

Proposed 2008-09 Annual Budget



TO THE HONORABLE MAYOR AND CITY COUNCIL:

This letter transmits a balanced budget for the upcoming fiscal year. On March 11, the Mayor and City Council approved \$72 million in General Fund budget reductions including the elimination of 431.8 city jobs. Those reductions were implemented on April 14. This formal budget, which is required by the City Charter, reflects those already approved and implemented budget reductions.

The budget presented here includes all city funds and represents months of hard work and difficult decisions by the Mayor and City Council, our boards and commissions, our employees, city management and the community. I want to thank the many community members who took the time to attend one or more of our 13 budget hearings and share their ideas for balancing the upcoming budget. I also want to thank the many city boards and commissions who provided time on their already busy meeting agendas to review and discuss budget-balancing proposals.

It is important to note that this budget assumes the continuation of all current state-shared revenues. These revenues have been shared with Arizona cities and towns as a result of three initiatives

approved by Arizona voters beginning in the 1940s. The Legislature continues to grapple with the state's \$3 billion budget deficit. If cuts in state-shared revenues are part of the Legislature's budget solution, the impact to community services will be drastic.

GENERAL FUND BUDGET SHORTFALL

The \$72 million in reductions were made to address an overall General Fund revenue shortfall of \$96 million due to a decline in the housing industry and slowdown in the economy. Revenues began to decline during the last few months of fiscal year 2006-07, and worsened throughout 2007-08. In October 2007, staff reduced revenue estimates by \$20 million. In December 2007, revenues were further reduced \$54 million. In March 2008, a third reduction of \$22 million was made.

On the expenditure side, we have unavoidable cost increases next year. These include employee compensation and benefit cost increases, general inflationary cost increases (particularly in fuel and utilities), expiring federal grants, critical upgrades to major technology systems, and the cost to open new facilities. Finally, our budget-balancing actions included an amount for employee severance.

Other actions were taken to address the \$96 million revenue shortfall aside from the \$72 million in department reductions. General Fund vehicle replacements were reduced to only emergency response and Reserve-a-Ride vehicles, desktop technology replacements were reduced, repayment of General Fund support to Transit and Streets was delayed, maintenance service center renovations were deferred, and a hiring freeze has been extended into the first few months of the 2008-09 fiscal year. These actions reduced General Fund expenditures on a citywide basis and helped minimize service and program reductions in the community.

EARLY ACTION PROTECTS COMMUNITY SERVICES

We began discussing our budget situation with the Mayor and City Council on Dec. 4, 2007. We asked departments to begin preparing proposed budget cuts equal to 20 percent of their General Fund budget. Since \$117 million in General Fund reductions have occurred over the past five years, there was minimal capacity left for departments to avoid service cuts.

In January 2008, the Mayor and City Council approved an approach to reduce the 2008-09 budget that included 3 percent reductions in the Public Safety and Criminal Justice programs (Police, Fire, Municipal Court, City Prosecutor and Public Defender), and 11.6 percent reductions for the remaining General Fund departments. This approach allowed for administrative, non-service reductions in Police and Fire and avoided even higher percentage reductions, and service impacts, to the community.

Finally, as mentioned earlier, on March 11, 2008, the Mayor and City Council approved budget reductions of \$72 million. These reductions were effective on April 14 wherever possible. In this way, we were able to achieve almost 15 months in savings rather than just 12 months. We were able to cut programs and services less by cutting them early.





OVERVIEW OF 2008-09 BUDGET

Public Safety/Criminal Justice

The Police, Fire, Municipal Court, City Prosecutor and Public Defender departments 2008-09 budget growth was reduced by 3 percent. A large portion of these reductions, particularly in Police and Fire, were in administrative support staff and costs. Capital outlay, commodities, supplies and overtime were reduced in Police and Fire, and staffing for two new fire stations was delayed due to delays in construction schedules. None of the reductions in Police and Fire impacted direct service delivery. Two courtrooms and associated staffing were eliminated in the Municipal Court, City Prosecutor and Public Defender.

This budget also reflects additional funding for Police and Fire service as a result of the passage by Phoenix voters of Proposition 1 in September 2007. Proposition 1 increased the city sales tax by 0.2 percent to provide funding for 500 additional police officers and support staff, and 100 additional firefighters. The hiring of these new positions is underway. Proposition 1 funding and positions were not impacted by the General Fund reductions implemented.

All Other General Fund Departments

Reductions have been made in all other General Fund departments and at all levels of the organization. As mentioned earlier, we have cut 431.8 city jobs. Executive and middle management jobs have been reduced by the greatest proportion. The vast majority of services enjoyed by the community will remain intact. But, given the severity of our budget deficit, some services have to be reduced.

Parks maintenance has been reduced which will mean less watering and a delay in landscape maintenance and in cleaning the parks each day. The swimming pool season has been shortened to the last weekend in May through the end of July. Hours at various cultural facilities will be reduced, and several small, minimally used recreation centers will close. Supervised youth sports programming will be eliminated. Funds available for Neighborhood Fight Back areas have been reduced. Fewer library materials will be purchased. The Summer Youth Work Experience Program will be reduced. New transit service will be delayed, and maintenance at city facilities has been curtailed.

We regret any reductions in community services. Restoring these services will be a high priority when the economy improves.

Other General Fund Budget Adjustments

This budget includes increases in some existing recreation fees and implementation of a new \$5 fee to utilize Parks community centers throughout the city. The revenues raised by these actions prevented approximately \$1 million in additional cuts in Parks and Recreation programs. We have included a reduction in next year's contingency fund from the current 2.9 percent of operating expenses to 2.7 percent of operating expenses. This provided \$2.6 million in resources used to reduce program cuts. The current property tax rate of \$1.82 will remain unchanged.

Non-General Fund Budgets

This budget provides recommendations for all city departments and all city funds. The Development Services Department also has been severely impacted by the current housing and economic downturn. A total of 191 positions and \$15.9 million have been reduced from Development Services. These reductions were necessary to keep expenditure levels in line with current revenues.

The Phoenix Convention Center is adding positions to operate the new North Building scheduled to open for business in January 2009. Aviation is adding bus service between the 44th and Washington streets light rail stop and the Sky Harbor Airport terminals. We also were able to provide some budget improvements in the Water, Wastewater, Housing and Solid Waste funds.





CONCLUSION

The fiscal year 2008-09 budget process has been one of the most challenging in the city's history. The rapid decline in the housing industry and economy resulted in a revenue shortfall that worsened as the year progressed. No one knows at this point when the economy will begin to turn around, or whether the significant actions we've taken to balance the budget will ultimately be enough. We will continue to carefully monitor our revenues and report quickly to the Mayor and City Council if any problems occur. We will also continue to carefully monitor the state's budget deliberations and to vigorously defend state-shared revenues. To date, no formal proposal to reduce state-shared revenues has been introduced. If the state were to reduce revenues shared with cities and towns, we will return with additional budget cuts. Given the level of cuts we have already implemented, severe service reductions will be brought forward for consideration.

I want to thank the Mayor and City Council for their leadership and guidance in balancing the city budget. I also want to thank city departments for carefully preparing budget reductions for consideration. Finally, I want to thank all city employees for their continued dedication to delivering high quality services to the community. Their efforts are especially appreciated during these cutback times.

Frank Fairbanks
City Manager

May 13, 2008

