

City of Glendale

5850 West Glendale Avenue
Glendale, AZ 85301



Meeting Minutes - Final

Tuesday, March 7, 2017

9:00 AM

Budget Workshop

Council Chambers

City Council Workshop

Mayor Jerry Weiers

Vice Mayor Ian Hugh

Councilmember Jamie Aldama

Councilmember Joyce Clark

Councilmember Ray Malnar

Councilmember Lauren Tolmachoff

Councilmember Bart Turner

CALL TO ORDER**ROLL CALL**

Present 7 - Mayor Jerry Weiers, Vice Mayor Ian Hugh, Councilmember Jamie Aldama, Councilmember Joyce Clark, Councilmember Ray Malnar, Councilmember Lauren Tolmachoff, and Councilmember Bart Turner

Also present were Kevin Phelps, City Manager; Michael Bailey, City Attorney; and Julie K. Bower, City Clerk.

WORKSHOP SESSION**1. [17-070](#)****FY17-18 BUDGET WORKSHOP**

Staff Contact: Vicki Rios, Director, Budget and Finance

Ms. Rios said the focus would be key revenue streams from the general fund, the special revenue funds and the enterprise funds. Ms. Rios discussed the budget calendar and said the budget adoption would be in May and June.

Mr. Duensing said the ending fund balance line item equated to the City's savings account and the goal was to have \$50 million saved by FY20. He explained PSPRS expenditures were more than expected, were a recurring cost and were something that would had to be dealt with. Future policy decisions regarding PSPRS could cause another increase and staff would watch it very carefully.

Mr. Duensing said if the City could get to a budget surplus of \$1 million and realize savings in expenditures and additional one-time revenues, it would achieve the \$5 million needed to add to the fund balance.

Ms. Rios provided a history of the City sales tax for the general fund. There was a large increase between 2012 and 2017 due to the .7% increase in the sales tax rate. From 2016 to 2017, a five percent increase in the City's sales tax was estimated, with another 3.5 percent increase projected for FY2018. She explained the one point-of-pay for the sales tax simplification and administration and collection by the Arizona Department of Revenue (ADOR) was effective January 2017. Cities were seeing a delay and were reporting taxpayer frustration. Staff continued to work closely with ADOR and the taxpayers and had collected approximately 67 percent of City revenue through March 2, 2017. Staff did not expect the collections to be finished until the end of March.

Councilmember Tolmachoff asked if ADOR was working on the problems the taxpayers were having with filing online.

Ms. Rios said ADOR had indicated that it was up to the cities to proactively reach out to taxpayers to resolve those issues. ADOR would work on making some changes, but not until later.

Councilmember Malnar asked if staff had sent out any communication to the businesses alerting them to the problems.

Ms. Rios said prior to implementation, staff had been offering assistance to taxpayers.

Councilmember Malnar asked if the City had seen savings since the process had been streamlined and if it was budgeting any savings for the next fiscal year.

Ms. Rios said the City hadn't seen any savings yet. She would not be reducing resources but instead would be shifting them to taxpayer education and analytics.

Councilmember Clark asked how the deficit in the rate of return was going to affect the budget at the end of the fiscal year.

Mr. Duensing said that was unknown at this point, but staff had anticipated the delay. If taxpayers did file appropriately, staff did not anticipate seeing any change in sales tax revenues. It was important that every taxpayer who should be filing, did file, and that was the focus right now. It was too early to tell if there was a systemic problem or a need to adjust revenues downward. He said there was going to be a delay with manually filed returns. It was critical to maintain staff to continue to analyze it and even a slight bump in sales tax dollars was a significant amount of money.

Councilmember Clark said there were many unknowns at this point and asked if it was possible for staff to develop a worst-case scenario budget.

Mr. Duensing said it was too early to do that and he wanted to give it a little bit of time to see where the systemic problems might be occurring. Other large cities were experiencing the same problems. He suggested giving it a few weeks to see where the problems were coming from.

Councilmember Clark said Council was going into budget presentations in the next month and asked if staff could flag areas where Council could reduce items if it became necessary.

Mr. Duensing said it would be prudent to do that and he would need to meet with staff to determine service levels and if service reductions would be necessary. He explained it was why the City had the \$40 million in the fund balance, to cushion the blow. He said staff could start identifying services and determine the degree reductions might be necessary but his advice was to wait a few weeks before starting to identify service level reductions.

Ms. Rios said the businesses were still collecting taxes. The problem was to make sure the money was being remitted to the proper city in the right way. Staff had taken the opportunity to reach out to the taxpayers to make sure the tax money was paid in the right way to the right entity.

Mayor Weiers said it was a cashflow issue and the City needed to wait and see if it was going to be a problem in the future. He said the City did have money to cover a cashflow problem.

Councilmember Clark said the taxpayers were still paying their taxes as they normally did. The problem was with the state and its new system. She did not have confidence in the state resolving the problem. She wanted staff to be ready to deal with all contingencies.

Councilmember Turner said was there a delay in receiving the revenue as well as a drop in tax revenues.

Ms. Rios did not know if there had been a drop in revenues. But the City was seeing the delays already. The City would have to wait until the state closed the books on the month of February before it could see where it was at.

Ms. Rios reviewed the City sales tax rate, the classifications and the City's various funds. The biggest source of sales tax was retail sales.

Councilmember Clark asked what fee the City paid to ADOR for the new program.

Ms. Rios said the fee was approximately \$484,000.

Councilmember Clark would like to see what the hotel/motel tax was used for during the upcoming budget presentations. She knew a portion of the fund was used for CVB marketing and promotion.

Ms. Rios said every year staff evaluated the sales tax rate sufficiency. A reduction of one tenth of a percent in the sales tax rate equaled approximately \$3.5 million per year to the general fund, assuming a reduction of .1% on items under \$5,000. If it was applied to everything, including items over \$5,000, the impact would be approximately \$5 million per year.

Councilmember Clark said there was never going to be a right time in the budget cycle to make a reduction of sales tax. The sales tax was supposed to be temporary and Council needed to make good on its word. She wanted to look at a .1% reduction.

Ms. Rios next discussed state shared revenue, which consisted of state shared sales tax, state income tax and motor vehicle in lieu tax. For FY2018, a 3.5% increase in state shared sales tax was projected, with a projected 4% increase in state income tax and a projected 4% increase in motor vehicle in lieu tax. Ms. Rios said a 2% increase in primary property tax revenue had been projected every year over the last several years. She said the growth was very small because the value of property coming onto the market had remained flat.

Councilmember Tolmachoff asked what the estimated increases in state shared revenue were based on.

Ms. Rios said the 2016 figures were actual revenues received. She said state income tax was based on income tax collections for the prior two years and for 2018, staff was expecting it to be 4 percent. State shared sales tax depended on the economy and how it produced.

Councilmember Tolmachoff asked about the mid-term census and when those results would begin to affect Glendale.

Ms. Rios said the information had been received and used for the 2017 projections that would be received shortly from the Arizona League of Cities and Towns. Staff was not expecting the projections to change a lot.

Ms. Rios next discussed the special revenue funds. HURF revenue was received from the Arizona League of Cities and Towns and staff was projecting a 1% growth. She explained the figures were higher in the last couple of years because the City received a restoration of HURF funds. Staff was not projecting a restoration in 2018.

Ms. Rios said the transportation sales tax fund could only be used for certain purposes.

Revenue was higher in 2015 and 2016 because of reimbursements from a project that came in under budget. The same growth factor was used for this fund as was used for the general fund and a 3.5% increase was anticipated in 2018.

Ms. Rios next discussed police and fire special revenue funds which were using the same projection for 2018 of a 3.5% increase. Ms. Rios said the enterprise funds included the water and sewer fund and the last rate increase was in 2010. A rate study was currently underway.

Councilmember Clark asked about the decrease in anticipated revenues in the landfill and solid waste.

Ms. Rios said that was because of state legislation that changed how multi-family units were classified and opened those units up to competition. Any reduction in revenue should be offset by a reduction in expenditures. She said solid waste was reporting no major decline in revenue as of now.

Ms. Rios provided more detailed information about landfill revenues, which consisted of tipping fees from other customers, fees that the City charged itself, and recycling sales. She said there was volatility in recycling sales, which had been down over the last few years.

Councilmember Clark said the charts made it hard to figure out the dollar amounts being looked at without the numbers.

Ms. Rios said staff would provide the numbers.

Ms. Rios went over solid waste revenue that included residential sanitation, commercial sanitation revenues and internal charges for City departments.

Councilmember Clark asked why the commercial sanitation charges were dropping.

Ms. Rios said the drop was due to anticipation of the multi-family revenue declining.

Councilmember Aldama asked if costs for service of commercial sanitation was much less than residential.

Mr. Friedline did not have the specific cost of service. The revenues were balanced with the costs to make sure it was always making money. He said the services were very different and it was hard to make a comparison.

Councilmember Aldama was concerned about residents watching the meeting and not understanding the graph provided.

Ms. Rios said there were not as many commercial customers as there were residential customers.

Councilmember Turner asked for a comparison of the tonnage of commercial and tonnage of residential.

Mr. Duensing said staff would come back with the cost of the commercial versus cost of residential. The total cost of commercial would be less than the cost of the residential.

Councilmember Tolmachoff said the estimate for internal charges seemed to be high and

asked if staff was forecasting something higher.

Ms. Rios said that the graph made it look different, but it had not changed.

Councilmember Clark said commercial was much smaller than residential and she asked if the cost of collection was even worth being in the business of collecting commercial trash.

Ms. Rios said there was a rate study and cost of service study currently underway for the enterprise funds. She said additional information would be coming to the Council about those rates.

Councilmember Clark asked if the Citizens Utility Advisory Commission would be provided information about the commercial service.

Mr. Friedline said presentations to the commission would reflect general costs of commercial and the revenues. He said they hadn't gotten to a cost of service model for commercial yet, but were in the process of doing that for residential. He said they had the same questions about how the cost of commercial service affected the ending fund balance. Mr. Friedline said they were in the black every year with the roll off service and the frontline service. The City had customers who had the opportunity to use another service and chose not to because Glendale's service was superior.

Councilmember Tolmachoff said the next transfer out had increased dramatically.

Mr. Duensing said it represented the increase in debt service costs for the excise tax. He said that number would top out in about 2021.

Councilmember Clark said in the meantime the amount would triple.

Mr. Duensing said it was not anything that wasn't planned for.

Councilmember Aldama said the City was doing well regarding tax simplification. He reminded everyone it was a cashflow issue. He said creating a plan regarding reduction in service was premature and a long-term plan was already in place. The sales tax rate sufficiency item was really great, and now Council knew what it would look like with a .1% decrease in sales tax. He said it was appropriate to have that conversation every year and said it was Vice Mayor Hugh who had asked about that recently.

Councilmember Clark said she would like to make a request to have one council assistant for each Councilmember. The request could affect the Council budget. She asked for someone to advise her when the time was right to make that request.

ADJOURNMENT

The City Council adjourned at 10:11 a.m.