change from 2016-2025
Current Revenues	\$ 118,725,970	\$ 133,039,202	\$ 139,384,348	5%
Grants	46,025,408	48,562,698	78,693,578	62%
Impact Fees/System Development Fees	149,741,141	127,927,182	132,997,239	4%
Bonds Paid by Secondary Levy	124,267,863	199,922,712	169,283,078	-15%
Bonds Paid by Enterprise Funds	479,641,350	618,943,282	530,991,684	-14%
Total Sources	\$ 918,401,732	\$ 1,128,395,076	\$ 1,051,349,927	-7%

Uses	Adopted 2015-2024 CIP	Adopted 2016-2025 CIP	Proposed 2017-2026 CIP	Proposed % Change from 2016-2025
General Government	\$ 40,883,040	\$ 40,273,499	\$ 64,146,638	59%
Community & Neighborhood Svcs	32,774,710	88,360,650	33,092,900	-63%
Police	6,939,438	22,004,012	19,337,713	-12%
Fire, Health, and Medical	13,489,752	14,965,014	16,851,000	13%
Water	237,056,099	213,068,559	203,634,059	-4%
Wastewater	348,907,636	479,849,128	399,307,000	-17%
Solid Waste	1,000,000	1,250,000	1,010,000	-19%
Streets/Traffic	196,811,293	226,087,629	282,392,432	25%
Airport	40,539,764	42,536,585	31,578,185	-26%
Total Uses	\$ 918,401,732	\$ 1,128,395,076	\$ 1,051,349,927	-7%

Secondary Assessed Value History and Limited Property Value Projections

This graph depicts the 10-year history for secondary assessed values in the City of Chandler, and a 5 year projection of limited property values, which is now used for both primary and secondary property tax rates.

Primary Property Tax revenues are those used for general government operations. The total levy for primary taxes is restricted to a 2% annual increase, plus allowances for annexations, new construction, and population increases. The Fiscal Year (FY) 2016-17 primary property tax rate is proposed to be reduced from the FY 2015-16 rate of \$0.2992 per \$100 of assessed valuation to \$0.29 per \$100 of assessed valuation. If adopted, this will generate a levy totaling \$7,406,518 based on the limited assessed values in FY 2016-17.

Secondary Tax revenues are restricted for general bonded debt obligations and voter approved budget overrides. The FY 2016-17 secondary property tax rate is proposed to be reduced from the FY 2015-16 rate of \$0.88 per \$100 of assessed valuation to \$0.87 per \$100 of assessed valuation. If adopted, this will generate a levy totaling \$22,219,555 based on the limited assessed value in FY 2016-17.

The chart below shows that assessed values peaked in FY 2009-10 and then decreased four consecutive years. Growth returned in FY 2014-15 as a result of new property added to the assessor rolls. However, in FY 2015-16, the State of Arizona converts to a new system of limited property valuation which creates a single value for both primary and secondary tax levies and a 5% cap on assessed value increases. As a result, the FY 2015-16 secondary assessed values remained essentially the same as FY 2014-15 (\$2.38 billion). The FY 2016-17 valuations increased to \$2.55 billion (+7.29%). The projected limited property values from FY 2017-18 to FY 2021-22 are shown in green reflected modest increases of 4.5% per year.

