



**MINUTES OF THE  
GLENDALE CITY COUNCIL  
BUDGET WORKSHOP SESSION  
Council Chambers – Room B3  
5850 West Glendale Avenue  
February 18, 2014  
9:00 a.m.**

**PRESENT:** Mayor Jerry P. Weiers, Vice Mayor Yvonne J. Knaack and Councilmembers Norma S. Alvarez, Ian Hugh, Manuel D. Martinez, Gary D. Sherwood, and Samuel U. Chavira

**ALSO PRESENT:** Brenda Fischer, City Manager; Sam McAllen, Interim Assistant City Manager; Michael Bailey, City Attorney; and Pamela Hanna, City Clerk

**CALL TO ORDER**

**WORKSHOP SESSION**

**1. TEN-YEAR CAPITAL IMPROVEMENT PLAN REVIEW**

**PRESENTED BY:** Tom Duensing, Executive Director, Financial Services

This is a request for Council to discuss and consider the ten-year Capital Improvement Plan (CIP). Based on Council feedback, staff will incorporate the ten-year CIP into the FY14-15 budget process.

Mr. Duensing said he would present an overview of the CIP and he welcomed Council feedback. He said they will review the capital improvement plan (CIP), how the CIP fits in the overall city budget, note CIP highlights/reports and explore what the next steps might be. He said they seek Council feedback on CIP projects and whether those projects should be reduced or eliminated altogether, should projects be increased or added or moved.

Mr. Duensing explained capital improvements are publicly financed assets, including land, buildings, streets and improvements. He said these assets have a value of \$50,000 or more with a useful life of five or more years. He said as they move through the budget process, Council will only adopt FY14-15 portion of this CIP plan.

Mr. Duensing said the CIP process usually begins very early in the fiscal year. He said they opened up requests to departments in October of 2013 and requests were due back in November 2013. He said CIP operating impacts are considered when developing the

operating fund forecasts. He also discussed carry forward appropriations. He said those are not included in the FY14-15 plan. When they bring the tentative budget forward in April, they will then have capital improvement projects that were approved in FY13-14 that they estimate will not be spent in FY13-14. He said typically those projects are re-appropriated during the budget process.

Mr. Duensing next reviewed CIP vs. operating budgets. He said CIP typically precedes the operating budget process. He said operating impacts of CIP projects are included in the five-year fund forecasts and the FY14-15 budget requests. He noted this is prudent planning. He said at the time the tentative budget is adopted, the CIP budget and the operating budget will come forward together. This usually happens in May, with a final budget adoption in June.

Next, Mr. Duensing went over some CIP highlights. He said the ten year CIP totals \$809 million. He said there are many projects in years 6 through 10. Those projects total about \$536 million of the \$809 million. He said there are 176 projects, not including any carry forward projects. He said the largest project is the \$45 million Westgate parking garage. He said this project is currently slated to be bond funded. He said the biggest piece of the pie at this point is the bond construction funds. In the current CIP plan, \$45 million of that is the parking garage, \$38 million for park reconstruction and renovation, \$43 million for a city court, \$13 million for a fire station and about \$40 million for flood control projects. He said most of these projects are set for years 6 through 10 in the 10 year plan. He said enterprise funds is the second largest portion of this and is about \$276 million. The primary projects in the enterprise fund are \$43 million for a Loop 101 water treatment plan and about \$26 million in sewer line replacements. He said prudent planning calls for evaluating and replacing the infrastructure. Mr. Duensing said the largest project in the Transportation fund in years 6 through 10 would be light rail. He said \$20 million is scheduled for pavement management.

Mr. Duensing next discussed the FY14-15 plan highlights. He said these projects will be evaluated and brought back as part of the FY14-15 budget adoption. The total amount for these projects is \$60.5 million and there are 86 total projects, not including any carry forward projects. He said the largest project is \$14 million for pavement management program supported by HURF. He said other notable projects include Camelback Ranch land purchase, Northern Avenue, additional water supply acquisition, sewer line projects, landfill compactor replacement and sanitation vehicles. He said these capital projects are plugged into the five year forecast, but said the last four projects mentioned were enterprise fund projects.

Vice Mayor Knaack asked Mr. Duensing to explain the Camelback Ranch land purchase? He said within the current agreement with the City of Phoenix is Glendale's obligation for a land purchase in October 2014 for about \$3.7 million.

Mr. Duensing said there are two reports included in the packet, a CIP project summary report and a CIP project detail report. He said next, they anticipate bringing a CIP plan

back for review on March 25<sup>th</sup>, on May 27<sup>th</sup> there will be a tentative budget adoption and final budget adoption on June 10<sup>th</sup>.

Councilmember Martinez said Mr. Duensing mentioned the city has contractual obligations and the city has to meet those. He mentioned bond construction funds and said given the city's bond rating that has been lowered; he asked how the city stands with regard to that. Councilmember Martinez asked will the city be able to go out into the market and get the money.

Mr. Duensing said there are certain funds that are self-supporting and there is the general obligation debt service fund. He said the biggest determination of a bond rating is how the city deals with the \$30 million general fund deficit. He said that is an important consideration for them. He said even though some things can be supported with secondary property tax, they do look at the general fund and how the city is managing the general fund. He said the city can go to market at this point, but the sooner the city deals with the \$30 million deficit and the city is financial stabilized, the better the rates will get, and a better bond rating means a better interest rates. He said the city can still issue bonds, but the amount of debt service the city repays is market driven.

## 2. FIVE-YEAR FINANCIAL FORECASTS – OTHER OPERATING FUNDS

PRESENTED BY: Tom Duensing, Executive Director, Financial Services

The purpose of this item is to provide Council with an updated Five-Year Financial Forecast of the City's major Operating Funds, other than the General Fund which was presented December 17, 2013. The five-year forecasts for each fund include projected revenues, expenditures and other financing uses, amounts set aside for annual contingency, and ending fund balance.

Mr. Duensing provided an overview of the major operating funds, which include the enterprise funds, including water services, sanitation and the landfill, and the special revenue fund, which includes HURF, transportation sales tax and public safety sales tax. He said he has no major concerns about the financial stability of these funds.

Mr. Duensing said for the non-enterprise funds, HURF and dedicated sales tax; they used similar growth rates as the general fund forecast and similar expenditure estimations, as well as no reductions in services. Mr. Duensing said on the enterprise funds, they did not assume rate increases in the five year forecast period. He said they assumed rate increases are nonexistent except for some very small increases due to assumed growth. He also said they did assume contingency appropriation in each of the funds, similar to the general fund. He said the contingency appropriation may not be appropriate for some of the funds. He said sometimes contingency appropriation is to guard against large capital needs that are not anticipated. He said for purposes of this presentation, they assumed a five percent contingency in all funds. Mr. Duensing said the other important assumption is capital outlay. He said capital outlay expenditures will be approved as part of the budget process. He said they appropriate an amount for a capital outlay project and at the end of the year, that is the maximum amount the city can legally spend, and those funds are not spent. He

said 100 percent of the CIP that was requested is assumed approved and assumed spent. He also said the city would rather cash finance projects if they are able to rather than borrowing the funds. He said it saves on interest costs. If a fund is determined unable to cash finance a project, they will look at planned bond sales.

Mr. Duensing said no significant financial issues were identified in any fund and they do not anticipate any rate adjustments in the enterprise funds for FY14-15. He said they have consistently analyzed financial trends, looking at both revenues and expenditures. He said capital/debt planning can be used as an effective tool. He said if a fund cannot cash finance projects, they can make certain assumptions on debt financing and this can smooth any future rate increases, as well as smooth the level of debt service so there is flexibility. He said they can work with departments to defer capital projects as well. Mr. Duensing said they also continue to monitor funds for rates and his staff continues to ensure compliance with bond covenant ratios.

Vice Mayor Knaack wanted to make sure the public understood that even though Mr. Duensing is assuming no rate increase, that doesn't mean a rate increase will not happen.

Councilmember Martinez said with respect to the capital projects, the courthouse comes to mind. He said Mr. Duensing mentioned some of the projects had to be deferred. He said that was a good example of a project that has been deferred. He said at some point they will need to prioritize and will need to strongly consider the impact that has had on Centerline and get that project done. He said that would be a good kick start for Centerline to get other projects to come in along Glendale Avenue.

Mr. Duensing went over the individual funds in more detail. He first discussed the water and sewer funds. He provided the revised beginning fund balances and numbers for FY13-14 through FY18-19. He discussed revenues, operating expenditures, capital outlay, contingency amounts and ending fund balances for each fiscal year. He said there is an adequate fund balance at least through FY15-16.

Vice Mayor Knaack said the FY18-19 shows a negative balance and asked Mr. Duensing what will have to happen to prevent the negative fund balance that fiscal year. Mr. Duensing said Council can decrease expenditures and increase revenues or a combination of the two. In a fund like this, they can choose to defer capital. He wouldn't recommend this as it is a temporary measure. He said if these projects are deferred, they could be spending more money down the line. He said they do bring in a rate consultant who will look at the numbers in much greater detail to assist with this.

Ms. Fischer added when looking at the revenues and operating expenses, unlike the general fund, this does not constitute a structural deficit because the revenues are higher than the expenditures. She said part of this is because they are assuming a pay as you go on capital outlay. She also said the negative numbers in the out years also assume the city is spending the entire contingency.

Mr. Duensing also said the capital outlay requests do include a level of contingency in each of the projects. He said the contingency is about \$4 million per year in each of the five

forecast years. He said this was a conservative assumption, but wanted to make council aware of those numbers.

Councilmember Alvarez said regarding the revised revenue or fund balance. She asked what happened to the money that they borrowed in the past and they transferred. She asked if that was paid back and was back in the fund.

Mr. Duensing said revenue estimates assume the water and sewer funds are getting paid back for that inter-fund loan. He said part of the expenditures in the general fund forecast that was presented to Council recently were repayments to the other funds. Those repayments come back in through the revenues and it does assume the amounts loaned from this fund to the general fund are getting repaid consistent with the terms of the inter-fund loan.

Councilmember Alvarez asked what is still owed on the enterprise loans.

Mr. Duensing said he does not have those exact figures. He said it was it was about \$45 million and about \$43 million of that was left. He said the water and sewer amounts could be about \$20 million that will be repaid, plus interest, to this fund. He said those inter-fund loans were taken for a period of about 25 years. He said they are not proposing they stop making payments to those funds, they want to make the enterprise funds whole.

Councilmember Sherwood said he was following up with Vice Mayor Knaack on the beginning fund balance out in FY18-19. He said Mr. Duensing had mentioned the capital outlay, which totals about \$85 million beginning in the next fiscal year throughout the five years and he said the city has not come close to spending that. He said this will be monitored on a year to year basis and it would be highly unlikely they would get to the negative balance shown unless something catastrophic happened.

Mr. Duensing said that was absolutely correct and he said they certainly don't have to go to market on any of those projects in any of the five years. He said they do this every year and they continue to monitor the funds, they will look to see if the revenues in the funds will support the level of capital. Also, rate adjustments and service levels will be reviewed each year as well.

Mr. Duensing next discussed the Sanitation fund. He explained the figures presented in the five year forecast and the capital outlay included vehicle replacements. He said these figures maintain current service levels and options for future lease/purchase of major equipment financing.

Councilmember Sherwood said he believed they were capping off the south end of the landfill and asked if that fell under capital or if it was under regular expenditures.

Mr. Duensing said he will specifically discuss those projects when he presents the landfill numbers. He also said staff continues to consistently look at revenue opportunities within the sanitation funds.

Mr. Duensing said they do anticipate going to market in FY15-16 and said there are two major CIP projects in the landfill fund. Those projects include closure of the south quadrant and construction of the north quadrant.

Mr. Duensing explained the HURF funds. He said they do anticipate going to market and included the pavement management program previously presented by Mr. Kent. The capital outlay for that project will be about \$14 million each year for two years. He said they have tried to minimize what they have to debt finance and utilize the fund balance to the greatest extent possible. He said they may have to bond a little more than originally forecasted. He also discussed the decline in operating expenditures. He said that is driven mainly by debt service. He said the debt service is going from about \$4 million to about \$2 million.

Ms. Fischer asked Mr. Duensing, for the benefit of the public, to explain the term going to market

Mr. Duensing said going to market means selling bonds. He said in this case it would probably be revenue bonds. He said those are the debt service payments they make to the issuer of those bonds.

Councilmember Sherwood said they might have to start bonding for Prop 400 monies for light rail in FY18-19 time frame and asked where that might be shown at in the figures presented.

Mr. Duensing said in the CIP, they have that programmed in for years 6 through 10, so that will not be included in the five year forecast presented today.

Mayor Weiers referred to the Governor's recent statement on HURF funds possibly being reinstating some of those in the coming years. He asked how that would affect the numbers being presented today.

Mr. Stoddard said HURF funds are always the topic of conversation. He said over the past decade, the Legislature has swept HURF funds and diverted them to the Department of Public Safety (DPS) at the state level. He said there is a push to have the Governor restore those funds and not divert them. The Governor did not outline a restoration of HURF funds, so negotiations are going on now. He said he has heard they are looking at restoring the HURF funds temporarily for a 2 year period. He said the state is facing a fiscal cliff in 2 years. He said about \$37 to \$38 million would go back to cities and towns. He said HURF has a different formula than a straight population formula. He said they roughly estimate the city will receive about \$1.5 million in HURF funds a year if they were to fully restore all the HURF funds, but that is in negotiations right now.

Mr. Duensing next explained the transportation sales tax. He said this is the only fund they anticipate bond issuance in FY14-15. He said they assume a \$1.2 million contingency throughout the forecast period. He said they are paralleling the sales tax growth rate and will maintain current service levels. He said the major capital projects are Northern Avenue and the annual pavement maintenance project.

Mr. Duensing said they are assuming a 5 percent contingency within the Police and Fire funds, and when they get down to budget negotiations, they will certainly take a look at that contingency figure. He said the revenues follow the same trend of the general fund sales tax with modest increases in the five year forecast period for both Police and Fire. He said the sales taxes percentage for Public Safety is voter approved to enhance the Police and Fire public safety services.

Councilmember Sherwood asked if the rates for those funds were .5 and .3.

Mr. Duensing said it is .5 taking the public safety all together. When it is further broken down into the two funds, two-thirds of the .5 goes into Police and one-third of the .5 goes to support Fire services.

Mr. Duensing summarized that they anticipate no rate adjustments in the enterprise funds for FY14-15 and fund balances are adequate to support the current level of services. He said major CIP projects could require bond sales or rate adjustments in later years. He also said plans address aging infrastructure and capital asset replacement. He said the next steps will be budget workshops for all funds in April, tentative budget adoption in May and final budget adoption in June.

Councilmember Sherwood said when they look at the city's liabilities, he asked if they are covering any of those costs or if that falls under the contingency.

Mr. Duensing said they are self-funded with a Risk Management Trust Fund. He said if there were a large lawsuit and they would charge it to whatever fund was appropriate and that fund would bear the cost. He said if something came up that wasn't fund appropriate, it would have to come from the general fund. This stresses the important in being financially stable and having an adequate fund balance within the general fund as well as a sufficient contingency.

Councilmember Sherwood asked if in the future there might be a line item under litigation to include these costs and asked if that was something they might look at.

Mr. Duensing said they continually fund the risk management trust fund so money goes in there every year. He also said they look at outstanding liabilities as part of the audit process so they do have an idea of what costs might be out there. He said those costs would be part of the budget discussions and those figures would be included in the forecast.

Vice Mayor Knaack commented and said the public needs to know that although they plan this out ten years, a lot of the numbers are zero until the 10<sup>th</sup> year and out. She said they have focused on the basic contractual obligations, infrastructure, public safety and health and these are the most important things. She hoped the residents are appreciative of what they are trying to do. She thanked Mr. Duensing for the information he provided.

Mayor Weiers asked Judge Finn to thank her staff personally for the services provided at Stand Down event for veterans.

**ADJOURNMENT**

There being no further business, the meeting was adjourned at 9:57 a.m.