

City Manager's Message  
5-year General Fund Forecast  
Overview of the Annual Budget and Budget Forecast



# CHANDLER



## *A Place of Excellence*

An All-America City, Chandler has achieved much in its 100-year plus history. It is a place of dedicated visionaries who carry on a common mission — keep Chandler as a community of excellence and distinction.



*Welcome to Chandler*



## Fiscal Year 2015-16 City Manager Budget Message

### To The Chandler City Council and Citizens of Chandler:



As Acting City Manager, I am pleased to provide to you the Fiscal Year (FY) 2015-16 Adopted Budget and 2016-2025 Capital Improvement Program (CIP) for the City of Chandler. As part of this message, I would like to recognize former City Manager Rich Dlugas, who retired on June 1, 2015, for his leadership in developing this budget. Rich's thorough understanding of City operations will be greatly missed in future budget discussions.

The budget is a product of thoughtful collaboration between Department Directors to identify funding priorities and is designed to reflect the needs and desires of the community. Community 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 fourth 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 to the community in the most cost-effective manner, while maintaining the City's long-term financial viability.

The total budget (operating and capital) is \$910.6 million for FY 2015-16, which represents a 16.2 percent increase from the FY 2014-15 budget. The total operating budget is increasing 7.5 percent, and the total capital budget is increasing by 31.7 percent for planned spending of new and carryforward projects.

General Fund (including debt service, operating, and capital spending), which represents 35 percent or \$317.3 million of the City's total budget, 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 Budget Policies, Process, and Decisions section.

### "The Place to Be"

The City of Chandler continues to be a progressive, dynamic destination with hometown traditions amid a world-class innovation hub.... it is "The Place to Be!" New developments to the City as well as economic stability have led to stronger revenues and reserves. While we are proud of our current fiscal position, which includes AAA bond ratings and strong economic development, we are not resting on past successes. It is my belief that the measures outlined below and detailed throughout the budget will set the tone for sustained financial strength and continued exceptional service to the citizens of Chandler.

### Stabilized Revenues with Continued Awareness of Legislative Impacts

The City's sustainable ongoing revenues have consistently grown since FY 2011-12. General Fund revenues are up in FY 2014-15 from the prior fiscal year, and the City is projecting slow and steady growth year over year as economic development continues and the economy remains stable. However, City staff continues to monitor local legislative actions that reduce 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) by January 2016 (changes in how TPT Audit and Prime Contracting are administered are in effect as of January 2015). As a result of this legislative session, the FY 2015-16 budget includes a \$692,900 payment to ADOR related to this transition. City staff continues to work with ADOR to ensure that the transition is as smooth as possible to minimize TPT revenue loss as a result of this transition. Due to the uncertainties about future revenues from the transition of TPT Administration from the City to the ADOR, and State legislative actions that would reduce City revenues, the Budget Stabilization Reserve has been continued at \$15 million in the FY 2015-16 Budget.

### Pragmatic Operating Projections

When setting Chandler's long-term forecast, managing costs for operating services is imperative with only slow and steady operating revenue growth anticipated. Our General Fund 5-Year Ongoing Forecast (page 5) reflects a pragmatic approach, with balanced *ongoing* operating expenditures supporting *ongoing* revenues in FY 2015-16. The out-years increase no more than 2.8% per year and reflect a slight ongoing surplus to allow for potential service enhancements. Following are Operating Budget Highlights included in the FY 2015-16 Budget:



Chandler + Arizona  
Where Values Make The Difference

- ✓ No increase to the City property tax rate: \$1.1792 per \$100 of Assessed Value.
- ✓ No increase to the City Transaction Privilege tax rates: one of the lowest compared to other valley cities.
- ✓ Maintaining or enhancing existing service levels by adding ongoing and one-time funding of \$6.9 million to General Fund and \$3.2 million to all Other Funds as prioritized by Departments (details shown in the Budget Policies, Process, and Decisions section).
  - This includes adding 10.5 positions in General Fund and 3.5 in Other Funds, bringing total positions Citywide to 1,634. This equates to 6.6 employees per 1,000 in population, the lowest compared to other valley cities, keeping Chandler lean as well as efficient in providing services.
- ✓ Adds funding for employee compensation including a combination of merit, cost of living, and union commitments.
- ✓ Identifies \$2.7 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.
- ✓ Maintains a 15% appropriated contingency reserve in General Fund, as well as other important reserves.

Chandler's continued reliance on strong financial policies has put Chandler in a great position, and this budget continues that tradition.

### Well Planned Capital and Related 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 31.7 percent for new and continuing projects, due mainly to accelerating expansions of the Fire Training Center and Ocotillo Water Reclamation Facility. The current year also includes 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 a critical component in a strong capital plan to ensure maximum savings by refunding debt and keeping the secondary tax rate (whose levy pays principal and interest on General Obligation (GO) bonds) low. A successful GO Bond refunding during FY 2014-15 provided \$11.5 million in present value savings, creating opportunities for new and accelerated capital projects over the next 5 to 10 years without any increases to the secondary tax rate. I am happy to report that the 2016-2025 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 can be found in the CIP book.

### Ensuring Fiscal Sustainability and Managing Future Growth

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 sustainability and growth, the City will need to continue the tradition of transparency, maintaining strong financial policies, providing essential public services, and maintaining infrastructure to make it attractive for businesses and their employees to keep Chandler "The Place to Be."

### 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 and 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  
Acting City Manager

### General Fund 5-Year Ongoing 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 2014 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 2015-16 Budget and future projections.

The forecast assumes modest ongoing revenue growth of 2.2% to 2.8% annually, expenditure growth of 2.1% to 2.8% annually, increases for costs not directly controlled by the City (e.g., retirement, health care, utility costs, software system contract maintenance costs), 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 first column represents FY 2015-16 total revenue change assumptions (ongoing and one-time combined) and the next five columns reflect the projected percentage changes of the ongoing portion of revenues. Expenditure assumptions for the next five years are also reflected.

MAJOR REVENUES	Adopted FY15-16 over Revised FY14-15 (ongoing + one-time)	FY15-16 Ongoing Change	FY16-17 Ongoing Change	FY17-18 Ongoing Change	FY18-19 Ongoing Change	FY19-20 Ongoing Change
Local Sales Tax	-1.0%	+5.7%	+3.0%	+3.0%	+2.0%	+2.0%
Primary Property Tax	+4.5%	+4.5%	+4.5%	+4.0%	+4.0%	+4.0%
State Shared Sales Tax	+4.8%	+4.7%	+3.0%	+3.0%	+2.0%	+2.0%
Urban Revenue Sharing	-0.5%	+3.8%	+4.0%	+4.0%	+4.0%	+3.0%
Vehicle License Tax	+7.1%	+5.0%	+3.0%	+3.0%	+3.0%	+3.0%

PERSONNEL EXPENDITURES	Adopted FY15-16 Expenditure Assumptions (vs. FY14-15 Adopted)	FY15-16 Ongoing Change	FY16-17 Ongoing Change	FY17-18 Ongoing Change	FY18-19 Ongoing Change	FY19-20 Ongoing Change
Vacancy Savings Rate	No change	1.5%	1.5%	1.5%	1.5%	1.5%
Employee Compensation*	5.0%	5.0%	0.0%	0.0%	0.0%	0.0%
Health Care Premium Costs	+6.5%	+6.5%	+8%	+8%	+8%	+8%
AZ State Retirement System	-0.13%	-0.13%	+1.5%	+1.5%	+1.5%	+1.5%
Public Safety Retirement System (PSPRS)	Beginning FY 15-16, the following PSPRS rate increases will be funded with one-time revenues, reflecting pay down of Chandler's Unfunded Liability.					
PSPRS - Police	+6.85%	+6.85%	+2%	+2%	+2%	+2%
PSPRS - Fire	+5.39%	+5.39%	+2%	+2%	+2%	+2%
<b>OTHER EXPENDITURES</b>						
Operation and Maintenance (O&M) Increases, i.e., Utility	NA	\$1,173,122	\$1,200,000	\$1,200,000	\$1,200,000	\$1,200,000
Capital Project O&M Adds	NA	\$151,286	\$40,400	\$772,100	\$1,861,800	\$2,143,100
HURF Reduction Causing Expense Shift to General Fund	NA	\$0	\$0	\$1,000,000	\$0	\$0

\*Percentage for FY 2015-16 varies by employee group. The 5% figure represents a general average for all Merit and Cost of Living increases.



### General Fund 5-Year Ongoing Forecast for Adopted Budget Updated from Preliminary

This forecast reflects future revenue estimates based on Fiscal Year (FY) 2014-15 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 2016-17 – FY 2019-20 and General Fund balance that has accumulated from prior years. The General Fund Balance Projection can be found on the next page.

Revenue Description	Adopted 2015-16 Total Ongoing and One-Time	% Change over 14-15 Revised	2015-16 Ongoing Amount	On-Going % of budget	2016-17 Ongoing Amount	% 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
<b>Revenues and Other Sources</b>												
<b>Local Taxes and Licenses</b>												
Franchise Fees	3,175,000	8.4%	2,975,000	93.7%	3,034,500	2.0%	3,095,400	2.0%	3,157,500	2.0%	3,220,900	2.0%
Transaction/Privilege Tax	104,189,750	-1.1%	97,171,250	93.3%	100,071,600	3.0%	103,056,900	3.0%	105,129,200	2.0%	107,242,500	2.0%
Other Licenses	451,000	0.0%	451,000	100.0%	460,200	2.0%	469,900	2.0%	479,700	2.0%	489,700	2.0%
<b>State Shared Revenues</b>												
State Shared Sales Tax	22,506,700	4.8%	19,900,000	88.4%	20,500,000	3.0%	21,120,000	3.0%	21,550,000	2.0%	21,990,000	2.0%
Vehicle License Tax	9,300,000	7.1%	8,400,000	90.3%	8,660,000	3.1%	8,920,000	2.9%	9,190,000	2.9%	9,470,000	2.9%
Urban Revenue Sharing	28,453,600	-0.5%	27,000,000	94.9%	28,080,000	4.0%	29,210,000	4.0%	30,380,000	4.0%	31,300,000	3.0%
<b>Charges for Services</b>												
Engineering Fees	1,560,000	1.1%	750,000	48.1%	772,000	2.9%	794,400	2.9%	817,000	2.8%	839,800	2.8%
Building Division Fees	4,950,250	32.2%	3,462,350	69.9%	3,565,500	3.0%	3,671,800	3.0%	3,745,200	2.0%	3,820,100	2.0%
Planning Fees	342,000	-16.9%	237,500	69.4%	242,000	1.9%	246,600	1.9%	250,300	1.5%	254,000	1.5%
Public Safety Miscellaneous	5,380,500	1.5%	4,451,900	82.7%	4,541,800	2.0%	4,634,000	2.0%	4,695,500	1.3%	4,758,300	1.3%
Library Revenues	420,480	-1.5%	418,410	99.5%	427,000	2.1%	435,800	2.1%	444,800	2.1%	453,900	2.0%
Parks & Recreation Fees	3,004,100	4.5%	2,983,533	99.3%	3,044,000	2.0%	3,105,500	2.0%	3,168,100	2.0%	3,232,400	2.0%
<b>Miscellaneous Receipts</b>												
Sale of Fixed Assets	30,000	-68.1%	30,000	100.0%	30,600	2.0%	31,300	2.0%	32,000	2.0%	32,700	2.0%
Other Receipts	1,331,169	13.1%	950,669	71.4%	960,600	1.0%	971,000	1.1%	981,600	1.1%	992,400	1.1%
Leases	797,500	3.2%	754,000	94.5%	769,200	2.0%	784,700	2.0%	800,500	2.0%	816,700	2.0%
Court Fines	3,399,700	0.0%	3,247,500	95.5%	3,311,600	2.0%	3,377,600	2.0%	3,444,900	2.0%	3,513,500	2.0%
Interest on Investments	1,094,000	45.1%	1,000,000	91.4%	1,050,000	5.0%	1,102,500	5.0%	1,157,700	5.0%	1,215,600	5.0%
<b>Property Tax</b>												
Primary Taxes (General Levy)	7,272,000	4.4%	7,122,000	97.9%	7,450,000	4.5%	7,750,000	4.0%	8,060,000	4.0%	8,390,000	4.0%
<b>Indirect Cost Allocation/Transfers In</b>	8,074,390	-5.2%	7,174,390	88.9%	6,815,000	-5.0%	6,455,000	-5.3%	6,455,000	0.0%	6,455,000	0.0%
<b>Total Revenues</b>	<b>205,732,139</b>	<b>1.1%</b>	<b>188,479,502</b>	<b>92%</b>	<b>193,785,600</b>	<b>2.8%</b>	<b>199,232,400</b>	<b>2.8%</b>	<b>203,939,000</b>	<b>2.4%</b>	<b>208,487,500</b>	<b>2.2%</b>
<b>Expenditures &amp; Other Uses</b>												
Ongoing Personnel Services *	149,739,902		149,739,902		152,822,378	2.1%	155,228,378	1.6%	157,807,378	1.7%	160,571,400	1.8%
Less Vacancy Savings (1.5%)	(2,246,000)		(2,246,000)		(2,292,000)		(2,328,000)		(2,367,000)		(2,409,000)	
Ongoing Base Budget	40,985,600		40,985,600		42,185,600	2.9%	43,385,600	2.8%	44,585,600	2.8%	45,785,600	2.7%
HURF Shift of Funding	-		-		-		1,000,000	0.0%	1,000,000	0.0%	1,000,000	0.0%
CIP Operations & Maintenance	-		-		40,400		772,100	1811.1%	1,861,800	141.1%	2,143,100	15.1%
One-Time Operating Expenditures	17,252,637		-		-		-		-		-	
<b>Total Expenditures</b>	<b>205,732,139</b>		<b>188,479,502</b>		<b>192,756,378</b>	<b>2.3%</b>	<b>198,058,078</b>	<b>2.8%</b>	<b>202,887,778</b>	<b>2.4%</b>	<b>207,091,100</b>	<b>2.1%</b>
<b>Cumulative Ongoing Surplus/(Deficit)</b>	<b>0</b>		<b>0</b>		<b>1,029,222</b>		<b>1,174,322</b>		<b>1,051,222</b>		<b>1,396,400</b>	

#### 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 92% of total estimated revenues for FY 2015-16. The 8.0% 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

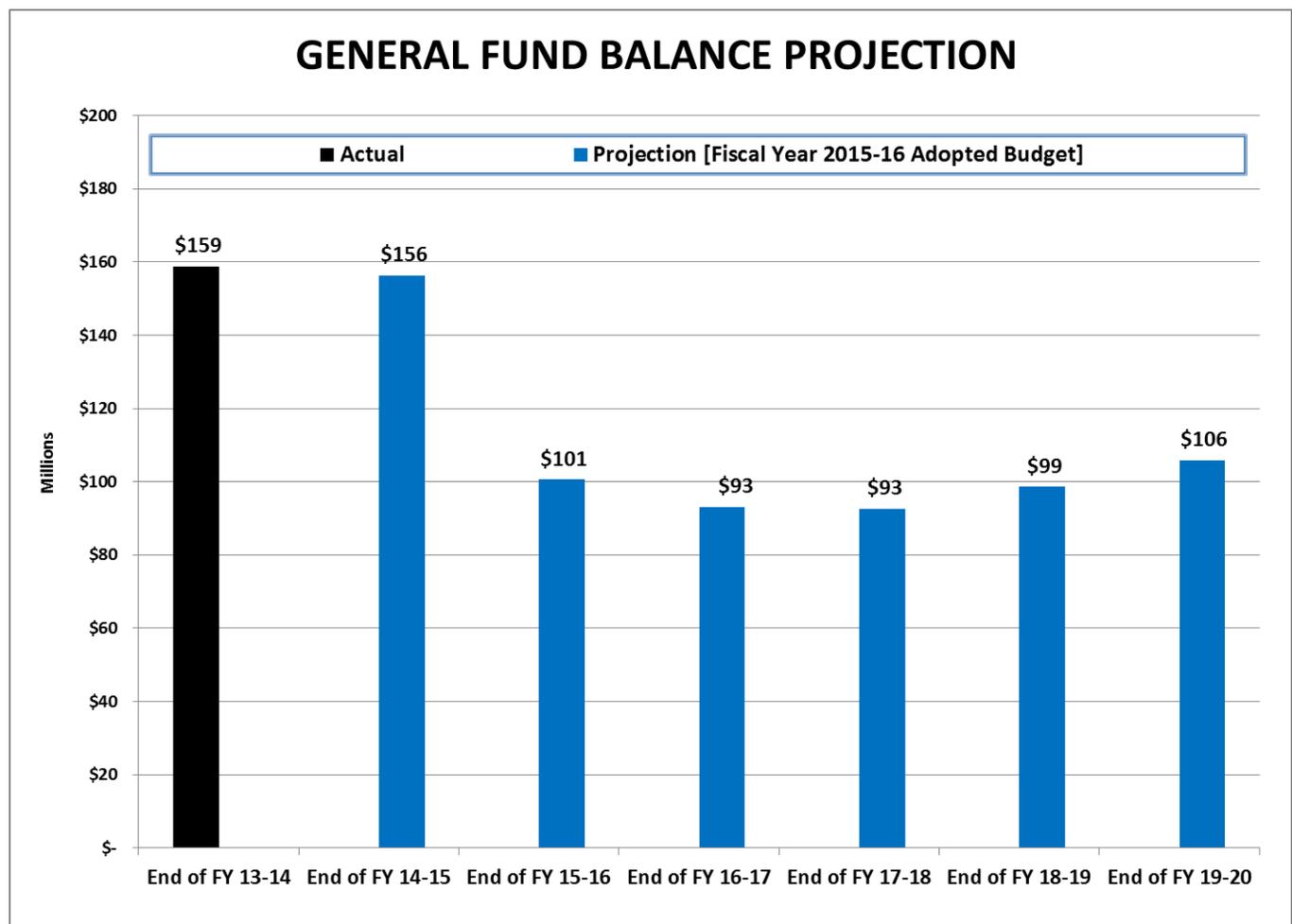
The FY 2015-16 Budget keeps the Budget Stabilization Reserve at the amount of \$15 million, the same amount as FY 2014-15. This reserve provides the opportunity to balance the budget in the future, for no more than three consecutive years, should state legislation, an unexpected decrease in property values, or other economic issues cause operating revenues to suddenly decrease.

### General Fund Balance Projection

The graph below shows the actual General Fund balance at the end of Fiscal Year (FY) 2013-14 (\$159M) and projected ending General Fund balance from FY 2014-15 through FY 2019-20.

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). Although property values are gradually increasing, the recent 4-years of reductions in secondary assessed values decreased secondary tax collections. This limited the City’s ability to sell new General Obligation bonds. In reaction to this situation, Council established an Infrastructure Maintenance Reserve (IMR) in the amount of \$34.6 million to apply General Fund balance towards streets and parks capital maintenance projects. An additional \$6 million was added in FY 2014-15. The chart below incorporates the use of the IMR over the next two years, allowing the City to continue to maintain existing infrastructure. Additionally, one-time General Fund balance has been allocated towards pay as you go facility repairs and IT needs. Starting in FY 2015-16, the City has identified one-time funding for Public Safety Personnel Retirement System (PSPRS) as an additional payment towards the goal of fully funding future retirement commitments of sworn City personnel.

By the end of FY 2019-20, the fund balance is expected to be \$106 million, which is allocated to various reserves as outlined in the Budget Policies, Process, and Decisions section. Although there is no universal standard on how large a General Fund balance should be, rating agencies generally look for a fund balance that could cover approximately 3 months of expenditures in an emergency and that the use of the fund balance is well planned. The \$106 million amount equates to about 6 months of ongoing General Fund expenses.





### 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) 2014-2023 and FY 2015-2024, and the amount for FY 2016-2025. The first year of the CIP, FY 2015-16, increased 31.7 percent due mainly to accelerating expansions of the Fire Training Center and Ocotillo Water Reclamation Facility, and is the only year that is appropriated. After several years of holding off from General Obligation (GO) bond sales, a small sale is anticipated in FY 2015-16 for multiple Parks projects, the Fire, Health & Medical training facility expansion, and the Museum project.

The 10-year CIP reflects a 23 percent increase from 2015-2024 to 2016-2025 due to continued emphasis on maintaining existing infrastructure and living within capital financing constraints. However, the CIP does include new construction, making maximum use of improved GO bond capacity, available Impact Fees, one-time General Funds, and Enterprise Funds (Water, Wastewater, Solid Waste, and Airport), which will be used to fund neighborhood and community parks, a museum, 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 Parks, Streets, and Public Safety. Full details on all projects and Department requirements are contained in the 2016-2025 CIP book.

#### CIP Sources and Uses of Funds (10 Year Totals)

Sources	Adopted 2014-2023 CIP	Adopted 2015-2024 CIP	Adopted 2016-2025 CIP	Adopted % Change from 2015-2024
Current Revenues	\$ 154,551,869	\$ 118,725,970	\$ 133,039,202	12%
Grants	50,025,201	46,025,408	48,562,698	6%
Impact Fees/System Development Fees	140,704,403	149,741,141	127,927,182	-15%
Bonds Paid by Secondary Levy	117,240,731	124,267,863	199,922,712	61%
Bonds Paid by Enterprise	473,213,303	479,641,350	618,943,282	29%
<b>Total Sources</b>	<b>\$ 935,735,507</b>	<b>\$ 918,401,732</b>	<b>\$ 1,128,395,076</b>	<b>23%</b>

Uses	Adopted 2014-2023 CIP	Adopted 2015-2024 CIP	Adopted 2016-2025 CIP	Adopted % Change from 2015-2024
General Government	\$ 42,351,903	\$ 40,883,040	\$ 40,273,499	-1%
Community & Neighborhood Svcs	47,085,665	32,774,710	88,360,650	170%
Police	7,274,742	6,939,438	22,004,012	217%
Fire, Health, and Medical	14,653,952	13,489,752	14,965,014	11%
Water	177,286,310	237,056,099	213,068,559	-10%
Wastewater	382,714,209	348,907,636	479,849,128	38%
Solid Waste	-	1,000,000	1,250,000	25%
Streets/Traffic	227,929,226	196,811,293	226,087,629	15%
Airport	36,439,500	40,539,764	42,536,585	5%
<b>Total Uses</b>	<b>\$ 935,735,507</b>	<b>\$ 918,401,732</b>	<b>\$ 1,128,395,076</b>	<b>23%</b>

### 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 history of limited property values, to be used for both primary and secondary tax rates (as defined below), beginning Fiscal Year (FY) 2015-16. No property tax increase is proposed.

Primary Taxes 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 FY 2015-16 primary property tax rate remains unchanged from FY 2014-15 at \$0.2992 per \$100 of assessed valuation, generating a levy totaling \$7,122,330 based on the limited assessed value in FY 2015-16.

Secondary Taxes are restricted for general bonded debt obligations and voter approved budget overrides. The FY 2015-16 secondary property tax rate remains unchanged from FY 2014-15 at \$0.88 per \$100 of assessed valuation, generating a levy totaling \$20,948,030 based on the limited assessed value in FY 2015-16.

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 2015-16 (\$2.38 billion). The projected limited property values from FY 2016-17 to FY 2020-21 are shown in green reflecting increases of approximately \$110 million to \$130 million per year.

