

## Budget Process, Council Review and Input, Public Hearings and Budget Adoption

Each year, the city of Phoenix budget is developed in conjunction with the Mayor and City Council, residents, city employees, the City Manager's Office and all city departments.

### Modified Zero-Base Budgeting Process

The city of Phoenix uses a modified zero-base budgeting process. Each fall, departments submit an estimate (called the "base budget") of the costs associated with providing their current levels of service for the following year. Budget and Research staff review these base budget estimates to ensure that only the funding needed to continue current service levels is included in the department's base budget for the following year. This Budget and Research review is called a technical review because of its non-programmatic, line-item review. A department's base budget funding may differ from its current year funding for a variety of reasons. For example, an increase or decrease in electricity or postage rates would be reflected in the base budget.

After these base budget requests are reviewed, departments typically are asked to identify 5 to 10 percent of their budget for potential elimination. These proposals are called base reductions and represent the department's lowest-priority activities. Departments are also asked to provide any requests for new or expanded programs. These are called supplemental budget requests.

When base reductions and supplemental requests are proposed, they are ranked together according to the department's priorities. The department's ranking indicates whether making a base reduction to add a new program would be possible, and also indicates which supplemental programs and base reductions are most critical to the department. City Council members are also asked to submit their own ideas for budget changes.

Base reductions and supplemental requests include all operating and maintenance costs associated with a specific program or service. For example, costs for a swimming pool would include personnel costs for a lifeguard and other staff, chemicals for the pool, building maintenance and utilities.

The City Council then provides input to the city manager for the preparation of the Trial Budget, which is reviewed with the City Council early each spring. The purpose of the Trial Budget is to enable the community and the City Council to comment on a balanced budget well before the city manager is required to submit his recommended budget in mid-May. Public hearings are conducted throughout the community during day and evening hours. The City Council makes final budget recommendations after the city manager's preliminary budget is reviewed.

### 2008-09 BUDGET PROCESS

#### Early Discussions

In October 2007, Budget and Research staff presented an early review and discussion of the budget to the City Council. At that time, staff focused on the General Fund, providing financial results for the previous fiscal year, the latest available information on revenues and expenditures for the current year, and the limited information available about the upcoming 2008-09 fiscal year. The Mayor and City Council were advised that current year General Fund revenue estimates were reduced by \$20 million due to a decline in local and state sales tax revenues for the first two months of the fiscal year, however, a breakeven General Fund budget for 2008-09 was projected.

Revenue collections in September and October continued to decline and, in fact, worsened. Collections in several major revenue categories indicated significant downward trends impacting both the current year and the projected 2008-09 budget. As a result, staff again lowered current year revenue estimates and

reduced projected revenues for 2008-09. These actions resulted in a projected \$54 million revenue shortfall through the 2008-09 fiscal year, which was reported to the Mayor and City Council in December 2007.

In anticipation of a budget shortfall, city departments were asked to submit base reductions equal to 20 percent of their current budget for management review. Because of the \$117 million in General Fund reductions experienced from fiscal year 2002-03 through 2005-06, departments had few options that didn't result in reduced services to the community. Departments were also asked to carefully consider the funding needed for capital facilities opening in 2008-09.

#### Initial Budget Status

The 2008-09 budget development process began earlier in the year to respond to reduced revenues related to declines in the housing industry, mortgage lending issues and higher gasoline prices. In January 2008, the Mayor and City Council were alerted that the economy was steeply declining and that the revenue outlook was poor.

A comprehensive review of departments' expenditure estimates for 2007-08 and 2008-09 was completed in December. Several unavoidable expenditure increases were identified in this review including employee compensation and benefit cost increases; general inflation, particularly in fuel and utilities; expiring federal grants; the cost of a May election; critical upgrades to major technology systems; and estimated costs to open new facilities. After updating revenues and incorporating the unavoidable cost increases, a budget deficit of \$70.8 million was projected for the 2008-09 fiscal year.

On Jan. 15, 2008, the Mayor and City Council were advised that with a projected deficit of \$70.8 million, actions to balance the 2008-09 budget needed to be identified and implemented as soon as possible. Staff





provided a series of actions for City Council consideration including expediting the budget process calendar, implementing a hiring freeze, authorizing severance packages, examining new sources of revenue and targeting budget reduction percentages.

Budget and Research staff estimated an additional \$1.0 million was needed for severance package costs. The department also identified one-time citywide reductions such as utilizing available Development Services Department vehicles for General Fund vehicle replacements, reducing the General Fund contingency percentage, deferring service center renovations, and reducing desktop computer replacements. These actions reduced the projected deficit by \$4.7 million from \$71.8 to \$67.1 million.

During this discussion, an across the board reduction of 5.9 percent for each department was projected in order to achieve \$67.1 million in reductions. To minimize the impact to public safety and criminal justice activities, a 3.0 percent reduction in these programs was recommended by the city manager, requiring remaining General Fund department reductions of 11.6 percent to achieve the \$67.1 million savings. The City Council concurred with this reduction strategy and also approved an expedited budget calendar that would allow reductions to be implemented in April to maximize savings and the use of severance packages to help manage the position reduction process.

### **Trial Budget**

On Feb. 19, a budget reduction proposal totaling \$67.2 million in cuts and the elimination of 445.4 positions was presented for review to the Mayor and City Council. All departments and all levels of the organization were affected by the proposed reductions. Among the recommended reductions were reducing hours at cultural facilities, delaying the opening of the new Agave Library, reducing library funding for books and other circulating materials, decreasing the number of annual Fight Back programs, increasing admission fees for Pueblo

Grande Museum, reductions in parks maintenance, reducing community center and city pools hours, less traffic calming solutions, and decreasing the frequency of cleaning bus shelters.

Since the Jan. 15 meeting, Budget and Research completed its review of new capital facilities under construction and their associated 2008-09 operating costs. By phasing projects and reducing costs to the bare minimum, 2008-09 operating costs for new facilities was reduced by \$5.7 million from the original projection. The proposed budget added \$1.3 million to fund the operating costs of several new capital facilities including the staff and recreation services for the Downtown Civic Space park and Phase II of the Reach 11 Sports Complex; maintenance for the new police precinct at 99th Avenue and Lower Buckeye; and facilities maintenance of the Children's Museum.

Also presented on Feb. 19 were budget proposals for non-General funds. The Development Services Department (DSD) was hit particularly hard by the current economic downturn. Significant reductions were made in DSD in November 2007, resulting in the elimination of 125 positions. Unfortunately, another 66 positions were eliminated to keep expenditure levels in line with current revenue collections. In total, \$15.9 million in reductions were made in DSD expenditures to help manage this issue.

The same economic factors impacting the General Fund also negatively impacted Transit 2000 sales tax revenue. As a result, the planned implementation of two new neighborhood circulators for the South Mountain and Laveen areas could not be funded. Staff will continue to monitor revenues and look for opportunities to fund these services in the future.

Recommended additional costs for non-General Fund new capital facilities and other budget additions were also included in the proposed budget. For the Aviation Department, staff and operating costs were added to support bus services between 44th and Washington streets to all terminals, implement a GIS System, meet new federal security mandates in airport security operations, and increase

maintenance staff for newly acquired facilities and equipment.

The Phoenix Convention Center added a significant number of new staff and additional funds for operating costs to support the January 2009 opening of the new North Building.

For the Housing Department, additional staff was provided to ensure compliance with all HUD and federal Section 8 requirements, maintain lease rates, and improve intake processes and waiting list management.

In the Public Works Department, additional Solid Waste funding was provided for continuing the recycling educational outreach, adding staff and related costs for resuming contained collection for Service Area 6, activating the Salt River Service Center, enhancing the enforcement of Chapter 27 code requirements and environmental compliance, and maintaining adequate collection of contained residential solid waste and recyclables.

Water and Wastewater improvements included additional funding to implement process controls at water treatment facilities, contract solids removal services, maintain security systems improvements throughout the department, add shift supervision at the 91st Avenue Wastewater Treatment Plant, and increase electrical maintenance services at wastewater treatment facilities.

### **Community Input**

The proposed budget was presented at 12 budget hearings conducted throughout the community from Feb. 25 through March 6, including a special hearing for seniors. Following a presentation describing the proposed budget, residents were invited to comment. In addition to the budget hearings, the city communicated the budget to the community through the "Phoenix Budget for Community Review" that outlined the proposed service changes as well as a calendar of budget hearing dates. This publication was inserted in the Feb. 24 edition of *The Arizona Republic* and the Feb. 27 edition of the *Arizona Informant*. A Spanish version of this





publication was included in *Prensa Hispana*. Copies of the inserts also were available at various locations throughout the city, including all budget hearings. In total, nearly 200,000 inserts were made available to residents throughout the city. Residents also were invited to send comments and questions through the city's Web site. This publicity of the Trial Budget allowed the City Council and the community to comment on a balanced budget.

On March 11, a revised budget package was presented to the Mayor and City Council. At that time, it was reported that the holiday sales tax results were disappointing, prompting a further reduction in revenue estimates of \$22 million. On the upside, staff noted estimated property tax revenues for next year increased by \$2.5 million and the hiring freeze and budget belt-tightening had produced another \$1.0 million in savings. Additionally, staff identified a series of one-time savings, which would reduce the amount of new budget cuts necessary to balance the budget. Together, these recommended items produced \$13.9 million in savings, leaving a new net deficit of \$4.6 million.

Additionally, comments from the community were incorporated into the recommended budget that was presented to the Mayor and Council on March 11. Based on the input received, eight restorations were recommended. General Fund restorations included funds for Work Alternative and Project Scrub program coordination efforts; staff to administer the River Rampage Program; contract funding for Advocates for the Disabled; an additional weekend of pool hours; and additional funds for after-school programs. Funded through Parks fees, Monday hours were restored at community centers. Several services were temporarily restored utilizing outside funding sources. The Neighborhood Block Watch Oversight Committee approved a one-time allocation to restore park rangers and code enforcement inspectors. The River of Dreams, a nonprofit agency, pledged \$50,000 each of the next two years for operational costs associated with the River Rampage program. A staff position to

coordinate the annual Electric Light Parade and Fabulous Phoenix Fourth events was supported with the assumption that outside funding sources would fund the \$120,000 cost.

At this meeting, the Mayor and City Council approved the \$67.2 million General Fund budget reduction package, recommended \$243,000 in restorations, supported an additional 0.5 percent in reductions to non-public safety/criminal justice departments, and extended the hiring freeze to achieve \$2.8 million in savings.

With these changes, the recommended 2008-09 budget included General Fund reductions totaling \$72 million and the elimination of 431.8 jobs. With the exception of public safety and criminal justice departments, which were cut by 3.0 percent, most General-funded department budgets were reduced by 12.1 percent.

#### **Tentative Budget Adoption - June 4**

A public hearing and tentative budget adoption was held on June 4 in compliance with the City Charter requirement that the budget be adopted no later than June 30. Upon tentative adoption, the budget

becomes the City Council's program of services for the ensuing fiscal year. At that point, the City Council may later decrease the budget, but only in certain instances may the budget be increased. Generally, the ability to increase the budget applies to expenditures exempted from the state expenditure limitation. Transfers between department appropriations are still permissible before the final budget is adopted.

#### **Final Budget Adoption – June 18**

A public hearing and final adoption were conducted on June 18. Adoption of the property tax levy was scheduled no less than 14 days later on July 2 in accordance with state law.

The following chart is an overview of the 2008-09 budget calendar.

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#### **2008-09 Budget Calendar**

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January 15	Initial 2008-09 Budget Status Report and Options for Budget Review Process
February 19	Proposed Reductions to Balance General Fund Budget
Week of February 24	Budget Inserts in Local Newspapers
February 25 – March 6	Community Budget Hearings
March 11	Recommended Actions to Balance the 2008-09 Budget
April 8	2008-13 Preliminary Capital Improvement Program
April 17	2006 Bond Committee Meeting
May 13	City Manager's Recommended 2008-09 Budget
June 4	Tentative Adoption of 2008-09 Budget and 2008-13 Capital Improvement Program
June 18	Final Budget Adoption
July 2	Property Tax Adoption

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