

Proposed 2005-06 Annual Budget



TO THE HONORABLE MAYOR AND CITY COUNCIL:

This letter transmits a balanced budget for all city funds for the upcoming 2005-06 fiscal year. On April 5, 2005, the Mayor and City Council approved \$15.4 million in General Fund budget reductions including 93 city positions. In addition, reductions to the Housing budget of \$5.1 million and 88 city positions were approved. Finally, \$2 million in federal and state grants will expire in October 2005. This budget includes replacement funding for only a portion of these grants.

This is the fourth consecutive year of cuts in the General Fund budget. Over the course of four years, General Fund expenditures have been reduced by \$117 million.

Wherever possible, rather than waiting until July 1, the start of our fiscal year, General Fund budget reductions will be implemented on May 23, 2005.

Community Budget Hearings

This budget transmittal includes an explanation of the resources available to fund next year's budget and of the community service changes that will occur in the upcoming fiscal year. First, however, I want to thank the hundreds of residents who took the time to discuss the budget with us during 15 budget hearings and who sent us e-mail and voice mail comments. Community budget hearings were held throughout the community and at various times of the day including hearings targeted for seniors and youth. New this year was a small business hearing hosted by the Greater Phoenix Chamber of Commerce.

General Fund Budget Shortfall

During our first budget briefing of Feb. 1, 2005, we reported a General Fund deficit of \$68.7 million. That is, we reported that we were \$68.7 million short of having the funds necessary to continue next year everything our General Fund departments were currently delivering to the community. While we expected General Fund revenues to grow by 8 percent, due mostly to much improved growth in state-shared revenues, the cost side of the budget was experiencing growth of nearly 15 percent. This expenditure growth is most easily understood by examining four categories.

First, inflationary cost increases contributed about 8 percent. These inflationary increases include employee compensation agreed to in the second year of a two-year agreement negotiated with our employee unions covering wages, health and dental insurance; and pension increases. Inflationary increases also have

occurred in other non-employee line items: fuel, utilities and our investment in technology. Our next big category, about 3.7 percent, is the expanding need for existing city service levels. This category includes numerous cost items related to preserving current city service levels and it is largely made up of new capital facilities to extend services to developing areas of the city. Other service preservation items include the recent funding for Westside revitalization, improved library Internet safety, dust control measures along the Salt River and a community prosecutor.

The third category, contributing 1.9 percent, is providing for full staffing, especially for the Police Department. The Police Department has worked very hard to reduce the average number of police officer vacancies from more than 100 to about 25. This means greater patrol capacity but, there is a cost. Finally, we have a shortfall in revenue this year, which must be made up. These shortfalls contributed about 1.3 percent.

During our February briefing, the Mayor and City Council approved \$35 million in actions to immediately improve our financial position. These actions reduced the deficit to \$33.7 million:

- \$10 million in already available lease-purchase proceeds were applied to planned equipment purchases.
- \$20 million in available Arizona Highway User Revenue (AHUR) Funds were transferred from the Streets capital budget to the Street Transportation Department's operating budget, freeing up General Funds. AHUR revenues have improved significantly over the past 18 months so, while this increase will reduce future flexibility in the Streets construction program, no current projects will be affected.





- The primary portion of the property tax levy (used for paying General Fund operating expenses) was increased by \$5 million. The secondary portion of the property tax levy (used for repaying general obligation bonds) was reduced by a like amount leaving the combined property tax rate at \$1.82. The offsetting reduction in the secondary levy will have no impact on the financial health of the current bond program.

Then, during the months of February and March, we continued to work to further reduce the deficit to \$15.4 million:

- We reviewed, once again, all estimated General Fund spending for this year and next and made line-item budget cuts amounting to \$3.1 million.
- Based on General Fund revenues for the month of January, most notably strong growth in city and state-shared sales taxes, we increased our estimated revenues by \$1.6 million.
- By reviewing, once again, the latest available construction timelines, we reduced the costs associated with opening new capital facilities by \$3.8 million.
- We recommended transferring \$9.8 million in costs associated with the public safety early hiring plan to the revenue generated by franchise agreements approved by the voters on March 8.

General Fund Budget Reductions

As noted earlier, \$15.4 million in General Fund reductions, including the elimination of 93 positions were necessary. No public safety services have been cut; however, many other community services have been reduced. These reductions include the deferred opening of the new Cesar Chavez Regional Library; a reduction in available blighted property abatement funding;

reduced general recreation programming and the closure of city pools one week early. In addition, 12 late-night transit routes will be eliminated and alley dust proofing and the Streets micro-seal program will be reduced. This document details the necessary changes being made to each General Fund department. We regret each reduction in community services and look forward to working together to restore these service levels as quickly as our resources will allow.

New Capital Facilities

Balancing this General Fund budget required us to provide \$2.1 million in funding for several new capital facilities to provide services to underserved areas of the city. These new facilities, funded by the 2001 bond program and the Parks and Preserve Initiative, include three new senior centers, six new or improved parks, and a twin-engine helicopter to be shared by Police and Fire. A detailed description of each of these new facilities is detailed in this document.

Impact of Federal and State Grants

Finally, balancing the General Fund budget required us to evaluate \$2 million in various expiring federal and state grants. In balancing the budget, we have allocated \$1 million in General Funds to replace several criminal justice grants. Programs funded by the remaining \$1 million including truancy and young first offender casework services, outdoor recreation opportunities for teens and adults with disabilities, and victim's advocacy services will end on Sept. 30, 2005, the end of the grant period.

Staff is working to try to identify other potential funding sources for programs including private donations.

Limited Federal Housing Funding

The city's Housing Department, which receives its funding from the federal government, excels at providing safe, clean, affordable housing programs and services to help Phoenix residents achieve self-sufficiency. Recently, available federal funding has remained flat and not kept up with the demand for our housing services and the additional costs necessary to run the program. As a result, we are facing an annual budget shortfall in the Section 8 and public housing programs.

More than 5,000 families in Section 8 and 2,300 families in public housing receive daily assistance. To avoid cuts for as long as possible, we've relied on funding reserves for the past two years. If we do nothing, these drawdowns will escalate. If we take action now, we avoid more drastic cuts in the future. This budget reduces the annual Housing Department budget by \$5.1 million, including 88 positions. We have focused, to the extent possible, on reducing administrative costs and consolidating services in order to direct as much funding as possible to resident services. However, maintenance and tenant services will be reduced. But, the number of housing units we provide to the community will not be reduced.

Other Non-General Funds

This budget includes budget additions for the Aviation, Water, Wastewater, Solid Waste and Civic Plaza departments to open new facilities and respond to growing workloads. Development Services additions are included to improve customer service as workload levels continue to increase. Finally, some route improvements are included in Transit 2000 funds as well as an increase in Dial-A-Ride services. Dial-A-Ride improvements are funded with an offsetting reduction in other transit miles.



Other Budget Adjustments

For many years, city departments have been provided the opportunity to look for cost efficiencies that could be reallocated to community service improvements or needed administrative support. With the cost cutting of the past several years, these reallocations are becoming more and more difficult to identify. But, this year, departments were still able to identify some savings. Some of these savings have been used to improve services including an additional operator for reserve-a-ride services and operations assistants to improve curb security at Sky Harbor's terminals. Other changes include improved benefit coordination for police officers and improved controls in the Finance Department's procurement of citywide professional services. A more detailed description of these changes is provided in this document.

Public Safety Service Enhancements

On April 20, after our budget deliberations were complete, the Mayor and City Council approved an increase in public safety staffing. This increase was possible due to \$16 million in annual revenue that will be generated, beginning May 1, 2005, by new franchise agreements between the city and Arizona Public Service and Southwest Gas. While these new agreements were approved by the voters on March 8, it has taken the Police and Fire departments time to evaluate and recommend their highest priority public safety enhancements. 199 new public safety positions were approved for new heavy rescue units, improvements to crime suppression efforts, expanded community policing and better homeland defense capabilities. The budget presented here includes this new public safety funding.

Looking Ahead

Over the past four years, Phoenix has faced some serious budget challenges and responded with budget cuts of \$117 million. These cuts have resulted in the loss of important services to the community. There are still some financial challenges ahead.

We will soon begin the 2005 census count. This count will show that, while Phoenix continues to grow, we do not grow as fast as our surrounding communities. Our share of the state's population will decline. Since state-shared revenues are distributed on the basis of our share of the state's population, in 2006-07, our state-shared revenue distribution will decline by an estimated \$22 million.

On the bright side, the local economy is improving and will continue to do so. We will soon embark on the community process used since the 1950s to put together a new bond program. A 200 to 300-member citizen committee will work to place a new bond program on the ballot in 2006. This bond program will bring city services to areas of the community where services are now lacking. However, we will ask this committee to carefully deliberate and control the impact of new facilities on our operating budget.

Construction of a major addition to the Civic Plaza is well underway and two new major hotels are planned as well. The expansion of the Civic Plaza and the addition of hotel rooms have long been identified as a missing piece of revitalizing our downtown core. The impact of bringing larger conventions to Phoenix will be felt statewide. Also, construction of the first segment of light rail service is well underway and our full funding agreement was executed with federal authorities this year.

We recently celebrated the opening of the Translational Genomics Research Institute. The researchers and scientists housed in this new state-of-the-art facility in downtown Phoenix are working to change the future of medicine by searching for applications of the human genome project.

We are working with Arizona State University to relocate about 10,000 students from the Tempe campus to new classroom space downtown. We also are working with Arizona State University and the University of Arizona to locate a medical school downtown. The addition of a medical school will improve the availability of health care for all of Arizona.

In summary, a look into the future, as always, brings both the positive and the negative. But, we see many more positives than we see negatives.

Conclusion

My thanks to the Mayor and City Council for their leadership and guidance in balancing the city budget. I also want to thank all city departments for carefully preparing budget reductions for consideration. Our departments have worked hard to minimize the impacts of budget reductions on the community.

Finally, I want to thank all city employees for their dedication to the Phoenix community. This budget, once again, reduces the employee resources available to deliver city services. But, we are committed to finding a place for each affected employee somewhere in our organization. Everyday, our employees deliver the best in services to the community.

Sincerely,



Frank Fairbanks
City Manager
May 3, 2005

