CITY OF SURPRISE
Regular City Council Work Session
16000 N. Civic Center Plaza
Surprise, AZ 85374
Tuesday, March 1, 2022 @ 5:00 PM
COUNCIL CHAMBERS

A. Call To Order

B. Roll Call

C. Pledge of Allegiance

D. Proclamation and Community Acknowledgements

E. City Manager Report

F. City Clerk Report

G. Call To The Public

INSTRUCTIONS: In order to address the City Council, you will need to fill out a Call to the Public Form available at the front counter, and then turn it in to the City Clerk before the meeting begins.
Download the Call to the Public form (PDF download requires Adobe Acrobat Reader)
Fill out the Call to the Public form online If submitting form electronically, please submit to City Clerk at least one hour before the meeting start time.
The Call to the Public form is also available at the front counter.

Note: A.R.S. 38-431.01(H)- During this time members of the public may address City Council only on issues within the jurisdiction of the City Council which are not an item on the agenda. At the conclusion of the open call, City Council may respond to criticism, may ask staff to review the matter or may ask that the matter be put on a future agenda. No discussion or action shall take place on any item raised.

Approval of items on the Consent Agenda – all items with an asterisk (*) are considered to be routine matters and will be enacted by one motion and one roll call vote to the City Council. There will be no separate discussion on these items unless a Councilmember requests, in which event the item will be removed from the consent agenda and considered in its normal sequence on the agenda.

Please be aware that Council Members may not discuss or respond to matters raised during call to the public that are not specifically identified on the agenda. Council Members may however, in their discretion, discuss or respond to relevant matters raised during a noticed public hearing or agenda item.

H. Regular City Council Work Session Agenda

CONSENT AGENDA:

REGULAR AGENDA ITEM - PUBLIC HEARING:

REGULAR AGENDA ITEM - NON-PUBLIC HEARING:

1.	Citywide	Presentation and discussion pertaining to the Fiscal Year 2023 Budget kickoff.	None Andrea Davis Finance
2.	Internal	Presentation and discussion pertaining to the FY2022 Financial Status Report through November 2021.	None Andrea Davis Finance

I. Other Business and Future Agenda Items

J. City Council Reports

K. Executive Session

For information Purposes; Upon a public majority vote of a quorum of the City Council, the Council may hold an executive session, which will not be open to the public, but for only the following purposes:

- discussion or consideration of personnel matters (A.R.S. §38-431.03 (A)(1));
- discussion or consideration of records exempt by law from public inspection (A.R.S. §38-401.03 (A)(2));

L. Adjournment

SHERRY ANN AGUILAR, CITY CLERK, MMC

POSTED: February 24, 2022 at 12:20 PM

SPECIAL NOTE: PERSONS WITH SPECIAL ACCESSIBILITY NEEDS, INCLUDING LARGE PRINT MATERIALS OR INTERPRETER, SHOULD CONTACT THE CITY CLERK'S OFFICE @ 623.222.1200 OR TTY 623.222.1002, BY NO LATER THAN 24 HOURS IN ADVANCE OF THE REGULAR SCHEDULED MEETING TIME.

CITY OF SURPRISE
Regular City Council Work Session

Council Meeting Date: March 1, 2022

Contact Person: Andrea Davis, DIRECTOR - FINANCE

Submitting Department: Finance

District: Citywide

Staff Recommendations: None

Consent: No	Regular: Yes	Public Hearing: No	Report/Discussion: No

Agenda Wording:

Presentation and discussion pertaining to the Fiscal Year 2023 Budget kickoff.

Motion:

None, discussion only.

Background:

This presentation and discussion will kick-off the Fiscal Year 2023 budget discussions.

Objective Analysis:

This presentation is consistent with City and Council policy and falls in line with the state budget adoption timeline.

Policy Compliant:

This presentation is consistent with City and Council policy and falls in line with the state budget adoption timeline.

Financial Impact:

The information presented is intended to encourage discussion which will have an impact on future operations and capital improvement plans.

Budget Impact:

The information presented is intended to encourage discussion which will have an impact on the FY2023 City Manager Recommended budget and the Tentative budget.

FTE Impact:

The number of full time equivalents (FTE) is not impacted by this item.

ATTACHMENTS:

1. FY23 Budget Kickoff

FY2023 Budget Kickoff

March 1, 2022

The City Budget Is…

- A process to allocate limited resources to programs, services, and infrastructure.

Participants in the Budget Process

City Council

- Strategic Plan
- Policy Decisions
- Taxes and fees

City Manager

- Strategic Direction to staff
- Recommends Budget

City Departments

- Operating Budget
- Capital Plan
- Continuous Monitoring
- Performance Management

State Requirements ARS Title 42

- State Budget Calendar
- State Forms
- Language / Public Notice
- Balanced Budget
- Budget Amendments

State Requirements ARS Title 42

- State Budget Calendar
  - Tentative Budget due by third Monday in July
  - Final Budget due at least 14 days before Property Tax Levy
  - Property Tax Levy due by third Monday in August
  - Fiscal year is from July 1 to June 30

State Requirements – State Forms

- After Tentative Budget adoption Schedule A must be posted in a local paper once a week for two consecutive weeks
- All Auditor General Forms must be made available at City Hall and at the City library
  - Posted on City's website after final adoption

State Requirements – State Forms

CITY OF SURPRISE
Summary Schedule of Estimated Revenues and Expenditures/Expenses
Fiscal Year 2022

Fiscal Year		Sch		FUNDS: General Fund	Special Revenue Fund	Debt Service Fund	Capital Projects Fund	Permanent Fund	Enterprise Funds Available	Internal Service Funds	Total All Funds
2021	Adopted/Adjusted Budgeted Expenditure/Expenses*	E	1	129,486,500	32,604,100	8,465,700	79,379,000	0	101,339,800	24,021,700	375,296,800
2021	Actual Expenditures/Expenses**	E	2	112,195,100	20,041,100	8,464,200	18,073,000	0	46,303,300	16,973,400	222,050,100
2022	Fund Balance/Net Position at July 1***		3	90,890,600	30,870,200	244,800	88,528,400	0	40,926,800	13,951,200	265,412,000
2022	Primary Property Tax Levy	B	4	9,974,100	0	0	0		0	0	9,974,100
2022	Secondary Property Tax Levy	B	5	0	2,396,600	5,097,800	0		0	0	7,494,400
2022	Estimated Revenues Other than Property Taxes	C	6	121,676,100	49,288,600	0	31,708,300	0	68,753,400	20,608,000	292,034,400
2022	Other Financing Sources	D	7	0	0	0	0	0	1,000,000	0	1,000,000
2022	Other Financing (Uses)	D	8	0	0	0	0	0	0	0	0
2022	Interfund Transfers In	D	9	8,098,800	9,070,400	3,438,900	13,445,800	0	14,056,600	0	48,110,500
2022	Interfund Transfers (Out)	D	10	(20,683,600)	(4,050,700)	0	(1,205,800)	0	(22,170,400)	0	(48,110,500)
2022	Reduction for Fund Balance Reserved for Future Budget Year Expenditures										
LESS:	Maintained for Future Debt Retirement										
	Maintained Future Capital Projects		11								
	Maintained for Future Financial Stability										
2022	Total Financial Resources Available		12	209,956,000	87,575,100	8,781,500	132,476,700	0	102,566,400	34,559,200	575,914,900
2022	Budgeted Expenditures/Expenses	E	13	135,257,600	68,768,100	8,536,100	82,230,200	0	112,522,400	30,515,000	437,829,400

	EXPENDITURE LIMITATION COMPARISON	2021	2022
1	Budgeted expenditure/expenses	$ 375,296,800	$ 437,829,400
2	Add/subtract: estimated net reconciling items	0	0
3	Budgeted expenditures/expenses adjusted for reconciling items	375,296,800	437,829,400
4	Less: estimated exclusions	0	0
5	Amount subject to the expenditure limitation	$ 375,296,800	$ 437,829,400
6	EEC expenditure limitation	$ 1,144,324,466	$ 1,201,827,672

☐ The city/town does not levy property taxes and does not have special assessment districts for which property taxes are levied. Therefore, Schedule B has been omitted.

* Includes Expenditure/Expense Adjustments Approved in the current year from Schedule E.
** Includes actual amounts as of the date the proposed budget was prepared, adjusted for estimated activity for the remainder of the fiscal year.
*** Amounts on this line represent Fund Balance/Net Position amounts except for amounts not in spendable form (e.g., prepaids and inventories) or legally or contractually required to be maintained intact (e.g., principal of a permanent fund).

Language and Public Notice

Truth in Taxation Notice

- 60 days' notice on homepage of website for rate or tax increase
- Published twice before Public Hearing
    - At least 14 days not more than 20 days
    - At least 7days but on more than 10 days

TRUTH IN TAXATION HEARING
NOTICE OF TAX INCREASE

IN COMPLIANCE WITH SECTION 42-17107, ARIZONA REVISED STATUTES, THE CITY/TOWN OF__________ IS NOTIFYING ITS PROPERTY TAXPAYERS OF ________'S (NAME OF CITY OR TOWN) INTENTION TO RAISE ITS PRIMARY PROPERTY TAXES OVER LAST YEAR'S LEVEL. __________ (NAME OF CITY OR TOWN) IS PROPOSING AN INCREASE IN PRIMARY PROPERTY TAXES OF $_______ OR _____%.

THE PROPOSED TAX INCREASE WILL CAUSE _________'S (NAME OF CITY OR TOWN) PRIMARY PROPERTY TAXES ON AN $100,000 HOME TO INCREASE FROM $_________ (TOTAL TAXES THAT WOULD BE OWED WITHOUT THE PROPOSED TAX INCREASE) TO $_______ (TOTAL PROPOSED TAXES INCLUDING THE TAX INCREASE).

THIS PROPOSED INCREASE IS EXCLUSIVE OF INCREASED PRIMARY PROPERTY TAXES RECEIVED FROM NEW CONSTRUCTION. THE INCREASE IS ALSO EXCLUSIVE OF ANY CHANGES THAT MAY OCCUR FROM PROPERTY TAX LEVIES FOR VOTER APPROVED BONDED INDEBTEDNESS OR BUDGET AND TAX OVERRIDES.

ALL INTERESTED CITIZENS ARE INVITED TO ATTEND THE PUBLIC HEARING ON THE TAX INCREASE THAT IS SCHEDULED TO BE HELD _________ (DATE AND TIME) AT _________ (LOCATION).

Language and Public Notice

Truth in Taxation Notice

- Not in classified ads
- Must be at least 1/4 page
- Solid black border 1/8 inch wide and 18 point type
- Posted in local paper once a week for two weeks
- Issue a press release

TRUTH IN TAXATION HEARING
NOTICE OF TAX INCREASE

IN COMPLIANCE WITH SECTION 42-17107, ARIZONA REVISED STATUTES, THE CITY/TOWN OF__________ IS NOTIFYING ITS PROPERTY TAXPAYERS OF ________'S (NAME OF CITY OR TOWN) INTENTION TO RAISE ITS PRIMARY PROPERTY TAXES OVER LAST YEAR'S LEVEL. __________ (NAME OF CITY OR TOWN) IS PROPOSING AN INCREASE IN PRIMARY PROPERTY TAXES OF $_______ OR _____%.

THE PROPOSED TAX INCREASE WILL CAUSE _________'S (NAME OF CITY OR TOWN) PRIMARY PROPERTY TAXES ON AN $100,000 HOME TO INCREASE FROM $_________ (TOTAL TAXES THAT WOULD BE OWED WITHOUT THE PROPOSED TAX INCREASE) TO $_______ (TOTAL PROPOSED TAXES INCLUDING THE TAX INCREASE).

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ALL INTERESTED CITIZENS ARE INVITED TO ATTEND THE PUBLIC HEARING ON THE TAX INCREASE THAT IS SCHEDULED TO BE HELD _________ (DATE AND TIME) AT _________ (LOCATION).

TRUTH IN TAXATION HEARING
NOTICE OF TAX INCREASE

IN COMPLIANCE WITH SECTION 42-17107, ARIZONA REVISED STATUTES, THE CITY OF SURPRISE IS NOTIFYING ITS PROPERTY TAXPAYERS OF THE CITY OF SURPRISE'S INTENTION TO RAISE ITS PRIMARY PROPERTY TAXES OVER LAST YEAR'S LEVEL. THE CITY OF SURPRISE IS PROPOSING AN INCREASE IN PRIMARY PROPERTY TAXES OF $554,485 OR 6.0%.

FOR EXAMPLE, THE PROPOSED TAX INCREASE WILL CAUSE THE CITY OF SURPRISE'S PRIMARY PROPERTY TAXES ON A $100,000 HOME TO BE $75.91 (TOTAL PROPOSED TAXES INCLUDING THE TAX INCREASE). WITHOUT THE PROPOSED TAX INCREASE, THE TOTAL TAXES THAT WOULD BE OWED ON A $100,000 HOME WOULD HAVE BEEN $71.69.

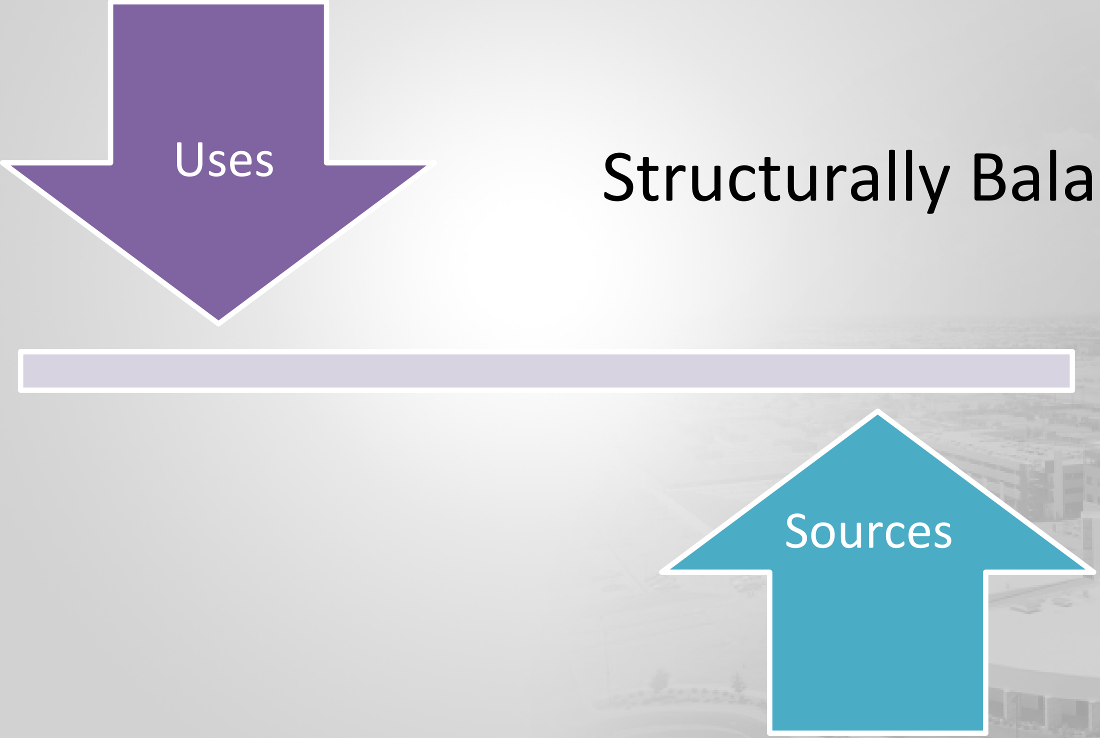
THIS PROPOSED INCREASE IS EXCLUSIVE OF INCREASED PRIMARY PROPERTY TAXES RECEIVED FROM NEW CONSTRUCTION. THE INCREASE IS ALSO EXCLUSIVE OF ANY CHANGES THAT MAY OCCUR FROM PROPERTY TAX LEVIES FOR VOTER APPROVED BONDED INDEBTEDNESS OR BUDGET AND TAX OVERRIDES.

ALL INTERESTED CITIZENS ARE INVITED TO ATTEND THE PUBLIC HEARING ON THE TAX INCREASE THAT IS SCHEDULED TO BE HELD JUNE 1, 2021 AT 6:00 PM AT THE CITY OF SURPRISE COUNCIL CHAMBERS, 16000 N. CIVIC CENTER PLAZA, SURPRISE, AZ, 85374.

State Requirements After Adoption

- Budget Amendments
  - Budget is adopted at the Fund / Department Level
    - Changes between departments or funds requires City Council approval
  - FTE Count is adopted by City Council
    - Changes require City Council approval

Balanced Budget



Structurally Balanced

Balanced Budget

- Ongoing Sources and Uses
  - Consistent, relatively stable
  - Planned to occur into the future
  - Local Sales Tax, Personnel costs

- One Time Sources and Uses
  - Inconsistent, volatile
  - Event oriented
  - Contracting Sales Tax
  - Fund Balance / Capital projects

Annual Budget Process

Month	Activity
November	Budget Kick-off with staff
November - December	Departments submit operating budget & capital requests
December	Finance reviews base budgets and new requests with departments
January	Departments enters current year revenue and expense estimates
February - March	City Manager’s Office reviews operating and capital request
February - April	Finance prepares Recommended Budget
Early April	City Council Budget Retreat
April	Recommended budget issued
May	Tentative Budget Adoption
June	Final Budget Adoption Property Tax Levy

Strategic Budgeting

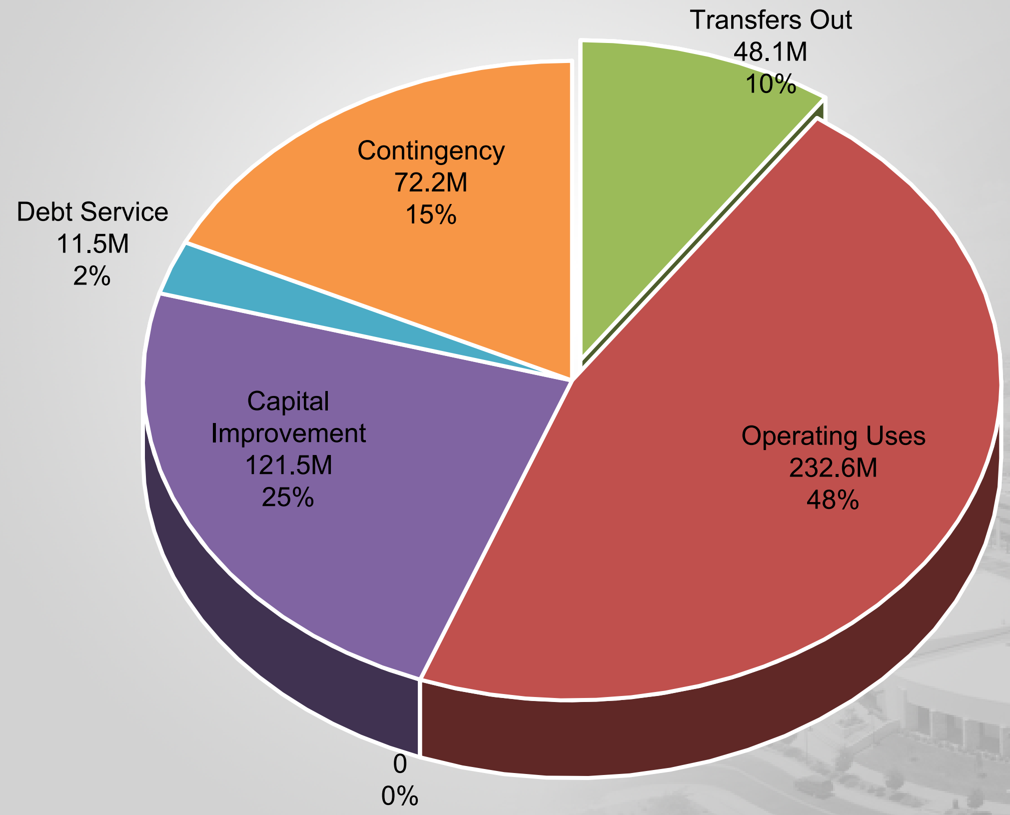
FY2022 Base Budget + New Requests = FY2023 Budget

- Continuous Monitoring
- Budget vs Actuals
- Efficiencies / Capacity

- Strategic Plan
- Growth

- Continuous Monitoring
- Budget vs Actuals

FY2022 Budget Breakdown



Fund Accounting

- **Special Revenue Funds-** Can only be used for specific purposes
  - Highway User Revenue Fund (HURF) — Streets
    - Gas tax and vehicle registration
    - Volatile
  - Development Impact Fee Funds
    - Regulated by state statute
      - Restricted, audited annually
  - Grants Fund
    - Priority, follows Strategic Plan, city match

Fund Accounting

- **Enterprise Funds-** Provides services for a fee that recovers costs
  - Solid Waste
  - Water
  - Sewer
  - Stormwater
  - Ambulance
- HR, IT, Finance, and Legal services are Indirect costs paid to general fund
- Property In Lieu of Taxes (PILOT) paid to general fund

Fund Accounting

- **Internal Service Funds** – City's insurance activities
  - Workers Compensation
  - Healthcare Benefits
  - Risk Management
- **Capital Fund** – Capital projects
- **Debt Service** – Annual debt payments
- **General Fund** – Operating activities

General Fund

- Primary operating fund of the City to support municipal services such as:
  - Mayor and Council
  - City Manager
  - Fire-Medical
  - Police
  - Parks & Recreation
  - Community Development
  - Economic Development
  - City Attorney
  - City Clerk
  - Information Technology
  - Human Resources
  - Human Services & Community Vitality
  - Public Works
  - Finance

Contingency

- Budget authority for unforeseen expenditures or unknown amounts not programmed in the budget
  - Development Impact Fee funds
  - Bond projects
  - Grants - not awarded yet by federal government
- Requires City Council action to spend

Reserves

- Comprehensive Financial Management Policies
  - Minimum Fund Balance Policies
- Debt Requirements
- Reserves are not intended to be spent
  - Ensure the City has adequate resources
  - Draw down requires plan to replenish
  - Use requires City Council approval
- Total FY2022 Reserves of $55.4 M

Reserves

• General Fund	$25.2M
• General Capital Fund	$ 1.0M
• Transportation Improvement	$ 0.5M
• Spring Training Ticket Surcharge	$ 0.6M
• Tourism Fund	$ 5,000
• Risk Management Fund	$ 0.8M
• Healthcare Benefits	$ 3.3M
• Workers' Compensation	$ 3.0M
• Enterprise Funds	$20.9M

Transfers

- Accounting for moving City money between funds
  - Example: General Fund to General Capital for asset replacement

$1,000 Total

Savings
$1,000

Need to move $500 from savings to checking

Checking
$0

Transfers

- Accounting for moving City money between funds
  - Example: General Fund to General Capital for asset replacement

Savings
$500

$1,000 Total

Transfer Out $500 from
Savings to Checking

Transfer In $500 from
Checking to Savings

Checking
$500

Transfers

- Payment of City money between funds
    - Indirect Cost Allocation:
        - Enterprise Funds pay for HR, IT, Finance, Legal, etc. services to the General Fund through a transfer
    - Debt Service: Operating or Impact Fee Funds transfer money to Debt Service Fund where payment to lending institution is made
    - Internal Service Funds: Operational Funds to Health Benefits and Workers Compensation to fund employer portion of medical, dental, etc. claims incurred

Capital Improvement Plan (CIP)

- Projects over $100K & a useful life over 3 years
- Asset replacement
- Vehicle replacement
- 5 year CIP
  - Adopt and fund only the first year of CIP

Debt Service

- Outstanding Debt
  - 2015 Revenue Obligations $18.9M
    - 2000 and 2003 MPC bonds
    - 2015 Stadium improvements
  - 2018 Revenue Obligations $22.3M
    - Water, Sewer, Stormwater Obligations
    - 2007 MPC debt
  - 2018 & 2020 General Obligation Bonds $46.6M
    - Secondary property tax
  - Inter-fund Loans $7.2M
    - General Government owes Wastewater $5.4M
    - Ground Ambulance owes General Fund $2M – Going Away in FY23

Upcoming Calendar

- Work Sessions
  - City Council Budget Kickoff March 1
  - Revenue & Expenses March 15
- City Manager’s Recommended Budget Retreat April 15
- Tentative Budget adoption May 3
- Final Budget adoption June 7
- Property Tax Levy adoption June 21

QUESTIONS OR COMMENTS?

Thank You

CITY OF SURPRISE
Regular City Council Work Session

Council Meeting Date: March 1, 2022

Submitting Department: Finance

Staff Recommendations: None

Contact Person: Andrea Davis, DIRECTOR - FINANCE

District: Internal

Consent: No   Regular: No   Public Hearing: No   Report/Discussion: No

Agenda Wording:

Presentation and discussion pertaining to the FY2022 Financial Status Report through November 2021.

Motion:

Discussion only.

Background:

This update will review the financial activity through the month of November 2021.

Objective Analysis:

The comparison of the actual financial activity to the plan laid out in the budget helps the city to determine the current financial position. This will allow for better short and long term financial planning as the current fiscal year is underway and the planning for the next budget begins.

Policy Compliant:

This item is compliant with the city's Comprehensive Financial Management Policies.

Financial Impact:

The attached presentation provides an update of the unaudited revenue and expenditures for the General Fund for Fiscal Year 2022, through November 2021.

Budget Impact:

This item does not amend the current fiscal year budget .There will be discussion of the city's financial performance to-date.

FTE Impact:

This item does not change the full-time equivalent position count.

ATTACHMENTS:

1. November FY2022 Financial Status Update

SURPRISE
ARIZONA

FY2022 Financial Status Update November

March 1, 2022

Sources Category Examples

Local Sales Tax: Tax on Retail, Restaurants, Construction

Intergovernmental: State-shared sales tax, income tax, vehicle license

Charges for Services: Fees for programs and services (permits, youth soccer)

Primary Property Tax: Tax levied on property

Franchise Fees: Fees related to sales from franchised utility companies within the city (APS, Cox, Southwest Gas, EPCOR)

Transfers In: Indirect cost assessments – Enterprise payments for HR, Finance, IT, etc.

FY2022 General Fund Sources

Category	FY22 Estimates Thru Nov	FY22 Actual Thru Nov*	Amount Variance	Percent Variance
Local Sales Tax	$26.5	$29.4	$2.9	10.9%
Intergovernmental	17.7	18.5	0.8	4.5%
Charges for Services	9.5	10.9	1.4	14.7%
Other	0.2	0.3	0.1	50.0%
Primary Property Tax	5.7	5.4	(0.3)	(5.3%)
Franchise Fees	2.0	1.8	(0.2)	(10.0%)
Transfers In	3.2	3.2	0.0	0.0%
Total	$64.8	$69.5	$4.7	7.3%

Amounts in millions *Unaudited

Uses Category Examples

Personnel: Wages, taxes, benefits, retirement

Supplies: Equipment, fuel, operational supplies

Services: Insurance claims, utilities, landscaping, advertising, postage

Capital: One-time purchases under $100K

Transfers Out: Funding to Capital and Asset Replacement

FY2022 General Fund Uses

Category	FY22 Estimates Thru Nov	FY22 Actual Thru Nov*	Amount Variance	Percent Variance
Personnel	$34.4	$33.1	($1.3)	(3.8%)
Supplies	1.8	1.8	0.0	0.0%
Services	8.5	7.7	(0.8)	(9.4%)
Capital	0.0	0.0	0.0	0.0%
Contingency	0.0	0.0	0.0	0.0%
Transfers Out	8.8	8.8	0.0	0.0%
Total	53.5	51.4	(2.1)	(3.9%)
One-Time Transfers Out	7.0	7.0	0.0	0.0%
Grand Total	$60.5	$58.4	($2.1)	(3.5%)

Amounts in millions *Unaudited

QUESTIONS OR COMMENTS?

Thank You