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## CITY COUNCIL REPORT

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### POLICY AGENDA

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TO: Ed Zuercher BR 09-12 AGENDA DATE: January 6, 2009  
Deputy City Manager

FROM: Cathleen Gleason ITEM:4  
Budget and Research Director

SUBJECT: 2008-09 - 2009-10 GENERAL FUND BALANCED BUDGET PROPOSAL

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This report provides proposed actions, including program and service cuts, to balance the City's General Fund budget. The total deficit for 2008-09 and 2009-10 combined is \$269.7 million. Several initiatives are proposed that reduce the amount of program and service cuts to \$162.3 million. At this level of service cuts, 1,070.5 positions are proposed for elimination. Up to an additional 225.0 positions are proposed for reduction from Enterprise and Special Revenue funded departments.

Although our budget year begins July 1 of each year, revenues have fallen so quickly this year that we must take action now in order to avoid running a deficit. In addition, if we make our cuts beginning in March 2009 it reduces the total amount of programs and services affected by spreading the cuts over 16 months.

These proposed reductions are extremely difficult, especially in light of the more than \$200 million we have cut from the General Fund budget since 2002-03. Departments have worked hard to find ways to reduce their budgets with the least amount of impact to our residents, but with a deficit this large, significant reductions in services are unavoidable.

Finally, these reductions assume no change to State-shared revenue formulas. The amount of State-shared revenue we receive from sales tax will decline significantly both this year and next due to the current, severe economic recession. Since State-shared income tax is paid two years in arrears, we already know that Phoenix's share will decline by about \$30 million in 2009-10.

#### GENERAL FUND BUDGET DEFICIT

The City is experiencing an unprecedented decline in General Fund revenues, primarily in sales tax, because of the terrible local and national economy. Based on both local and national economic forecasts, we do not expect any improvement in sales tax until late 2009 or early 2010. Even with this expected improvement, 2009-10 sales tax collections are projected to be below 2006-07 collections.

On October 14, 2008, we reported to the Mayor and Council an estimated deficit of between \$200-250 million. Since that time, our sales tax collections have continued to worsen, with November collections 20% less than November of 2007. Cumulatively,

our sales tax collections are 10.3% worse than last year at this same time. Based on the most current news reports, it is expected that holiday sales this year will be worse than in 2007, which were worse than in 2006.

In early October, at the request of Mayor and Council, we also asked departments to provide proposed budget reductions of 30%. Public safety departments (Police, Fire, Municipal Court, Prosecutor and Public Defender) were asked to provide proposed budget reductions of 15%. The hiring freeze that began a year ago has not been lifted, and only critical positions have been filled. We currently have more than 1,100 vacant full-time positions. Many of these vacant positions will be cut; the remainder represents opportunities to place employees whose jobs have been eliminated. The Personnel Department will work very hard to place all employees in a job, but it appears layoffs are inevitable.

A comprehensive review of departments' estimated expenditures for the remainder of this year and next year was completed 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 these additional costs, a budget deficit of \$269.7 million is projected for the combined 2008-09 and 2009-10 fiscal years.

### DEFICIT REDUCING FINANCIAL INITIATIVES

Working closely with the Finance Department, we developed a variety of financial transactions that total \$91.9 million. These transactions, which include debt restructuring and lease-purchase financing of capital equipment, reduce the amount of cuts to programs and services.

In addition to the financial transactions, we have several other initiatives that will reduce the overall deficit by another \$15.5 million. These include our Special Revenue Task Force that reviewed more than 300 proposals to increase revenue without a tax increase. The Task Force expects an additional \$7.5 million in revenue to be generated from the final list of ten proposals. We also propose to take advantage of state law that allows us to increase our primary property tax levy by the amount of involuntary torts or claims that were paid in 2007-08. We will reduce the secondary levy by the same amount so that there is no impact to the property taxpayer.

The final two proposed initiatives include increasing fees in line with Council policy and eliminating cost-of-living increases for management staff. The City Auditor is finalizing his review of fees and expects to have a final report late in January. This is estimated to result in \$0.7 million in additional revenue. The City Manager has proposed that all middle managers and executives give up an across-the-board wage increase that was scheduled for 2009-10, in addition to significantly reducing management development funds. These actions combined save \$2.1 million.

The financial transactions and other initiatives total \$107.4 million, reducing the \$269.7 million deficit to \$162.3 million.

## OVERVIEW OF PROPOSED DEPARTMENT REDUCTIONS

At the October 14 policy meeting, we asked the Mayor and Council for direction on how to treat public safety department budget cuts. In past years, we have reduced public safety budgets significantly less than all other departments. This recognized their importance to the health and safety of the community. On October 14, we proposed allowing the public safety department budgets to grow by a combined \$5-10 million. Even though the budget deficit has gotten worse since October, the attached proposal allows their budgets to grow by a combined \$6.7 million. Before this budget-balancing proposal, public safety departments were 68% of the total General Fund budget. After this proposal, the public safety departments will represent 74% of the General Fund budget.

With a remaining deficit of \$162.3 million, across-the-board cuts of 14.1% would be required to balance the budget. However, in order to prevent any impact to public safety first responders and other critical public safety functions, these departments are proposed to be cut by 7.5%. This, in turn, requires that all non-public safety departments be reduced by about 27.3% on average.

The more than \$200 million in cuts made since 2002-03 have been directed primarily at administrative positions. After these cuts, several internal service departments, such as Finance, Personnel, City Auditor and Budget and Research, will have fewer positions now than ten years ago, while our Police and Fire Departments have grown significantly. This proposal will further erode our administrative capacity, resulting in less internal control and affecting our ability to innovate and adopt new technologies.

## DEPARTMENT CONSOLIDATION STUDIES

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 are recommended, resulting in savings of \$572,000 and a reduction of 3.0 positions. The savings are reflected in the receiving department, and a separate schedule outlining these consolidations is attached to this report.

## RECOMMENDATIONS FOR NON-GENERAL FUNDS

We are also presenting recommendations for non-General Funds. The Development Services Department (DSD) continues to see significant reductions in workload requiring further budget cuts. This will be the fourth reduction in force since November of 2007. This proposal recommends additional cuts of \$7.7 million and 67.0 positions.

Aviation and Phoenix Convention Center are also seeing revenue declines. Aviation's reduction in revenue is a result of less passenger traffic, while reduced revenue in the Convention Center is due to reduced construction sales tax collections. Both departments are proposing eliminating vacant positions to reduce their budgets. However, approximately 110 vacant positions remain which will provide placement opportunities for displaced General Fund employees.

Solid Waste has also proposed staffing reductions that depend on whether and how much of a rate increase the Council decides on in early 2009.

Limited new funding for Water and Wastewater are proposed for new capital facilities coming on line in 2009-10.

### DEDICATED PUBLIC SAFETY FUNDS

The City has added hundreds of police officer and firefighter positions since 1993 when the first tax fund dedicated to public safety was implemented. There are currently three separate funds dedicated to public safety, with the newest being Proposition 1 that was approved by the voters in 2007. All three of these dedicated funds are funded with sales taxes, and all have seen the same significant declines as the General Fund sales tax. The funding coming in is not enough to continue to pay for all of these positions. With the exception of the Police Proposition 1 funds, we are recommending not filling any new vacancies. No authorized positions will be eliminated, but hiring of new positions would not resume until revenues improve.

### FURTHER REDUCTIONS IDENTIFIED IF STATE-SHARED REVENUES ARE CUT

It is important to stress that the attached budget proposal assumes no changes to State-shared revenue formulas. These revenues are shared with cities and towns as a result of three separate initiatives approved by the Arizona voters since the 1940s.

If State-shared revenues are reduced beyond the reductions already occurring due to the economic recession, the impact to the community will be severe. If further reductions are required, we will have to recommend cuts to public safety that will result in police officer and firefighter layoffs. Potential further reductions, should they be required by State actions, are presented as an attachment to this report.

### NEXT STEPS

After our review of this budget-balancing proposal with the Mayor and Council, a tabloid summarizing the proposal will be made available to the public. As a money-saving measure, this tabloid will not be published as an insert to local newspapers as in past years, but rather will be made available electronically. For those that do not have electronic access, copies will be available at Libraries and Community Centers. As always, hard copies will be available at our community budget hearings in both English and Spanish. We will publicize where to find the electronic version in the *Arizona Republic*, *La Voz* and the *Arizona Informant*.

Next, a series of community budget hearings will be held in each Council district beginning January 13 through January 27. As is our practice, we will take careful notes of the comments made at each hearing and transmit them each week in the Council packet.

We will return to the Mayor and Council on February 3 with a final recommendation to balance the budget. Our recommendations will be effective March 2. The formal, legal steps required to adopt the budget and the property tax levy will occur in June and July as required by State Law and City Charter.

### CITY COUNCIL ACTION REQUIRED

No City Council action is requested.

### ATTACHMENTS

- Schedule 1: Proposed General Fund Budget Reductions by Department (white)
- Schedule 2: Additional 7.5% General Fund Reduction List by Department (blue)
- Schedule 3: Proposed Non-General Fund Budget Reductions by Department (yellow)
- Schedule 4: Proposed Full-time Position Reductions by Employee Category (pink)
- Schedule 5: Proposed New Capital Facility Costs – General Fund (green)
- Schedule 6: Proposed New Capital Facility Costs – Non-General Fund (goldenrod)
- Schedule 7: Proposed Budget Additions – Non-General Fund (gray)
- Schedule 8: Proposed Department / Function Consolidations (tan)
- Schedule 9: Schedule of Community Budget Hearings (salmon)