

City Manager's Budget Message



TO THE HONORABLE MAYOR AND CITY COUNCIL:

This letter transmits a balanced budget for the upcoming 2009-10 fiscal year. On Feb. 3, the Mayor and City Council approved \$156.0 million in General Fund budget reductions including the elimination of 923.5 city jobs. Those reductions were implemented on March 2. This formal budget, which is required by the City Charter, reflects the 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 more than 1,500 community members who spoke at one or more of our 14 budget hearings and shared their ideas for restoring important city programs. These ideas included paying higher fees for some city programs and volunteering their time. 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 struggle with the state's \$3 billion budget deficit. If cuts in state-shared revenue are part of the Legislature's budget solution, the impact to community services will be severe.

GENERAL FUND BUDGET SHORTFALL

The \$156.0 million in program and service reductions were made to address an overall General Fund shortfall of \$269.7 million. This shortfall is due to the severe recession that began in December 2007. Growth of city revenue, especially sales tax, began to decline during the last few months of fiscal year 2006-07. Sales tax growth actually went negative in 2007-08, something only seen before for a short period after Sept. 11, 2001. Sales tax continued to decline at a precipitous rate throughout 2008-09. This budget assumes slowing in the rate of decline for the last few months of the 2008-09 fiscal year and slight improvement beginning in the fall of 2009 and continuing through the remainder of the 2009-10 fiscal year.

On the expenditure side, we will incur some unavoidable cost increases next year. These include employee compensation and benefit cost increases, expiring federal grants, critical upgrades to major technology systems, the cost to open new facilities and employee severance payments.

Other actions were taken to address the \$269.7 million revenue shortfall aside from the \$156.0 million in program and service reductions. General Fund vehicle replacements and other pay-as-you-go capital investments were shifted to lease-purchase financing, desktop technology replacements were suspended, debt service was restructured and a hiring freeze that began in January 2008 has been extended indefinitely. These actions reduced General Fund expenditures on a citywide basis and reduced service and program reductions in the community by \$113.7 million.

EARLY ACTION REDUCES SIZE OF PROGRAM AND SERVICE CUTS

We began discussing the 2009-10 budget situation with the Mayor and City Council in September 2008. At the same time, we asked departments to begin preparing proposed budget cuts equal to 30 percent of their General Fund budget. Since more than \$200 million in General Fund reductions have occurred over the past seven years, there was no ability to avoid service cuts.

In October, the Mayor and City Council provided guidance on an approach to reduce the 2009-10 budget that included allowing the Public Safety and Criminal Justice budgets (Police, Fire, Municipal Court, City Prosecutor and Public Defender) to grow slightly from their 2008-09 adopted budgets. This resulted in budget reductions of 7.5 percent for Public Safety and Criminal Justice departments and reductions of 27.3 percent on average for the remaining General Fund departments.

On Feb. 3, 2009, the Mayor and City Council unanimously approved budget reductions of \$156.0 million. These reductions were effective on March 2 wherever possible. In this way, we were able to achieve 16 months of savings rather than just 12 months. We were able to cut programs and services less by cutting them early.



OVERVIEW OF 2009-10 BUDGET

The total 2009-10 General Fund budget is \$1,111,799,000. This is a 6.1 percent decrease from the adopted 2008-09 budget.

Public Safety/Criminal Justice

The Police, Fire, Municipal Court, City Prosecutor and Public Defender departments' 2009-10 budget growth was reduced by 7.5 percent. A large portion of these reductions, particularly in Police and Fire, were achieved by holding authorized sworn positions vacant. Civilian support positions, contractual and commodity spending, and overtime were reduced in Police and Fire, and one new fire station will be opened with existing staff. The reductions in Police and Fire are intended to have little or no impact on emergency response times. Instead, some specialty functions that utilize sworn officers and firefighters will be reduced or suspended.

Municipal Court, City Prosecutor and Public Defender will be operating with two fewer courtrooms. In addition, various support staff were reduced and a number of process efficiencies in Court were 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 923.5 city jobs. Executive jobs have been reduced by the greatest proportion. The vast majority of services enjoyed by the community will remain intact. However, given the severity of our budget deficit, many services were reduced or suspended.

Parks and street landscaping maintenance has been further reduced, which will mean less watering, a delay in landscape maintenance and in cleaning the parks each day. The swimming pool season has again been shortened, eliminating the last week in July, reducing daily swim hours and closing pools on Fridays. Eight pools will be closed for major renovations funded through the capital program. These renovations are critical in keeping up with health and safety standards. Several small recreation centers will close during the school year, but will remain open during the summer. After-school and summer recreation programs, known as PAC, were reduced. Softball leagues were suspended from 12 park sites, but remain at three major recreation complexes. The Urban Forestry, Work Alternative and Project SCRUB programs have been suspended. Fees for the majority of park facilities and programs have been increased, with many now having a non-resident rate.

Summer youth work programs were suspended and two small senior centers were consolidated with other nearby centers. Hours were reduced at libraries from 72 hours per week to 48 or 52 hours per week. About half of the branches will remain open for four hours on Sundays. Other special library programs were suspended. Neighborhood code enforcement staff was reduced. Transit reduced neighborhood circulator service based on average ridership. Staff that assists with neighborhood traffic issues was reduced, along with preventative maintenance of traffic signal lamps. Street maintenance crews responsible for maintaining traffic signal loops, street signs, grading and striping have all been reduced. Maintenance at city facilities has been further reduced.

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

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 deep economic recession. After making cuts of 187 positions and \$15.9 million in 2008-09, additional cuts of 67 positions and \$7.7 million were made for 2009-10. Since Development Services is 100 percent funded through user fees, these reductions were necessary to keep expenditure levels in line with current revenues. Further sizeable reductions are under study as this letter is being written.

Reductions in Aviation, Phoenix Convention Center and Public Transit also were made to keep expenditures in line with projected revenues. The Aviation Department reduced their budget by \$15.6 million and 45.0 positions to offset revenue declines that are a result of reductions in passenger traffic and ancillary revenues such as parking and rental cars. The Phoenix Convention Center relies heavily on construction sales tax, which has been hit especially hard by the economic recession. The Convention Center cut \$6.8 million and 37.3 positions from their budget. Finally, Public Transit relies heavily on sales tax, which has seen unprecedented declines as described earlier. In order to balance their budget, they have increased fares, and reduced funding for installation of bus pullouts, bike lanes and left turn signals. In total, Public Transit reduced their budget by \$24.7 million.



FEDERAL ECONOMIC STIMULUS

The American Recovery and Reinvestment Act was passed by Congress and signed by the president in February 2009. The majority of these funds are for capital projects that will create jobs in the local economy. In the short time since this act was passed, the city has received notice of tens of millions in formula grants that will be received. Hundreds of millions more will be available to cities as competitive grants. City staff is working aggressively to ensure a strong effort is made to apply for all grants that will positively impact our community. While these federal funds will not allow us to restore the programs and services we have had to cut, they will create jobs in the local economy that will reduce hardship in the community and will result in additional revenue for the city over the long run as the economy improves.

CONCLUSION

The 2009-10 budget process has been one of the most challenging in the city's history. The unprecedented decline in sales tax revenue resulting from the long and broad economic recession resulted in revenue shortfalls that were much worse than predicted. Many economists are forecasting an end to the recession by late 2009; however, the local economy may take longer due to the overabundance of housing stock. Our goal was to make enough reductions in the budget to get us through 2009-10 with no further cuts.

We will continue to carefully monitor our revenues and report quickly to the Mayor and City Council any significant changes. 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 difficult economic times.



Frank Fairbanks
City Manager

May 12, 2009