



TO: HONORABLE MAYOR AND TOWN COUNCIL

**FROM: COUNCIL BUDGET COMMITTEE
JOHN KROSS, TOWN MANAGER
SCOTT MCCARTY, FINANCE DIRECTOR**

**RE: CONSIDERATION AND POSSIBLE ACTION ON THE TOWN'S
FY 2019/20 TENTATIVE BUDGET OF \$452.7M. IN ADDITION,
SET THE PUBLIC HEARING FOR MAY 15, 2019 FOR BOTH THE
FINAL BUDGET AND THE TRUTH IN TAXATION PER
REQUIREMENTS UNDER ARIZONA STATE STATUTES**

DATE: MAY 1, 2019

Council Budget Committee Recommendation:

The Town Council Budget Committee approved the Town Manager's FY 2019/20 Recommended Budget of \$452.7 million.

Budget Committee Approval:

The Town Council Budget Committee considered the Town Manager's FY 2019/20 Recommended Budget on April 4, 2019, hearing from the Town Manager, Finance Director, department heads and other staff. By a vote of 2-1, the Budget Committee approved the Town Manager's Recommended Budget of \$452.7 million. The FY2019/20 Budget is now presented for full Council consideration.

Note: Since the Budget Committee recommendation, members of the Town Council have contacted the Town Manager requesting alternatives to the Fire Resource and Skills Center Building. Options for that building are being reviewed and the implications to the Fire Impact Fees need to be evaluated for each option. This information will be sent out separately once complete.

Proposed Motion:

Motion to approve the Town's FY 2019/20 Tentative Budget at \$452.7 million and set the public hearing for both the FY 2019/20 Final Budget as well as the Truth in Taxation requirement for primary property taxes under Arizona State statutes. Such hearings to occur on May 15, 2019 at 7 p.m. in the Town Council Chambers.

Relevant Council Goals:



Effective Government



Superior Infrastructure - Capital Improvement Program



Discussion:

The budget is one of the most significant policy documents considered by the Town Council. The FY 2019/20 Tentative Budget is balanced and allocates resources consistent with the needs of a growing community. It was developed in accordance with the Council's strategic priorities identified in the Corporate Strategic Plan. Queen Creek is the fastest growing community in Arizona since 2010. The FY 2019/20 budget allocates resources to best meet the needs of our growing community.

The Tentative Budget totals \$452.7 million. Consistent with the needs of our growing community and the Council's priorities, the budget includes increases for new streets, public safety facilities and vehicles, as well as water and wastewater infrastructure and the possible acquisition of water rights.

The Capital Improvements (CIP) budget totals \$239.9 million and comprises 53% of the budget. It is an increase of \$61 million over the prior year adopted budget. This increase is mostly attributed to new roads, which total approximately \$122 million in the FY 2019/20 Tentative Budget. This is a part of the ongoing 10-year roads program, and includes \$18 million for roadways outside of Town boundaries.

GUIDING PRINCIPLES AND KEY ISSUES

The following guiding principles and key issues shaped the FY 2019/20 budget:

- Prioritization of Resources. The Tentative Budget uses the corporate strategic plan to prioritize its allocation of resources. Guidance to the organization is found within our strategic priorities adopted by the Town Council as follows:
 - Effective Government
 - Safe Community
 - Secure Future
 - Superior Infrastructure
 - Quality Lifestyle
- The Economy. The national and State of Arizona's economies remain strong and will result in increased revenues.
- Population Growth and Commercial Investment. The Town has seen significant residential and commercial growth in the last several years, inclusive of annexations. We expect that growth to continue. Developing plans to deal with an increasing residential and business population is critical to ensure both operational and infrastructure needs are met.
- Maintain a Balanced Five-Year Operating Budget. The five-year plan remains balanced, reflecting increased revenues and expenses based on population growth and new commercial development.

BUDGET HIGHLIGHTS

Following are the highlights of the FY 2019/20 Budget.

- Unfunded Pension Liability. As compared to other more mature communities, we believe Queen Creek has a unique opportunity to address this outstanding liability now, when our options for doing so are greatest. As a result, the Town has a policy to fund its unfunded pension liabilities. The FY 2019/20 Budget allocates resources to continue to reduce these liabilities. The Town's net unfunded pension liabilities total about \$10 million, \$37 million in liabilities less \$27 million in reserves.
- Central Arizona Groundwater Replenishment District Credits. The Town Council revised its policy to more aggressively allocate these credits. This acceleration is possible because of the acquisition of 175,000 acre feet of groundwater extinguishment credits. This acceleration will save property owners an aggregate of \$1 million in FY 19-20 as compared to 2017, before the credit use policy was initiated.
- Acquisition of Water Rights. Ensuring the Town has adequate water resources is a top priority of the Town Council. As a result, \$50 million is included in the FY 2019/20 Budget for the potential acquisition of water rights.
- Water and Wastewater Reserves. Operating reserves and repair and replacement reserves will be increased to improve cash liquidity and rate stability.
- Wastewater Rate Reduction. Based on a rate review, rates will be modified to generate 10% less revenue.
- Comprehensive Capital Improvement Plan (CIP). As a growing community, the need for new infrastructure for transportation, water, and wastewater is a priority. Resources are budgeted to build such infrastructure, as well as continue planning for future infrastructure needs. Contingency allocations have been included to ensure we have the authority to meet the dynamic environment's infrastructure needs. The FY 2019/20 Budget acknowledges the critical nexus infrastructure plays in increasing opportunities for private sector investment within the community.
- Maintain Quality of Streets. Resources have been increased for routine maintenance and repair as a result of new streets being added to the system. A robust pavement management program continues to be funded.
- Additional Staffing. Based on 5-year staffing plans submitted by each department, the FY 2019/20 Budget includes resources for an additional 8.0 FTEs, which represents a 3% increase in staffing. All of these positions are needed to maintain existing service levels. These staffing increases are strategic and tied directly to the needs of the growing community. None of the staffing increases represents new programs or services. Positions are being added to street maintenance, fleet, engineering, water system maintenance, and fire prevention.
- Employee Compensation. Resources have been allocated to fund employee merit and market increases consistent with the 2014 Town Council adopted compensation plan and the fire step program.
- Healthcare Costs. The Town has a very active wellness program, which is a positive factor in addressing healthcare costs for both the Town and our employees. The FY 2019/20 Budget includes a 4% increase in major medical premiums on the employer side. When taken into context over a five year cycle, the increase in premiums is recommended to be absorbed

by the organization; therefore, there is no change in individual employee premiums.

TENTATIVE BUDGET

The purpose of the Tentative Budget is to establish the maximum budget, or budget ceiling, for the next fiscal year. Approving the Tentative Budget is the required first step by law. Once the Tentative Budget is approved, the Final Budget can go no higher; however, the Final Budget can be reduced or re-allocated between programs and/or funds.

As part of approving the Tentative Budget, the Town Council also approves the time and place for conducting the public hearing on the Town's Final Budget. The public hearing and final action on the Town's FY 2019/20 Final Budget is scheduled for the Town Council meeting on May 15, 2019. In addition, the Town Council will conduct a public hearing that evening on the Truth in Taxation requirement for primary property taxes. This item is discussed later in this report.

Adoption of the Final Budget on May 15, 2019 is predicated on the Town Council approving the Tentative Budget on May 1, 2019. The legal posting requirements to adopt the Final Budget on this timeline must begin on May 2 with submittal of the required newspaper budget advertisement.

PRIMARY PROPERTY TAXES (TRUTH IN TAXATION REQUIREMENTS)

For FY 2019/20, primary property taxes are estimated to be \$8.3 million. The primary property tax is dedicated to fund Public Safety, and funds 41% of the Public Safety Budget of \$20.2M. The public safety budget includes the Queen Creek Fire and Medical Department and Law Enforcement Services via contract with the Maricopa County Sheriff's Office.

The Tentative Budget includes a \$1.95 primary property tax levy rate. However, even though the tax rate remains unchanged at \$1.95 per \$100 of assessed value, the appreciation of property values (exclusive of the increase as a result of new construction) results in more revenue and triggers the "Truth in Taxation" requirements in State law. As a result, the Town is required to publish a prescribed notice and have a public hearing in anticipation of the Town Council accepting the increase in revenues. As indicated, the Town Council will be conducting a public hearing on these requirements as part of the May 15 Council meeting. Required notices are scheduled for publication to meet this deadline.

Fiscal Impact:

The Tentative Budget for FY 2019/20 totals \$452.7 million. The required Auditor General Schedules, which provide all the allocations by fund, are included as Attachment 2 of this staff report.

Alternatives:

The Town Council can modify the Tentative Budget in any manner prior to adoption. The Town Council could delay adoption of the Tentative Budget until the May 15, 2019 Town Council meeting, with the public hearing and Final Budget adoption then occurring on June 5, 2019. If this were the case, consideration of the tax levy could not occur until the July 17 meeting. While such dates would still allow the Town to meet county and state deadlines for tax levies, revised legal

notices will need to be submitted in order to meet the Truth in Taxation calendar requirements.

Attachments:

1. Presentation entitled "FY 2019/20 Tentative Budget"
2. Required State Budget Forms (Schedules A-G)
3. FY 19-20 Budget Memo