



MINUTES

Budget Committee

20727 E. Civic Parkway, Queen Creek, AZ 85142

Community Chambers

May 11, 2020 – 8 a.m.

May 12, 2020 – 3 p.m.

Following the recommendations from the Center for Diseases Control and Prevention (CDC), to avoid gatherings of 10 or more people, as well as federal and state emergency declarations related to COVID-19, Queen Creek Budget Committee meeting physical attendance in the Council Chambers will be limited to members of the Budget Committee and necessary staff only. Some or all members of the Budget Committee and staff may attend electronically and/or by telephone.

Public access to the Budget Committee meeting is available online at QueenCreek.org/WatchMeetings. Submit Public Comments (Item 3) to the Budget Committee by sending an email to PublicComment@queencreek.org by 8:00 a.m. on May 11, 2020; Address the Budget Committee on any of the items on the agenda by sending an email to PublicComment@queencreek.org (limited to 500 words – identify your name, address and whether you wish your comment to be read at the meeting or just submitted as part of the written record) or by WebEx (instructions at QueenCreek.org/WatchMeetings). Speakers are limited to three (3) minutes each. Only one comment (either by email or by WebEx) per person per Agenda Item will be allowed and comments without identifying name and address will not be read or submitted as part of the written record.

1. Call to Order:

The meeting was called to order at 8:01 a.m.

2. Roll Call

Council Member Oliphant, Chair	Present
Vice Mayor Wheatley	Present
Council Member Turley	Absent

Staff present (some staff attended remotely): John Kross; Bruce Gardner; Scott McCarty; Dan Olsen; Gloria Moore; Brett Burningham; Doreen Cott; Jeff Graves; Maria Gonzalez; Joy Maglione; Marnie Schubert; Michele Brown; Mike Black; Paul Gardner; Ryan Fielder; Scott Holcomb; Traci Polk; Tracy Corman; Vance Gray; Greg Lugo

3. Public Comments

Members of the public may address the Budget Committee on items not on the printed agenda. Please address the Budget Committee by sending an email to PublicComment@queencreek.org by 8:00 a.m. on May 11, 2020 (limited to 500 words – identify your name, address and whether you wish your comment to be read at the meeting or just submitted as part of the written record). The Budget Committee may not discuss or take action on any issue raised during public comment until a later meeting. Speakers are limited to three (3) minutes each. Only one comment (either by email or by WebEx) per person per Agenda Item will be allowed and comments without identifying name and

address will not be read or submitted as part of the written record.

None.

4. Items for Discussion and Possible Action

A. Consideration and possible approval of the April 4, 2019 minutes

MOTION: To approve the April 4, 2019 minutes

RESULT: Approved unanimously (2-0)

MOVER: Vice Mayor Wheatley

SECONDER: Council Member Oliphant

AYES: Wheatley, Oliphant

ABSENT: Turley

B. Discussion and possible approval of the Queen Creek FY 2020/21 Town Manager's Recommended Budget

1) FY 2020/21 Town Manager's Recommended Budget including Departmental and Capital Budgets

Town Manager John Kross opened the meeting with a budget overview and outlined the meeting agenda. He discussed the financial impacts tied to the severity and duration of the COVID -19 pandemic and said the Town will monitor updates nationally and locally and keep our forecasts very conservative.

Mr. Kross outlined Queen Creek guiding principles which include the preservation of reserves; priority for public safety and transportation; maintaining existing essential service levels; identifying expense reductions; and re-balancing the 5-Year Operating Budget Plan. Mr. Kross noted that the Town will withhold our 5-year forecast to get more information and will report findings to Council in late August-September. Mr. Kross said staff will develop multiple scenarios to provide options to Council to make adjustments to the budget as needed and stressed flexibility and the need to continuously monitor the situation.

Finance Director Scott McCarty outlined policy issues and presented four areas where policy changes are recommended. These policies will be discussed at the June 3 meeting with the full Council.

Pension Funding Policy - Fire & MCSO pension unfunded liabilities are fully funded and we continue to make progress on Arizona State Retirement System (ASRS) which is partially funded.

Recommended Policy Changes:

- 1) Create a COVID-19 Reserve using year-end excess of revenues over expenses from the operating budget in FY19-20. He asked Council to think about setting aside money to create a COVID reserve to give us a buffer. He noted that funds not used for the COVID-19 would take Council action to repeal.
- 2) Clarification on how pension liabilities are funded. Year-end excesses of revenues over expenses will be used to fund pension reserves in the following order: Fire, Police, all other employees in terms of ASRS. (If the COVID Fund is approved excess funds would go in the COVID account rather than the pension account for this year. Funds not used in COVID reserve would be returned at the end of year with Council approval).
- 3) Adopt reports for Impact Fees; Capacity Fees and Impact Fee audit. Mr. McCarty said this item is administrative and it is our practice to do these reports annually and place on the Town website. This change would have Council formally adopt the reports on an annual basis.
- 4) Budgets for projects underway will roll automatically roll forward into next year. Mr. McCarty explained that this is mainly for Transportation and Waste Water. The suggestion is that once Council approves a project to consider allowing staff to administratively move money in and out of contingency into individual projects at the beginning of the fiscal year as opposed to requiring formal Town Council approval.

Mr. McCarty gave details on the total recommended budget for FY20/21 of \$409.1M which reflects a 10% decrease. He discussed the layout of the budget structure and pointed out restricted funds and explained that a lot of the money is already pre-designated. He compared this year's budget to last year. The operating budget is going up \$3.5M and he said that projects will cause annual changes to the capital budget to vary. Major take-aways in the budget include:

- New positions (23) for Fire Station #5 and Police department. No new positions outside of fire and police. Other vacant positions are not being filled at this time and will be evaluated on a case by case basis
- He demonstrated that historically employment changes are somewhat comparative with population growth and service levels needs

Operating Budget

Mr. McCarty explained that the 5-Year Plan projections are still being discussed due to COVID but he outlined the 5-Year Planning Goals relative to the operating budget: 1) create Queen Creek Police Department; 2) staff a fifth fire station; 3) new library operating costs; 4) fully fund ASRS pension reserves; 5) no tax rate increases; 6) address financial impacts of COVID-19. Budget parameters include maintaining existing service levels; no increased service levels and no new services or programs.

Revenue Sources/Projections:

Mr. McCarty reviewed revenue projections and major revenue categories. He said we will see impacts from COVID-19 in the sales tax category with a possible 30% decrease in overall sales tax. Sales tax comes from six different categories, with the restaurant/bar sales tax decrease projected to take the longest to recover. He said we will continue to watch consumer habits and piece things together as we get more data. State shared revenues and property tax will see some increases based on our population growth and recent annexations, noting that we are one of the fastest growing communities in the State.

Mr. McCarty outlined the property tax formula and the aggregate impact and individual parcel impacts. He reported that FY20-21 assessed value increased by 25% for the Town due to a re-assessment; from annexed property; and from new construction. The County sets the assessed value and Council sets the levy rate. He presented three options for the Council to consider and discussed how it will affect tax payers and said this is the biggest pending policy decision for Council. He said that Town Council sets the levy rate to decide how much revenue we want to receive each year.

	Rate	Aggregate Impact	Individual Parcel Impact
Option A	\$1.56 levy	Receive same revenue as last year (\$8.3M)	-\$70 Decrease in property tax (based on median home value)
Option B	\$1.83 levy	Receive same revenue from existing properties; but get increase for new construction (\$9.8M)	-\$7 Decrease in property tax (based on median home value)
Option C	\$1.95 levy (Current rate)	Receive maximum revenue (\$10.4M)	+\$21 Increase in property tax (based on median home value)

Mr. McCarty noted that the levy cannot ever exceed \$1.95 and the individual parcel appreciation on property owners cannot go up any more than 5%. He pointed out that property tax is solely used for public safety.

Council Member Oliphant commented that the \$1.95 rate was voter approved and has been in effect since 2007. She asked if we chose Option B, with the levy set at \$1.83, would it be only for one year and how would it affect our decisions for future years.

Mr. McCarty said that Town Council can reset the rate every year. As long as the increase is less than 15% from one year to the next, it is just a majority vote from Council. Anything over 15% (to get back to the \$1.95 rate in one year) would take a unanimous vote by Council.

Council noted that even at \$1.95 it does not fill the needs for public safety.

Expense Projections:

Mr. McCarty summarized expenses that are going up including creating a Queen Creek Police

department; increase Fire staffing; \$1.7M debt service for non-growth share of infrastructure. He highlighted other areas where we are helping to close the gap including no new personnel with the exception of public-safety; no employee market increase; no employee merit or step program; travel eliminated; repair and replacement programs reduced or suspended; outside agency funding reduced and other internal cuts.

Mr. McCarty reported on important operating expenses which amount to a \$1.6M net change. The top three areas are for police department start-up costs, debt service and Fire Station #5 staffing.

Vice Mayor Wheatley asked about the fueling station for the police department and how it compares to the Queen Creek Unified School District (QCUSD) station what we are using at this time. Public Director Troy White responded that with the addition of a police department we will have greater needs and currently we are running out of fuel frequently. A new station for town services will ensure that we will not run out of fuel at different times of the year.

Operating Budget Reserves

Mr. McCarty concluded with the expense summary for next year totaling \$70.1M leaving an ending fund balance for FY 20-21 totaling \$42.2M. He said we are still maintaining our 25% reserve and pension liability reserves.

Other Major Budgets

Mr. McCarty summarized major takeaways in the following budgets.

- Streetlight Improvement District – reduced by \$500k because the Town now owns the streetlights
- Water Fund (self-funded) - \$60M placeholder for potential water rights purchases and no rate increase for customers next year (but new study underway)
- Wastewater Fund (self-funded) - \$40M interim financing for CIP and no rate increase but study underway
- Solid Waste/Recycling Fund (self-funded) – costs increased 32% due to more houses to serve and no rate increase in FY20-21
- Town Center Fund – dedicated 0.25% sales tax will be focused on implementing the Town Center Plan with a focus on drainage and infrastructure
- Healthcare Fund (self-insured) – No change to employer or employee premiums. Continue to work on building reserves and kudos to the Employee Wellness Program which is seeing results in regards to keeping claims and costs down

Infrastructure Budgets

Mr. McCarty showed a graph on where we are now and where we will be in ten years in regards to infrastructure. He said a significant amount of our budget is to continue building our

masterplan and solid strategic objectives to keep up with population growth. He summarized projects under contract, previously approved projects that will start next year and new projects that will start next year which total \$291.2M for the FY20-21 budget. Mr. McCarty gave a brief overview of the following infrastructure budgets:

- Street infrastructure (\$286M) - Increase of \$91M due to new projects; projects outside of Queen Creek; and IIP cost increases. Money for streets financing comes from three sources: 1) impact fees 2) construction sales tax and 3) operating budget
- Water Infrastructure (135.7M) – Increase of \$29.9M due to cost increases; new projects; Encanterra Water Exchange Project; and \$5.8M was removed from the plan
- Wastewater Infrastructure (\$72.5M) – Increase of \$5.1M due to cost increases; new projects; Encanterra Water Exchange Project; and \$5.4M was removed from the plan
- Fire (\$28.0M) – includes new Station #4 (under construction); new Station #5 (in design); Station #2 (re-construction in design); new Resource Center (pre-design). Paid by impact fees and operating budget
- Police (\$2.5M) – Police share of new fire stations. Add satellite space for police to operate in the fire stations and be more efficient from different areas of town
- Parks & Trails (\$11.2M) – Trails: building two segment of trails using impact fees at Sonoqui Wash; Parks: East Park site drainage design. Not issuing any debt for Parks & Trails.

The Budget Committee recessed at 9:30 am for a short break. The meeting resumed at 9:38 am. Council Member Oliphant reported that Council Member Turley had an emergency and was not able to attend this meeting.

Debt Budgets

Mr. McCarty said that Debt Budgets are a new section added to the budget to provide a summary about debt across the entire organization. He explained that 90% of outstanding debt will be for Transportation, Fire and Law Enforcement.

- Outstanding Bonded Debt – General government debt from this year to the end of next year. Outstanding amount as of 6/30/20 is \$119.1M. Proposed new debt issue in 2020 is \$95M totaling \$214.1M.
- Annual Bond Debt Payment – Outlines where payment comes from. Current payment this year is \$8.6M and debt payment next year will be \$10.9M broken out through different funding sources such as sales tax, impact fees and operating budget.
- Operating Budget Payment – Debt service total annual amount is \$6.5M mostly for Transportation using the placeholder that was previously created
- Outstanding Bonded Debt (Utilities) – Outstanding debt amount is \$112.3M comes from rates or capacity fees and we will work in conjunction with the rate study. Repayment is matched to those who will be using the structure by issuing debt.

Contingencies

Mr. McCarty reviewed the purpose of contingencies and said that more funds may need to be set aside in this area due to COVID-19. He explained that contingencies come from three buckets: carryover projects under contract; approved projects that are expected to be done next year; and unexpected expenses. The total contingency amount for FY20-21 is \$117.7M. Mr. McCarty said Council approval is required before any funds are spent.

Mr. McCarty outlined the budget timeline and upcoming Council meeting on June 3, 2020 where the budget will be discussed for tentative approval. At that meeting Mr. McCarty said staff will be looking for direction on the four proposed policy changes and property tax. Staff will continue to monitor the economic impact of COVID-19 on the revenue side and will adjust accordingly and keep Council updated.

The Committee was appreciative of the approach the Town is taking with pension liabilities, contingencies and making infrastructure and public safety a priority.

MOTION: To recommend to Town Council for approval, the Town Manager's FY2020/21 Recommended Budget of \$409.1M.

RESULT: Approved unanimously (2-0)

MOVER: Vice Mayor Wheatley

SECONDER: Council Member Oliphant

AYES: Wheatley, Oliphant

ABSENT: Turley

Mr. McCarty introduced a scrapbook highlighting major financial results and accomplishments over the past years. The final presentation will be shown at the June 3, 2020 Council Meeting.

Mr. McCarty itemized results in the following areas:

- One-time saving costs/ cost avoidances amounting to \$76.6M
- Operating budget annual savings costs/cost avoidance from FY15-16 - FY17-18 amounting to \$6.7M
- Direct tax and fee reductions/refunds (on-going and one time) Amounting to \$4.7M

Mr. McCarty outlined other accomplishments that are important but harder to quantify:

- Lower interests costs on future bond issues
- Improved ISO ratings
- Delegation Resolution to get projects to market quicker
- Comprehensive Employee Wellness Program
- Overhaul of impact and capacity fees

- Expanded Utilities Financial Policies
- Created \$65M placeholder for transportation
- Aggressive water supply acquisition strategy
- Strategic annexations
- Created numerous sinking funds for replacement of infrastructure
- Water Infrastructure Finance Authority (WIFA) Program change regarding funding water resources

Mr. Kross thanked Council and staff for the teamwork, support and flexibility to achieve these accomplishments. He emphasized the importance of the WIFA program change and added that the population increase provided this opportunity which resulted in significant savings.

Council complimented the presentation which recapped the list of accomplishments. They appreciated the amount of work behind the budget process and credited staff for the cost savings opportunities for the Town.

3. Announcements

None.

5. Adjournment

The meeting adjourned at 10:24 a.m. The May 12, 2020 Budget Committee Meeting was not needed and was cancelled.

TOWN OF QUEEN CREEK

Council Member Dawn Oliphant, Chair

ATTEST:

Joy Maglione, Deputy Town Clerk

I, Joy Maglione, 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 May 11, 2020 Budget Committee Meeting. I further certify that the meeting was duly called and that a quorum was present.

Passed and approved on: April 12, 2021