



**Minutes**  
**Budget Committee**  
Town of Queen Creek  
22358 S. Ellsworth Road, Queen Creek, AZ 85142  
Municipal Services Building, Saguaro Room  
February 12, 2014  
4 p.m.

**1. Call to Order**

The meeting was called to order by Chair Oliphant at 4:01 p.m. The following people were in attendance:

Committee Members: Vice Mayor/Chair Dawn Oliphant, Council Member Robin Benning, Council Member Jason Gad

Town Staff: John Kross, Town Manager; Patrick Flynn, Assistant Town Manager/CFO; Samantha McPike, Budget Administrator

**2. Items for Discussion and Possible Action**

Chair Oliphant welcomed the public to the meeting.

**A. Consideration and possible approval of the May 6, May 7 and May 13, 2013 meeting minutes**

*Council Member Benning moved to approve the minutes of May 6, May 7 and May 13, 2013. Council Member Gad seconded the motion. Motion carried unanimously on a voice vote.*

**B. Discussion and possible action on FY12/13 Audit Report; recommendations and Management responses**

Before the Committee is the Town's auditor report for fiscal year 2013. The Town has received an unmodified audit opinion which is the highest opinion. The auditor also looks at the Town's operation from an internal control aspect and gives tips to improve. We received 5 findings. One finding was in the financial area. The auditors also made suggestions for IT, HPEC and Development Services. Sandy Cronstrom from CliftonLarsonAllen was present to go through the findings.

Auditor Finding #1 The auditors spend time on site going through financial records and conducting the audit of the Town. The Town has reviewed the audit adjustments. The Town concurs with the auditors finding.

Auditor Finding #2 This finding is a segregation of duties of collection of cash and accounting duties in the Development Services Department. With the introduction of new staff, we have addressed this finding and have a separation of duties.

Auditor Finding #3 This finding is recordkeeping at HPEC (Horseshoe Park & Equestrian Centre). There are events that go on out at HPEC and the auditors did not see backup for revenues collected. The auditors would like to see the number of RV rentals and be able account for them. To address this finding HPEC has started working with event promoters to find out what they need for the event and get one check from the promoter instead of individual checks for stalls. Staff is also looking at new software, Activenet, for HPEC.

Auditor Finding #4 This finding is regarding contract administration. The auditors sampled contracts to make sure we are in compliance. One of the contracts selected was with AZ Cutting Horse Association (AZCHA). AZCHA had asked for sunscreens to be put in place. The sunscreens were installed for the event and it was not recorded in a proper manner. HPEC now has steps to record this in a timely manner.

Auditor Finding #5 This finding is regarding access controls of the Town's computer system. The auditors interviewed IT staff and noted this minor issue. The auditors recommended someone review the computer rights, such as the payroll system, especially when people leave or are hired. IT staff is creating an end user right form for sign off and place the form in the personal file.

*Council Member Gad moved to accept the auditor's report, associated recommendations, and staff response to these recommendations. Council Member Benning seconded the motion. Motion carried unanimously on a voice vote.*

### **C. Discussion and possible action on funding options for financing growth in the Town**

This is a follow up item from Town Council retreat. There was a general discussion on strategy for financing obligations for infrastructure as the Town grows. This discussion is regarding financing options for new parks, streets, fire stations, etc. The information will be provided at this meeting and staff will come back with priorities at the next meeting. These funding options will come back to Council at their first meeting in April.

Nick Dodd, Manager of RBC, reviewed the financing options available to the Town. The summary of financing options include pay-as-you-go, general obligation bonds, revenue bonds, excise tax bonds, improvement district bonds, and state agency options (WIFA). Staff would appreciate the Committee advising if they would like to pursue a certain option or not.

Pay-as-you-go

Pay-as-you-go (PAYG) is ideal because the money is in the bank to do the projects. You can use the money for any project, no restrictions. Development fees are in this category. The Town built most of Desert Mountain Park with cash and it cost over \$7m. HPEC was built and half was paid with development fees. Come August 2014 there is a state mandated reduction in development fees which will not cover past debt service in many cases. The Town has a mortgage on the library, which the development fees will cover 1/3. Public safety development fees have been cut in half.

Council policy is to have a 25% reserve level in the General Fund. The Town had a \$4m surplus from last year. There is the policy issue if we are above the 25% reserve level, does reinvestment in the community make since? To build the 130 acre East Park, the study has a price tag of \$42.5m to build whole project which calculates to approximately 16-20 years.

Council Member Gad is a huge proponent of pay-as-you-go funding but for large capital projects we cannot do that. For projects that are not \$40-50m, pay-as-you-go is good. He would like to continue with PAYG first because we are not going to taxpayers and putting liability on them. He would like to sit on cash balance for the next 12 months because we do not know how the state mandated reduction in development fees will hit us. We should not draw down the reserve.

Vice Mayor Oliphant does not see supporting the reduction of 25% reserve balance because it affects the Town's ratings. She likes the pay-as-you-go funding option. She does not think the \$15m is sacred and would like to start giving it back to the residents with smaller projects.

Council Member Benning agrees the 25% is sacred but wants some additional safety because of legislature. If we had to take over operations at the library, we would be drawn below the 25%. The developer fees should provide for streets and parks.

General Obligation Bonding

The School Districts go out to voters for general obligation bonds.

General Obligation Bonds are the most commonly used form of debt for jurisdictions except the State. It is the best credit and the interest rate is the lowest. This comes with a built-in form of payment with a tax rate. You have to ask the voters for approval to be taxed to repay the debt. If property tax goes down, then the property tax rate would have to go up to pay for debt. On General Obligation bonds the Town would put together list of bonds for parks, public safety, and streets. Every project could be put to a vote. You would have to tell what the project is and how much you would spend. You could group public safety, parks, and streets together and the residents get a yes or no vote on each question. You have to disclose what the General Obligation bond would cost the resident. The voters are saying yes to debt and a means to pay

it. You give them today's rate. You can backfill with other revenue sources. There are also statutory limits that towns have. General Obligation bonds can do almost any governmental project.

General Obligation Debt Capacity has a 20% limit for lights, parks, and transportation. One can have debt up to 20%. There is another category of "all other" which is 6%. The 20% and 6% should be combined into 26% debt capacity. The Town has \$49m in General Obligation debt today.

The Town of Queen Creek net overlapping General Obligation debt includes State of Arizona, Maricopa County, Pinal County, College Districts, and School Districts. The Town has no outstanding General Obligation bond debt. Debt burden under 10% is manageable. It is a range that is not an overly burden on the residents.

Unique to Arizona is secondary assessed value which is the basis for repaying General Obligation bonds.

Even though development is picking up, we are still behind because of the lower property values. There is an 18 month lag in terms of reporting property values. Earlier this week, assessed values went up to \$240m which is a 25% increase. We had dropped 36% with the recession.

In Mayor Smith's State of the Town was the Apple project. The reason they were successful in attracting the company was the voter approved bonds to get needed infrastructure to entertain this company. The Town has the northern employment tier and there is no infrastructure. Is this part of the equation? Vice Mayor Oliphant was not sure if the community would support this type of project. Town Manager Kross said the voting of projects can be linked to economic times. If the project is specific, the voting outcome is more successful. Council Member Benning is gun shy now because we have some very conservative voters and they not want to pay one dime more. He wants to be careful about how much bond is issued for taxpayers to repay and would want to know what the bonds are for. The decision needs the full Town Council members. If we target something small and reasonable, we can get resident buy in.

There are a series of steps to issue a bond and it would take a couple of years. The year 2016 is a Town Council election year. Some communities have peers of the community on a committee to review what projects to consider sending to voters. If we look at a project like East Park, we have to be careful because there are people living outside Town boundaries using the park and not paying for the park with taxes. Timing may be skeptical because of just coming out of a recession. In 5 years the Town will have more residents which may lower the payment.

Assistant Town Manager/CFO Flynn said we are hearing from the Committee receptivity with caution.

#### Utility Revenue Bonds

WIFA is accommodating in loan programs. This is backed by utility revenues. These bonds could be used for all utility projects. Utility Revenue Bonds do require voter authorization.

#### Street and Highway Revenue Bonds

If the Town found another means to pay for annual pavement management costs, we could use these bonds. Requires voter authorization to use this bond capacity, if available.

#### Excise Tax Revenue Bond

Excise Tax Revenue bonds do not require voter approval. They only require approval by Town Council. You need 4 times debt service coverage before you can do one of these bonds. We did issue \$27m of excise tax bonds and it helped pay for many projects.

The Town has \$32m of excise tax bond capacity. We would have to identify a means of repayment.

Vice Mayor Oliphant said to bring back if there are new revenue sources.

#### Improvement District Bonds

The Town used Improvement District Bonds to build Ellsworth Loop Road. This is an excellent tool for infrastructure, especially on "bigger" projects.

Improvement District Bonds would not work to help SR24 as a joint municipality project because you have to assess the land and SR24 will be state land. There are tools to do that but the improvement district is not one.

Council Member Benning said it is hard to get developers on board with the industrial development because they all want to build homes.

If there is a way to make the northern industrial development work, then the Committee would like staff to bring this financing option back.

#### Community Facilities District

Developers love this financing option because infrastructure costs are shifted to the property tax bill. This is usually on new subdivisions and would be done while the developer develops the land.

Council Member Benning has heartburn with this funding option because there is a sense that what gets built with that money belongs to those tax payers. Also, when we have increase taxation on one group, their willingness from another entity is diminished.

The Committee felt this funding option does not feel right for Queen Creek.

**D. Discussion and possible action on the Local Home Rule Expenditure Limit including the election timetable**

This year is Home Rule election. The expenditure limit is based on whatever was spent in 1979/80 and could only go up based on population and inflation growth. Under the State expenditure limit, we would only have \$48 million. For FY14/15 we anticipate a \$90 million budget. We need to go out starting in March for the August election. If it should fail, we would have to live on \$48m for the next 2 years which would require a almost 50% reduction in Town budgets. Even if you had revenues coming in, you could not spend it. The Town of Queen Creek did not exist at the time the expenditure limit was set. Home Rule gets back to local control.

*Council Member Benning moved to approve staff's recommendation moving forward with the Local Home Rule (Alternative Expenditure) limitation option and the timetable for the required Town election. Council Member Gad seconded the motion. Motion carried unanimously on a voice vote.*

**E. Building Fees**

The Town was looking to raise building fees by 10%. After our review and seeing how the Town compares well with other cities, we are not going to recommend an increase. We will look at building fees again next fiscal year.

Council Member Gad gave praise to staff for looking at other cities and not going forward with increased fees.

**F. Review of FY14/15 Budget Calendar**

The next Budget Committee meeting is scheduled for March 12. Staff will go over the 5-year plan and 6 month financials at the next meeting.

**3. Announcements**

None

**4. Adjournment**

The meeting adjourned at 6:06 p.m.

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TOWN OF QUEEN CREEK

  
Council Member Cliphant, Chair

Prepared by:

Marsha Hunt

Marsha Hunt

Sr. Administrative Assistant

I, Marsha Hunt, do hereby certify that, to the best of my knowledge and belief, the foregoing minutes are a true and correct copy of the minutes of the February 12, 2014 Budget Committee Meeting. I further certify that the meeting was duly called and that a quorum was present.

Marsha Hunt

Marsha Hunt

Sr. Administrative Assistant

Passed and approved on: March 12, 2014