



MINUTES

Budget Committee

20727 E. Civic Parkway, Queen Creek, AZ 85142

Community Chambers

April 12, 2021 – 3 p.m.

April 13, 2021 – 4 p.m. (if necessary)

1. Call to Order:

The meeting was called to order at 3:13 p.m.

2. Roll Call

Council Member Brown, Chair	Present
Council Member Benning	Present
Council Member Martineau	Present

Staff present (some staff attended remotely): John Kross; Bruce Gardner; Scott McCarty; Dan Olsen; Attorney Scott Holcomb

3. Public Comments

None.

4. Items for Discussion and Possible Action

A. Consideration and possible approval of the May 11, 2020 minutes

MOTION: To approve the May 11, 2020 minutes

RESULT: Approved unanimously (3-0)

MOVER: Council Member Benning

SECONDER: Council Member Martineau

AYES: Brown, Benning, Martineau

B. Discussion and possible approval of the Queen Creek FY 2021/22 Town Manager's Recommended Budget

1) FY 2021/22 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 structure and agenda. Mr. Kross reviewed the current economic picture at the local, regional, state and national level and how the economy was affected by the pandemic. He said the conservative approach taken by Queen Creek resulted in better than expected results for the Town with revenue collection exceeding projections and consistent building permit activity. Mr. Kross discussed the importance of population projection and new housing starts in terms of sales tax revenue, demands on service levels, infrastructure and staffing.

Mr. Kross outlined key policy issues that are in place including the Pension Funding Policy; ROI for Police & Fire; Infrastructure Repair/Replace Funds and Employee Compensation. He said the Fire and MCSO pensions are fully funded and ASRS pension will be fully funded by next year and he noted that we are one of the only cities in the state to accomplish this.

Mr. Kross said that policy issue discussions are related to the Town's mission and projections for the community. Council will be asked to provide direction on the following policy issues for FY2021-22:

1. **Disposition of the \$11M Covid Reserve:** Recommendation to eliminate due to economic growth projections
2. **Determine amount to be received from Primary Property Tax:** (exclusively for public safety) Recommendation to maintain current rate of \$ 1.83, which was reduced last year
3. **Amount of funding for the Parks Master Plan:** No recommendation; decision to be determined by Council

Mr. Kross gave details on the total recommended budget for FY21-22 of \$487.2M, which reflects a 19% increase. He said about two-thirds of the budget is for infrastructure. He discussed the layout of the budget and restricted funds and presented comparisons to last year's budget. The increase in the operating budget is due to the transition to the new police department. Mr. Kross reviewed the budget by area (See chart below)



Mr. Kross summarized the new staffing positions (79) recommended for FY 21-22 with a majority (70) for the new police department.

Operating Budget

Finance Director Scott McCarty outlined the 5-Year Planning Goals and major takeaways relative to the operating budget:

- The economy is recovering from Covid with a strong recovery for Queen Creek

- A fully operational Police Department will start in January 2022
- Plans for new library operating costs
- Fully funded ASRS pension reserves will be fulfilled ahead of schedule
- 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 noted that by source and type there is balance as the town continues to mature. The drivers for revenue projection are the economy, population growth, sales tax, state shared revenues and property taxes.

Mr. McCarty outlined the property tax formula and the aggregate impact and individual parcel impacts. He reported that FY 21-22 assessed value increased by 13% for the Town due to a re-assessment and from new construction. The County sets the assessed value and Council sets the levy rate. He presented four options for the Council to consider with a focus on Option C (recommended) which is the same levy rate as last year at \$1.83.

	Annual Revenue	Total Increase from FY 20-21	Increase From New Properties	Change from Existing Properties	Levy Rate*	% of EMS Funded
FY 20-21 Amount	\$9.8M				\$1.83	35%
FY 21-22 Options:						
A. Same <u>Revenue</u> as Current Year	\$9.8M	\$0	+\$0.7M	-\$0.7M	\$1.62	29%
B. Same <u>Revenue</u> as Current Year from Existing Properties and Additional Revenue from New Properties Only	\$10.5M	+\$0.7M	+\$0.7M	\$0	\$1.74	31%
C. Same Levy Rate as FY 20-21 (RECOMMENDED)	\$11.0M	+\$1.2M	+\$0.7M	+\$0.5M	\$1.83	32%
D. Maximum Revenue Amount	\$11.8M	+\$2.0M	+\$0.8M	+\$1.2M	\$1.95	34%

He said that Town Council sets the levy rate to decide how much revenue we want to receive each year. Mr. McCarty provided additional information on property taxes and how it might impact different types of properties in Queen Creek at the recommended levy rate of \$1.83. Mr. McCarty noted that the levy cannot ever exceed \$1.95 and the individual impact on property owners cannot go up any more than 5%. He pointed out that property tax is solely used for public safety.

Expense Projections:

Mr. McCarty summarized the expenditure side of the budget, which reflects a 15% increase (\$12.0M). The 5-year Operating Budget expenses are driven by population, creation of the Police Department, additional staff to maintain service levels, new debt for fire stations and roads and increased library costs. He highlighted operating expenses by category and program. Mr. McCarty noted that the top three priorities from Town Council (transportation, Police and Fire)

represent a majority of the operation expenses. Some of the major changes on the expenditure side include the QC Police Department (+6.3M); debt services for non-growth share of infrastructure (+1.7M); replacement of fire pumper truck (+1.0M) and personnel changes (+1.6M).

Operating Budget Reserves

Mr. McCarty concluded with the expense summary for next year totaling \$92.5M leaving a net \$4.1M for FY 21-22 and an ending fund balance totaling \$87.7M. He said we are still maintaining our policy of setting aside a 25% reserve. The Covid Reserve is recommended to be eliminated and Federal Grant Fund Reserve is a new item setting aside \$12M until we get clarification on the allowed uses for these funds. Mr. McCarty said that last year we used all extra funds to fill the pension budgets, which is expected to be fully funded by the end of the year. We anticipate an available reserve of \$6.5M left over for FY22-23 budget for future use as determined by Council.

Other Major Budgets

Mr. McCarty summarized major takeaways in the following budgets.

- Streetlight Improvement District – this has decreased significantly to \$29K and is a separate property tax assessment
- Water Fund (self-funded) - \$53M placeholder for potential water rights purchases and no rate increase for customers next year but new rate study underway
- Wastewater Fund (self-funded) – operational increases offset by reduction in equipment needs; no rate increase but rate study underway but residential rate cap for sewer forthcoming
- Solid Waste/Recycling Fund (self-funded) – service provider costs increased 16% due to new accounts; contract renewed through 2027; no rate increase in FY20-21 but rate study underway
- 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; we pay costs as they incur; objective is to build reserves to offset future increases

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 the infrastructure budget represents two-thirds of the town's budget and is a reflection of the priorities of the community. He pointed out that the parks have not been a priority in the past and will be discussed this year. He summarized projects under contract, previously approved projects that will start next year, and new projects that will start next year with a total for the FY21-22 budget of \$323.2M.

Mr. McCarty gave a brief overview of the following infrastructure budgets:

- Street infrastructure (\$303M for 10-year Plan) - \$119M for FY21-22 includes \$100M for carry-forward projects and \$19M for new projects
- Water Infrastructure (\$144M for 10-year Plan) - \$51M for FY21-22 includes \$27M for carry-forward projects and \$24M for new projects; WIFA and bank loans pending
- Wastewater Infrastructure (\$78M for 10-year Plan) – \$29M for FY21-22 includes \$21M for carry-forward projects and \$8M for new projects: WIFA and bank loans pending
- Fire / Law Enforcement– \$24.5M for FY21-22 includes \$1.0M for a replacement fire pumper truck and \$23.5M for carry-forward projects for fire station(s) construction and design
- Parks & Trails– \$26M for FY21-22. Trails - \$2.6M: For specific trail segments and all trails, use 100% impact fees. Parks - \$23.4M: East Park site drainage design completion (\$8.4M) and \$5.0M placeholder for Park Design/Development and \$10.M placeholder for Park Land Acquisition. Mr. McCarty noted that the placeholders are for Council discussion and a similar approach was taken in the past for transportation infrastructure funding.

Debt Budgets

Mr. McCarty said that we are a growing community and we have a tremendous amount of investment in infrastructure. Approximately 89% 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 of debt as of 6/30/21 is \$179.7M and a majority is for transportation (71%) and public safety (18%)
- Annual Bond Debt Payment – Outlines where payment comes from. Current payment this year is \$13M and is broken out through different funding sources such as sales tax, impact fees and operating budget.
- Operating Budget Payment – Debt service total annual amount is \$8.0M mostly for Transportation and Fire. Police amounts were minimal and paid with cash.
- Outstanding Bonded Debt (Utilities) – \$130M in WIFA and Bank Loans and proposed CIP costs were outlined. On an annual basis, it is \$14M with 27% coming capacity fees.

Contingencies and Infrastructure Carry-Forward

Mr. McCarty reviewed the purpose and importance of contingencies and said the total contingency amount for FY21-22 is \$219.8M. Mr. McCarty said Council approval is required before any funds are spent.

- Projects under Contract - \$31.9M
- Projects Budgets Approved (not yet awarded) - \$150.9M
- Unanticipated Expenses - \$20M for new opportunities or emergency needs
- Police/ Grants Contingency – expenditure authority for potential add-on start-up costs for PD and potential grants for PD, traffic, or parks - \$5.0M
- Federal Grants Contingency – expenditure authority for possible uses of Town of Queen Creek’s federal stimulus funding - \$12.0M

Council Member Brown inquired about the timeline and restrictions on the Federal stimulus money. Town Manager Kross said the stimulus money must be spent by December 31, 2024 and cities and towns are still waiting for Treasury guidance to make sure it is spent correctly. He said it is important move quickly on this, so projects using these funds can be completed in time.

Mr. McCarty reviewed the key budget takeaways as follows:

- Positive financial outlook remains
- Strong population growth expected which will require additional staff to maintain service levels and aggressive construction of new infrastructure
- Police Department starts in January 2022
- Fully funded ASRS Pension Reserve

Council Member Benning remarked on staff’s projections for last years anticipated budget and the revised budget and was impressed that the Town outperformed and he complemented staff.

Council Member Brown commented on the retail, restaurant and bar revenue sales tax that was far greater than anticipated despite being in the pandemic. He commented on the community’s support and shopping local. He asked how much greater it would have been had it not been in Covid. Mr. Kross said they can look into this and commented that restaurant take-out could have been a factor.

Mr. Kross and staff provided additional information on questions submitted by the Budget Committee.

1. How do the Utilities delinquent accounts tie into the next fiscal budget?

Mr. McCarty said repayment plans are being set up and we are getting tremendous results. We did not shut off customers during Covid and we are not seeing any adverse financial impacts. Council Brown asked how the delinquent accounts in-town limits vs. out-of-town limits compared. Mr. McCarty said he would get the results and report back.

2. What is driving the need for new full-time employee (FTE) positions that are proposed?

Public Works Director Troy White outlined the four new positions requested in Public Works:

1. Streets - 1 FTE: Previous request for this position was put on hold due to Covid. Maintenance needs have increased with the significant growth of roadways with three annexations and the amount of infrastructure projects.
2. Traffic Engineer – 1 FTE: Additional position is needed due to increase of CIP projects and traffic control plans and the new traffic management system being implemented.
3. Facilities – 1 FTE: Preventative maintenance needs have increased with the construction of new Town owned buildings and more square footage. Mr. White explained industry standards for building square footage space per employee needed.
4. Fleet – 1 FTE: Directly related to the new police vehicles that will be added in addition to any new town vehicles needed to keep up with growth.

Utilities Director Paul Gardner explained the request for two FTE in Utilities and said the positions are funded by the collection of monthly water rates.

1. GIS Blue stake – 1 FTE: Additional position needed to accommodate growth in the Town's service area. Mr. Gardner reported over 20,000 blue stake requests last year averaging 500 new requests per week.
2. Well Tech – 1 FTE: - Additional position need to maintain service levels due to growth and new wells.

Mr. Gardner also explained water needs in regards to growth, the acquisition of Diversified Water, and the needs to serve State Land. He discussed the Draft Water and Wastewater Resource Master Plan that will help determine costs of development for residential and commercial for water, wastewater and water resource. The draft plan will be presented to Council for review and direction in June/July 2021.

Council Member Benning asked how the increase of building permits outside of town limits in areas that are served by Queen Creek Water are effecting water resources.

Mr. Gardner explained that the number of building permits issued in Queen Creek is usually 40% higher from the Utilities side when factoring in those areas.

Council Member Brown asked if the unanticipated expenses projected in the budget is sufficient in regards to a potential industrial project in the State Land area. Mr. Kross said that we feel it is sufficient and allows for flexibility in the Utilities area.

3. Non-profits recommended funding overview.

Assistant Town Manager Bruce Gardner provided information on the nonprofit funding applications being considered in the budget. He briefly outlined the process; and said four applications were received and three were repeat applicants. The recommended award approved by the staff committee totaled \$23,320 (\$13,700 in monetary; \$9,620 for in-kind services). He said there was a reduction in applications received from two years prior. Last year there were no funds recommended due to Covid.

Council Member Brown commented on the budget process in Queen Creek, said that it runs very smooth, and attributed it to staff and teamwork. He appreciated the fiscally conservative budget approach, the fully funded pension budgets and the \$53M placeholder to acquire water rights.

Mr. Kross concurred and said the partnership with Council and their ability to clearly identify goals and priorities (particularly in regards to infrastructure) is critical to a successful budget process.

Council Member Martineau said she is impressed with the Town and the Council accomplishments in regards to the budget, pensions and infrastructure. She said where she differs in approach is with parks and government funding of non-profits.

Council Member Benning commented on Queen Creek's balanced approach to the budget process to provide the essential components to build the amenities needed and desired for our community now and in the future. He complimented staff in this regard.

MOTION: To recommend to Town Council for approval, the Town Manager's FY2021/22 Recommended Budget of \$487.2M minus the non-profit funding and the two placeholders for the Parks Master Plan for a separate vote.

RESULT: Approved unanimously (3-0)

MOVER: Council Member Martineau

SECONDER: Council Member Benning

AYES: Martineau, Brown, Benning

MOTION: To recommend to Town Council for approval of the non-profit funding and the two placeholders for the Parks Master Plan totaling \$15M.

RESULT: Approved (2-1)

MOVER: Council Member Benning

SECONDER: Council Member Brown

AYES: Brown, Benning

NAYS: Martineau

Council Member Brown thanked staff for their work on the budget process.

3. Announcements

Mr. McCarty concluded with the budget timeline and upcoming Council meetings on May 5, 2021 where the budget will be discussed for tentative approval and the final budget adoption on May 19, 2021. He said the property tax levy will be adopted at the June 2, 2021 meeting as required by State law. Mr. McCarty thanked staff for putting together the budget information in great detail.

5. Adjournment

The meeting adjourned at 5:43 p.m. The April 13, 2021 Budget Committee Meeting was not needed, and was cancelled.

TOWN OF QUEEN CREEK

Council Member Jeff Brown, 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 April 12, 2021 Budget Committee Meeting. I further certify that the meeting was duly called and that a quorum was present.

Passed and approved on: April 11, 2022