

Budget Committee Minutes
Town of Queen Creek
22358 S. Ellsworth Road
Queen Creek, AZ 85142

December 7, 2010

Call to Order

The meeting was called to order at 3:30 p.m. by Council Member Jeff Brown, Chair.

Committee members present: Vice Mayor Craig Barnes, Council Member Jeff Brown, Council Member Julia Wheatley

Absent: None

Also attending: Town Manager John Kross, Assistant Town Manager/CFO Patrick Flynn, Dee Anne Thomas, Samantha McPike, Van Summers, Paul Gardner, Jennifer Robinson, Bruce Gardner

Items for Discussion and Possible Action

A. Consideration and possible approval of the April 26, 2010 minutes

Town Manager Kross said the meeting minutes are from several months ago. The Budget Committee meets several times per year on an as needed basis. These are the minutes from April 26, 2010. Council Member Brown said he was a part of the Budget Committee in April and these minutes are a good capture of that meeting. Vice Mayor Barnes moved to approve the minutes of April 26, 2010. Council Member Wheatley seconded the motion. Motion carried 3-0 on a voice vote.

B. Financial statement for the 1st quarter ending September 30, 2010

Assistant Town Manager/CFO Flynn said this is the first quarter financial statements. We are a government and have multiple businesses which we call funds. We had a good first quarter with general fund revenue amounting to approximately \$4.5 million which is 25% of the general fund revenue budget. We had approximately \$3.5 million in expenditures. One key is the general fund sales tax revenue which stands at \$2.2 million for this quarter and is almost the same as a year ago.

Investment income was at approximately \$153,000. Some of our money is in the local government investment pool which is operated by the state treasurer. They have professional investment managers which may invest in treasury bills. Over a year ago we were earning a ¼% interest on our money. We have diversified our portfolio and moved our money away from the State Pool and are now averaging about 2% interest on our available cash. We are not in risky investments; our investments are backed by agencies of the U.S. Government.

Assistant Town Manager/CFO Flynn reviewed the different funds which have an income statement and balance sheet. The sewer utility fund is ahead of expenditures but below the 25% of budget for FY 11. The solid waste fund is our newest fund/business. We

cannot continue in a loss, but we are still starting up the business. The water enterprise fund we purchased in April, 2008. Revenue is approximately \$2.7 million which is well above the 25% of budget for FY 11. We pay our debt service on July 1st.

Council Member Brown asked staff to explain sales tax and when do we anticipate a turnaround period with President Obama extending the Bush tax cut? Assistant Town Manager/CFO Flynn said delay time for when we received our sales tax is 45 days. If you purchase something in September, the store may have until October 25 to report this to the Department of Revenue (DOR). When the DOR gets the reports from the businesses, they start processing. We may receive from that September transaction a stipend by the end of October but most of the sales tax comes to the Town by mid-November. With Arizona's state budget situation, they have cut processors and collectors which can prolong the timeline.

Regarding the second question, it seems we have hit a floor. Sooner or later this has to translate into economic growth. It does not sustain the job loss we have seen in Arizona. The recession has been over but in Arizona we continue to suffer. The big issue here is the housing industry. There have been about 300,000 jobs lost in Arizona which affects people's spending. For us to "live and die" by sales tax this is not good. A 2% growth rate does not help with creating jobs.

Vice Mayor Barnes said there is a donation of \$25,000. Where does that come from? Assistant Town Manager/CFO Flynn said every once in a while there are people in the community that come in and give the Town a donation. Next year we will remove that line from the budget as it's too speculative.

Council Member Brown asked to discuss revenue sources. The engineering revenue is down for the period. Staff responded they partner with other departments and the budget is based on assumptions. Council Member Brown said what explains tracking behind and is that indicative of the next 3 quarters. Town Manager Kross said when Development Services Director Tom Condit goes to do engineering projections, engineering is the middle of the revenue with planning at the front end. Council Member Brown said regarding the engineering revenue, we track 5.8% of the year what explains that. Development Services Director Condit said the way we get the engineering revenues in big chunks, such as when we get Hasting Farms. We are now tracking closer to projections.

Council Member Brown asked about Horseshoe Park & Equestrian Centre (HPEC) and Parks & Recreation user fees. Samantha McPike said basketball and soccer are seasonal programs.

Council Member Wheatley asked about the \$72,000 miscellaneous revenue. Samantha McPike said it is a miscellaneous line item which includes the dollars we charge for a garage sale and other such items. It is a holding place until we allocate it to other

accounts. Council Member Brown asked staff to get back with Council Member Wheatley on what encompasses that dollar amount.

C. **Review the town's Sewer Utility Program, including options to close current and future revenue shortfalls**

Assistant Town Manager/CFO Flynn said one of the areas that we see as an upcoming challenge is our sewer utility program. In the past, the sewer utility enterprise fund has covered the expense of running this business. The wastewater fund development impact fees are down because housing and other development is down. For this fiscal year we are projecting \$2,738,000 in sewer rate revenue. This is the money we are collecting from our customers. As indicated, development fee revenue is suffering. Our debt service costs are at \$1.8 million. Development fees are not covering our debt service costs. A couple of years ago Paul Gardner and Patrick Flynn went to the Wastewater Infrastructure Finance Authority (WIFA) and asked for some relief. They indicated we do not have to pay principal for 3 years; only interest, but starting with 2013 it goes back to paying both principal and interest. Starting with FY 2013, debt service costs double compounding our problem with our sewer rate.

Our development fees are based on 160 housing permits. There is a \$1,045,000 shortfall for this fiscal year. Our reserves will cover these shortfalls through FY 11/12. By FY 12/13, our reserves are mostly gone and we need to raise additional revenue. There are different options for raising revenue. We would need a 20% increase in sewer rates in 2011 and another 20% increase in 2012 and another 20% increase in 2013 to cover the shortfall and get us back on track.

The last option is doing what we did a couple years back by going to WIFA and asking them to restructure our loan to see if we could get another 20 year term in 2011 and end in 2031. That program has a lot of restrictions and we are not sure if it can be done. Paul Gardner is the vice chair of the WIFA authority board and knows the constraints. If WIFA cannot lend us the money or give us relief, we do not have the necessary revenues to meet debt coverage tests in order to get money elsewhere.

Assistant Town Manager/CFO Flynn distributed a monthly residential wastewater charges chart based on 5,000 gallons. The amount of wastewater use is based on 90% of the water used during the months of January, February and March. The city of Tempe raised their rates 10% in 2009 and 2010. The city of Chandler is going forth with an increase because their impact fees are not covering costs.

The Queen Creek library has \$1 million of annual debt service, this is a serious shortfall. If revenues are not raised, we will need to additional budget cuts.

We are also in a shortfall situation with the Transportation debt service.

Council Member Brown asked staff to provide the budget committee the same financial summary information on the library and transportation shortfalls. Assistant Town Manager/CFO Flynn will provide that information.

Council Member Wheatley asked how many single-family permits are projected? Town Manager Kross said there are 160 permits budgeted for this fiscal year; we are currently projecting 145 single family home permits for the year. This projection number will go up slightly each year. There is a moratorium on development fees until 2012.

Council Member Wheatley asked what is the change from 2011 and 2012 on the expenditure side. Assistant Town Manager/CFO Flynn said part of the increase is our WIFA loan. You have to pay debt service and put reserves aside. Come January 1, 2012, we also have to build a capital replacement reserve. Not only are we paying off the old WIFA loan but they require you to put money away for a capital replacement reserve.

Assistant Town Manager/CFO Flynn said he is looking from the committee authorization to visit with WIFA and discuss restructuring the loan. He is not sure how the committee feels on an interest only loan. He would like to bring this back in January or February with a more detail schedule. Council Member Brown would like to have knowledge of all options available. Vice Mayor Barnes does not like interest only loans because it will cause debt service for future councils. Council Member Wheatley agrees it does not hurt to discuss the options, but interest only loans make her uncomfortable.

D. Review information on impacts of eliminating the local sales tax on food

Town Manager Kross said he has received a couple of questions on eliminating the local sales tax on food. Assistant Town Manager/CFO Flynn said this is not unusual to have a council inquire on what the impacts would be if we took tax off of food. We looked at proprietary information from the different stores in town. We also worked with city of Chandler that has collected similar information about their grocery stores.

The Town received approximately \$11.7m in sales tax revenue in the most recent fiscal year. Of this amount, approximately \$1.2m was generated from food sales. The sales tax revenue is distributed to the general fund, transportation fund, emergency services fund and the municipal town center fund. The general fund would be impacted by an approximate \$900,000 revenue loss annually unless replaced with another revenue source. All these funds are impacted as we enter the 5th year of a recession. Emergency services and transportation are impacted as well. The elimination of the local sales tax on food is a policy question. What do we do to replace that money or what do we cut from our current programs? \$1.2m of sales tax loss amounts to 20 people. We currently have 131 people paid from general fund and that would go down to 111. Other cost reductions may be the reduction of Sheriff beats, recreation programs, or closing Horseshoe Park & Equestrian Centre. A reduction of \$1.2m means a lot when you have a \$17m budget.

The bond rating agencies look at income streams, and how management and council address issues. Revenue streams are a key. Bond rating agencies prefer income tax and property tax revenue streams and hate sales tax revenue streams because of their volatility. The base we use for sales tax includes taxing food, rents and utilities. Removing tax on food from the base would be a negative to the rating agencies.

Council Member Brown said has property tax or sales tax been impacted the most from this recession. Assistant Town Manager/CFO Flynn said we are down 50% on sales tax. Property tax is down 7.4% and we are projecting a further 12% reduction this year. Property tax, even with foreclosures, eventually get paid.

Vice Mayor Barnes said can the Town decide what some of the taxes will be on certain items. For example, could we have a 63% tax on medical marijuana? Town Manager Kross does not know if the League of Arizona Cities as looked at that. Vice Mayor Barnes said tobacco and alcohol are taxed heavily.

Council Member Wheatley said as far as bond rating, can you talk about what that impacts. Does it impact our loans interest rate? Assistant Town Manager Flynn said if we are down graded, immediately our bonds would sell for less on the secondary market. The second impact is if we go to the market with a bond, you will pay a higher interest rate due to a potentially lower bond rating.

E. Review of the FY 11/12 budget calendar

Town Manager Kross said the budget committee will only have 2 meetings which will occur the week of April 25 and May 2. The budget committee will see the town manager's recommended budget and will review special revenue funds. We will look at the 5 year financial plan.

Assistant Town Manager/CFO Flynn said this budget calendar is here for informational purposes. We are looking at adoption of the budget by council on June 1. There are a lot of steps and involvement with departments. Executive Assistant Maria Gonzalez will line up budget committee dates.

Budget Administrator Thomas said the budget office is concerned with the first meeting in April. Vice Mayor Barnes is available any time between 3-6 p.m. He has to pick up his son at 6 p.m. Council Member Brown may not be available until 4:30 p.m. and can go the next couple of hours. Town Manager Kross said we have some flexibility. If a meeting slides a week, it is not a big deal. Vice Mayor Barnes would rather meet monthly with shorter meetings and not have longer meetings. Council Member Brown said staff will not be ready for the budget meetings until April.

Council Member Brown said we are at \$17.9m for this year's projection. Will there be a 10% or 20% reduction next year? Town Manager Kross has not heard a number yet. We have a large exercise for departments to do scenarios of budget reductions by percentage.

Most of this exercise is done proactively and will be based on what the state of Arizona will do. Council Member Brown said the state of Arizona has historically not had their budget adopted on time. Should we have 2 budget ideas? Town Manager Kross said he does not know yet, we work closely with the League of Arizona Cities which do the projections for us on state shared revenues and state sales tax. We may want to prepare alternative scenarios to be proactive.

Council Member/Chair Brown adjourned the meeting at 5:55 p.m.

TOWN OF QUEEN CREEK

Council Member Jeff Brown, Chair

ATTEST:

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 December 7, 2010 meeting of the Queen Creek Town Budget Committee. I further certify that the meeting was duly called and that a quorum was present.

Marsha Hunt, Sr. Administrative Assistant

Passed and approved on _____, 2011.