

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 also are 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 also are 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.

2009-10 BUDGET PROCESS

Early Discussions

In September 2008, 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 for the current year, and the limited information available about the upcoming 2009-10 fiscal year. The Mayor and City Council were advised that, as was the case last fiscal year, current year General Fund revenues were significantly reduced due to continued declines in local and state sales tax collections for the first few months of the fiscal year. Staff also noted that based on preliminary information, state-shared income tax for 2009-10 would be reduced by \$30 million from the 2008-09 amount. The Mayor and City Council were advised that based on these declining revenues, significant budget cuts were going to be needed in the 2008-09 fiscal year, however, with limited data it was too early to

determine an accurate estimate of the deficit. Staff recommended taking early action and proposed moving up the 2009-10 budget balancing process with proposed budget cuts to take effect March 2, 2009.

Initial Budget Status

In October 2008, the Mayor and City Council were informed that revenue collections 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 2009-10 budget. Staff projected a \$200-250 million revenue shortfall through the 2009-10 fiscal year, which represented 17-22 percent of the General Fund. However, the final deficit could not be determined until after expenditure estimates were completed, additional revenue data was available, and staff had the opportunity to look for other deficit reducing financial transactions. In addition, staff sought guidance on allocating the shortfall among public safety departments (Police, Fire, Municipal Court, Prosecutor and Public Defender), and non-public safety departments. Staff provided three alternatives with regard to allocating the budget shortfalls among city departments. The first alternative was to fully fund public safety budget growth, but make severe non-public safety department cuts, the second was to reduce public safety growth and make most cuts in non-public safety departments, and the third alternative was to treat all General Fund departments the same. The Mayor and City Council indicated their approval for the second alternative.

At this time, staff also provided the Mayor and Council a zero-based budget review of General Fund programs and services, as requested by City Council members, and asked for guidance on which programs and services should be considered for reduction or elimination.



Also, in October 2008, as directed by the Mayor and City Council, non-public safety departments submitted proposed reductions equal to 30 percent of their current budget for management review, and public safety departments submitted proposed reductions of 15 percent. Because of the more than \$200 million in General Fund reductions experienced since fiscal year 2002-03, departments had few options that wouldn't result in reduced services to the community. Departments were also asked to carefully consider the funding needed for capital facilities opening in 2009-10.

In November 2008, the Mayor and City Council approved a severance program and retirement incentives to minimize layoffs. This plan called for the use of voluntary retirements and voluntary severance to be paid only if a layoff was avoided.

Trial Budget

On Jan. 6, 2009, the Mayor and City Council were alerted that the economy was steeply declining and that the revenue outlook was poor. They were informed that the city's sales tax collections continued to worsen, with November collections 20 percent less than November 2007.

Staff also indicated they had completed a comprehensive review of departments' expenditure estimates for 2008-09 and 2009-10 in December. Several unavoidable expenditure increases were identified in this review including police officers moving to the General Fund from grant funds, new capital facilities costs, employee compensation and benefit cost increases, and a 2009-10 election. After updating revenues and incorporating the unavoidable cost increases, a budget deficit of \$269.7 million was projected for the combined 2008-09 and 2009-10 fiscal years.


At this time, the Mayor and City Council were provided a proposed set of actions to balance the 2008-09 and 2009-10 budgets. They were informed that staff had been working closely with the Finance Department to reduce the proposed deficit of \$269.7 million and had developed a variety of financial transactions that totaled \$91.9 million. These transactions

included debt restructuring and lease-purchase financing of capital equipment. In addition to the financial transactions, several other initiatives were identified including establishing a Special Revenue Task Force that reviewed more than 300 proposals to increase revenues without a tax increase. The Task Force expected an additional \$7.5 million in revenue to be generated from the final list of 10 proposals. Also, the city would take advantage of state law that allowed an increase to the primary property tax levy by the amount of involuntary torts or claims that were paid in 2007-08 and would reduce the secondary levy by the same amount so there would be no impact to the property taxpayer. Finally, two additional initiatives which included increasing fees in line with Council policy and eliminating cost-of-living increases for management staff would result in a combined savings of \$2.1 million. The financial transactions and other initiatives totaled \$107.4 million, reducing the \$269.7 million deficit to \$162.3 million.

The Mayor and City Council were presented with a budget reduction proposal totaling \$162.3 million in cuts and the elimination of 1,070 positions. It was noted that because the hiring freeze that had begun a year ago had not been lifted, and only critical positions had been filled, there were more than 1,100 vacant full-time positions. Many of these would be cut with the remainder to be used in an effort to place employees whose jobs would be eliminated. All departments and all levels of the organization were affected by the proposed reductions. To minimize the impact to public safety and criminal justice activities, a 7.5 percent reduction in these programs was recommended by the city manager, requiring remaining General Fund department reductions of 27.3 percent to achieve the \$162.3 million in savings. The City Council concurred with this reduction strategy and had already approved an expedited budget calendar back in September 2008 that would allow reductions to be implemented on March 2, 2009.

Among the recommended reductions were opening Fire Station 72 (located at Cave Creek and Dove Valley roads) with existing staff; eliminating the Safe Schools and School-Based programs; eliminating Summer Youth Work Experience and Student Work Study programs; suspending operation and services at several senior centers; reducing hours at Central Library and all branches; eliminating funding for one trial courtroom in the Criminal Division; eliminating funding for the Fight Back program; increasing admission fees for several recreational programs; reducing park maintenance; eliminating all Phoenix Afterschool Center (PAC) programs; reducing hours of operation at small recreation centers; eliminating the aquatic team programs; reducing open swim hours; closing the Shemer Art Center; reducing flight hours in the Police Department's Air Support Unit; delaying the filling of more than 300 vacant police and fire sworn positions; eliminating non-ADA Dial-a-Ride service; eliminating the Phoenix portion of bus Route 156 serving Chandler Boulevard; reducing landscape maintenance and cleaning at park-and-rides, bus stops, transit centers and transit operating facilities; and reducing street maintenance and repairs. In addition, reductions would further erode the city's administrative capacity, resulting in less internal control and affecting the ability to innovate and adopt new technologies.

In addition to the proposed budget cuts, and at Mayor and Council request, the City Manager's Office quickly conducted more than 15 organizational studies to determine whether various departments and functions could be consolidated resulting in budget savings, program efficiencies or both. Four consolidations were recommended resulting in savings of \$572,000 and a reduction of 3.0 positions. The savings were reflected in the receiving department and included consolidating the Business Customer Service Center and Downtown Development Office with Community and Economic Development, Rio Salado with Parks and Recreation, and HOPE VI with Housing.



Budget and Research also completed its review of new capital facilities under construction and their associated 2009-10 operating costs. The proposed budget added \$2.8 million to fund the operating costs of several new capital facilities including a paramedic engine company to open Fire Station 72; partial-year funding for operating costs for the expanded Chrysalis Shelter; adding contractual services, commodities and park landscape maintenance staff required to operate the new Agave Library; adding additional staff for the newly expanded Harmon Library; adding staff and operating costs for the maintenance of new landscaping and art features along the upper bank of the Laveen Area Conveyance Channel; and adding staff and operating costs for the new northeast police precinct at Cave Creek and Smokehouse Trail.

Also presented on Jan. 6 were budget proposals for non-General funds. The Development Services Department continued to see significant reductions in workload requiring further budget cuts. The budget proposal recommended budget cuts totaling \$7.7 million and 67.0 positions. This was the fourth reduction in force since November 2007.

Aviation and Phoenix Convention Center also were seeing revenue declines. Aviation's reduction in revenue was the result of less passenger traffic, while reduced revenue in the Convention Center was primarily due to reduced construction sales tax collections. Both departments proposed eliminating vacant positions to reduce their budgets.

Public Transit proposed increasing bus and light rail fares and the Dial-a-Ride ADA fare. In addition, reducing the scope of planned restorations of the Central Station transit center and funding for installation of new bus pullouts, bike lanes and left-turn signals was proposed.

Solid Waste also proposed staffing reductions that depended on whether and how much of a rate increase the Council would approve in early 2009.

Recommended additional costs for non-General-funded new capital facilities and other budget additions also were included in the proposed budget. For Water and Wastewater this included limited new funding for new capital facilities coming on line in 2009-10; funding for the distributed control system annual maintenance agreement at the Deer Valley Water Treatment Plant; staff and equipment to provide in-house technical support for security systems, and to develop engineering and treatment process solutions to ensure cost effective processes implemented meet federal, state and county standards.

Additional funding was recommended for Aviation to support the Greenhouse Gas Emissions Program for Phoenix Sky Harbor International Airport and for Solid Waste to support the growth and resumption of collection service in Service Area 6.

Community Input

The proposed budget was presented at 14 budget hearings conducted throughout the community from Jan. 13 through 27, 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. As a money-saving measure, this information was not published as an insert to local newspapers as in past years, but was made available electronically in addition to hard copies provided at libraries, community centers and at budget hearings. The city did publish where to find the electronic version in *The Arizona Republic*, the *Arizona Informant* and *La Voz*. Residents also were invited to send comments and questions through the city's Web site. The publicity of the Trial Budget allowed the City Council and the community to comment on the proposed balanced budget.

On Feb. 3, a revised budget package was presented to the Mayor and City Council recommending General Fund budget reductions totaling \$156.0 million including the reduction of 923.5 jobs. In addition, reductions to non-General Fund budgets totaling \$56 million and 168.3 jobs were included. This was a change to the Trial Budget proposed on Jan. 6, based on extensive community input and some newly available resources.

At that time, it was reported that after continued review of revenues and expenditures staff found additional expenditure savings of \$7.5 million. These savings included voluntary furloughs taken by employees throughout the organization since December, and savings from a health care premium holiday. The health care premium savings resulted from a review of the last actuarial valuation which indicated that this trust fund was over funded. In cooperation with the city's unions and employee associations, a health care premium holiday would occur in the current fiscal year. This holiday meant that employees, retirees and the city would all take one month off from paying premiums into the trust fund. The trust fund would continue to make payments for health care costs. Employee and retiree benefits would not be affected and the trust fund would remain actuarially sound. This holiday would result in reduced costs for the General Fund, Enterprise funds and Special Revenue funds. The savings to the General Fund would be \$7.1 million. In addition, the city auditor finalized a review of various user fees not currently at full cost recovery. Increasing these fees as recommended by the auditor would result in \$1.7 million in additional revenue. City departments also continued to look for opportunities to leverage grant funds and found an additional \$0.4 million in CDBG funding that would be used to restore services. These amounts together totaled \$9.6 million.



**PUTTING PHOENIX
TO WORK**

Due to the worsening economy, December sales tax revenues for both the city and the state were below what was previously estimated by a combined \$1.6 million. Reducing the \$9.6 million in new resources by this sales tax shortfall left \$8.0 million available to respond to community concerns and suggestions.

More than 1,500 citizens spoke at the 14 community budget hearings to provide input on the city's budget. In addition, more than 500 e-mails and voice mails were sent by concerned residents. Support for several programs was very high and residents provided ideas on how the city could both increase efficiency and city revenues in order to support important programs. These ideas were included in the proposed changes to the Trial Budget.

Based on the input received and additional funds available, staff recommended that several programs be partially restored. Some restorations were supplemented with increased user fees and non-resident fees. Three new programs were recommended to implement citizen ideas related to volunteers, obtaining new federal funding, and a simplified process for accepting financial donations from residents. With the help of grant funds, other city revenues and donations from community partners, some programs were proposed to be partially restored without using General funds.

With the additional \$8.0 million in General Fund resources available, staff recommended the following changes in response to community input:

Proposed Restorations	General Funds
Restore 36 of 81 After School PAC Sites*	\$2,000,000
Restore 16 of 32 Summer PAC Sites*	600,000
Restore Marcos, Beuf and Sunnyslope Senior Centers	454,000
Restore Dial-a-Ride for Seniors and Non-ADA Disabled	623,000
Restore Four Library Hours on Sundays at Eight Branches	767,000
Restore Six Small Recreation / Teen Centers	1,356,000
Partially Restore Graffiti Reduction	100,000
Partially Restore Recreation for those with Disabilities Reduction	70,000
Partially Restore CASS Funding Reduction	42,000
Partially Restore Swim/Dive Teams	208,000
Partially Restore Funding for Phoenix Center for the Arts / Shemer	65,000
Partially Restore Horse Lovers Park Reduction	20,000
*These restorations do not reflect increased fees. The Parks and Recreation Department was tasked with developing a new fee schedule that would allow more sites to be restored.	
New Programs to Implement Citizen Ideas	
Volunteer Program	50,000
Expand Federal and Other Funding	140,000
Create Simplified Process to Accept Citizen Donations to the City	—
Restorations Requiring No New General Funds	
Partially Restore Code Inspectors with CDBG Funding	—
Partially Restore Hermoso Teen Recreation with PPPI Funding	—
Restore Camp Colley with Camp Colley Foundation Donations	—
Additional Costs	
Increased Severance Costs	1,535,000
Total Costs	\$8,030,000

These restorations saved almost 150 city jobs.

No changes were recommended to the original proposals for Development Services and the Phoenix Convention Center. There were small restorations and adjustments in Aviation, Public Transit and other Special Revenue funds. The biggest change was in Solid Waste due to preliminary Council action taken on customer rates. It was expected that no reductions in Solid Waste would be required.

In addition, the Council was asked to approve a small severance program for a number of valued employees who have worked for many years in a part-time capacity. The cost for the existing severance program and the new limited part-time severance program was expected to be an additional \$1.5 million.

At this meeting, the Mayor and City Council approved the \$156.0 million General Fund budget reduction package that included recommended restorations, a part-time severance package, and new programs to implement citizen ideas.

Tentative Budget Adoption – June 3

A public hearing and tentative budget adoption was held on June 3 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 17

A public hearing and final adoption were conducted on June 17. Adoption of the property tax levy was scheduled no less than 14 days later on July 1 in accordance with state law.

The following chart is an overview of the 2009-10 budget calendar.

2009-10 Budget Calendar

September 2	2007-08 Year-end Results and 2009-10 Budget Process Calendar
October 14	Zero-Based Budget Review and Early Budget Estimate
January 6	Proposed Reductions to Balance General Fund Budget
January 11	Publish Trial Budget Tabloid
January 13 – 27	Community Budget Hearings
February 3	Final Budget Recommendations and City Council Action to Balance the General Fund Budget – Trial Budget for Other Funds.
March 2	Budget Balancing Cuts go into Effect for 2008-09 and 2009-10
April 7	2009-14 Preliminary Capital Improvement Program
April 16	2006 Bond Committee Meeting
May 12	City Manager's Recommended 2009-10 Budget
June 3	Tentative Adoption of 2009-10 Budget and 2009-14 Capital Improvement Program
June 17	Final Budget Adoption
July 1	Property Tax Adoption
