
CITY COUNCIL REPORT

POLICY AGENDA

TO: Mayor and City Council AGENDA DATE: March 2, 2010

FROM: David Cavazos ITEM: 3
City Manager

SUBJECT: FINAL BUDGET DECISION

Because the economy declined further and faster than was predicted last year at this time, actual General Fund revenues received so far this year have been far below what was budgeted. This historic recession has resulted in the two-year revenue shortfall of \$241.4 million that was reported to you on February 2, 2010.

This \$241.4 million deficit was reduced by \$90.9 million in financial transactions, \$10.0 million in assumed innovation and efficiency savings, and \$1.3 million in additional management wage givebacks. These actions reduced needed General Fund cuts to \$139.2 million. While the \$90.9 million in financial transactions significantly reduced the amount of cuts needed this year, the majority of these transactions are one-time and will not be available next year. This means we are still spending more money than we are taking in and further savings and reductions in staffing and programs will be needed in the future. We will develop a plan to reduce the need for future financial transactions.

Therefore, I am continuing to focus the organization on innovation and efficiency. Departments were able to reduce the shortfall by more than \$35 million during our technical budget process in the fall, and they have continued to look for new and more efficient ways to provide services and fund programs. The Innovation and Efficiency Task Force continues to meet and is making progress on a variety of fronts in order to make its commitment of at least \$10 million in savings.

On February 2, the Mayor and City Council approved a 2 percent emergency food tax. The City of Phoenix has not imposed a tax on food for home consumption since the early 1980s; unfortunately, we are experiencing the worst economic crisis in decades. A seven-point plan for allocating these new revenues was presented to the Council on February 9 and the community at all 15 budget hearings. This allocation plan focused on devoting resources in the areas of fiscal responsibility; public safety; community enrichment, seniors, youth, libraries, and learning; and transportation and critical infrastructure.

In addition, the majority of our employee labor groups have already stepped up and agreed to 3.2 percent wage and benefit concessions. These sacrifices will allow us to restore even more of the programs and vital services important to Phoenix residents. I want to thank all of our employees for caring so much about our city and the community. Most labor groups have ratified their agreements; however, contracts must be formally

approved by the City Council. It is important to note that program and service restorations based on employee sacrifices must also be approved by the City Council.

Public Safety is the City's highest priority, and we have developed a plan in combination with the new resources provided by the food tax and employee concessions, that results in no police or fire sworn layoffs.

Finally, because of the new resources resulting from the emergency food tax and employee concessions, General Fund cuts needed to balance the budget have been reduced to about \$64 million. While these cuts will be difficult, this level of cuts is significantly more manageable than the \$241 million shortfall. I would like to thank the Mayor and City Council for their leadership, and all city employees for continuing their good work during this extremely difficult time.

CITY COUNCIL REPORT

POLICY AGENDA

TO: David Cavazos
City Manager

AGENDA DATE: March 3, 2010

FROM: Ed Zuercher
Assistant City Manager

ITEM: 3

SUBJECT: POLICE DEPARTMENT RESTORATIONS

This report provides information on the restoration of police positions through the budget process. It provides a plan to achieve no layoffs in the Police Department.

THE ISSUE

The original General Fund budget reduction plan presented in the City Manager's Trial Budget proposed reducing sworn police services that resulted in eliminating 286 police officer/detective positions, 63 sergeant and lieutenant positions, and 4 command positions. With the emergency food tax and estimated employee concessions for labor unions and units that number can be reduced to 112 police officer/detectives, and 40 sergeants and lieutenants. Employee concessions from police officers (PLEA) and sergeants and lieutenants (PPSLA) are estimated at -3.2 percent consistent with other civilian labor units and the fire union. Police unions are still working with management to reach final agreements. It is important to note that restorations based on these sacrifices are based on City Council approval.

OTHER INFORMATION

Testimony at the public hearings has placed a high priority on public safety. There are other opportunities for the City to reduce the number of layoffs for sworn police officers. Some require City Council action; others can be done through credits applied in the budget process.

It should be noted that the public safety dedicated tax streams (Proposition 301, Proposition 1, and Utility Franchise revenues) are under tremendous stress. As discussed at the January 26 City Council meeting, the City Manager's Office, the Budget & Research Department, the Public Safety Manager, and the Fire Chief will return in the fall of 2010 with a plan to balance those funds. That balancing plan may require significant cuts to existing positions. Further, the Police Department budget currently assumes \$21.4 million in salary savings programmed by management last year based on the City Council action to cut the Police Department budget through projected attrition of 266 officer positions. Attrition has only reached 168 officers as of February 23, so the Police Department budget is up to \$11.5 million out of balance.

To significantly reduce sworn layoffs, many strategies can be implemented in addition to food tax restorations and restorations from employee sacrifices in pay and benefits:

- The Public Safety Manager is working diligently to achieve an additional \$3 million in savings over the next 15 months using a labor/management team to identify savings. These savings will be difficult, but Public Safety Manager, Jack Harris, has issued the challenge to the department's sworn and civilian employees to identify savings. Further, the Police Department will be reviewed through the City's performance audit program currently out for bid by the Finance Department. This \$3 million will be in addition to the current, aggressive goal of \$10 million in efficiency savings citywide.
- The Council's approval of a pre-booking facility pilot added 14 sworn positions for up to a 15-month period funded through a settlement with Western Union on a trafficking case. These positions can absorb some cut officers.
- The Aviation Department can absorb 12 positions to add terminal and airfield security and reduce overtime for existing Aviation personnel.
- With fewer retirement incentive and severance payments than originally planned due to budget restorations, some portion of those funds could be used to reduce officer layoffs. This is a one-year approach, but restores positions for the next 15 months.
- Vacant police dispatcher and police assistant positions can be overfilled with Police officers for an interim period using the salary savings from the vacancies. When the economy recovers, and officers can be added back to the department, these important civilian positions can be restored.
- With Council approval, existing Neighborhood Block Watch Grant Program (NBWGP) funds can be allocated for an interim period to restore some officers serving neighborhoods.
- The Water Services Department can fund a squad of officers to assist with infrastructure protection planning and patrol of critical water facilities.
- The Public Transit Department can reduce contract staff for light rail security and absorb sworn positions to enhance patrols on the light rail systems and in park-and-ride facilities.
- Voluntary furloughs by members of a labor unit can be credited to the department to restore a position from within that labor unit.

The following chart illustrates these efforts:

	Officers / Detectives	Sergeants / Lieutenants	Commanders
Original Reduction	286	63	4
Food Tax Restoration	(104)	(13)	0
Employee Concessions	(70)	(10)	0
Extra efficiency savings of \$3 million (estimated)	(14)	(5)	(1)
Pre-Booking Facility	(13)	(1)	0
Aviation Department	(11)	(1)	0
Unspent incentive funds	(7)	(2)	0
Savings from vacant civilian positions	(7)	(1)	0

NBWGP funds ¹	(6)	(1)	0
Water Department	(5)	(1)	0
Transit Department	(3)	0	0
Voluntary furlough credit	(1)	0	0
Total	40	28	3

¹ If recommended by NBWGP Committee and approved by City Council.

It is our goal to maintain as many sworn positions or services as possible. The listed actions significantly reduce layoffs of sworn officers by 86 percent, and sergeants and lieutenants by 56 percent, and command staff by 25 percent. Further restoration requires more drastic action.

RECOMMENDATION

Staff recommends this police budget restoration plan to significantly reduce cuts to sworn positions in the Police Department.

Direction is also requested on further action the Council would seek to further reduce or restore positions to avoid layoffs of sworn police officers, sergeants, and lieutenants.

To restore the remaining 68 sworn positions, the existing fund balance in the Police portion of Proposition 1 could be allocated. This is the only fund of the three Police and three Fire accounts in the dedicated tax funds (301, 1, and Utility) that has a positive balance. However, allocating these funds means the balancing required in the fall will be more difficult and will require painful decisions on staffing levels. Additional revenue, further reductions of non-sworn personnel, or further employee sacrifices are needed to restore positions.

CITY COUNCIL REPORT

POLICY AGENDA

TO: Ed Zuercher BR 10-19 AGENDA DATE: Tuesday, March 2,
Assistant City Manager 2010

FROM: Cathleen Gleason ITEM: 3
Budget and Research Director

SUBJECT: FINAL BUDGET RECOMMENDATIONS

This report provides recommended General Fund budget reductions totaling \$63.7 million including the reduction of 592.8 jobs. In addition, reductions to non-General Fund budgets totaling \$6.0 million and 32.0 positions are included. An additional 7.0 positions are eliminated through department consolidations. These numbers include funding and position adjustments discussed later in this report in the Sworn Public Safety Restoration Plan. These final budget recommendations include numerous changes to the original Trial Budget proposal based on extensive community input and newly available, significant additional resources.

THE ISSUE

On February 2, 2010, we provided a Trial Budget proposal to the Mayor and City Council. The Trial Budget indicated a General Fund revenue shortfall of \$241.4 million. After allowing for \$92.2 million in mostly one-time financial transactions and additional savings of \$10 million from our Innovation and Efficiency Task Force efforts, the amount of program and service cuts needed was \$139.2 million.

Between February 10 and 24, a total of 15 budget hearings were held throughout the city. A tabloid explaining our original budget proposal was provided in various City facilities, on the City's website, and at the hearings. We want to thank the nearly 5,000 residents who took the time to discuss the budget proposal with us during this year's budget hearings and who sent us e-mail and voice mail comments. The recommendations presented in this report respond, to the extent possible with our limited resources, to the input we have received from our residents.

NEW RESOURCES – EMPLOYEE SACRIFICES

As of this writing, we have tentative or final agreements with five of our seven employee labor groups for a 3.2% wage and benefit concession for the 2010-11 and 2011-12 fiscal years. While tentative agreements have not been reached with all units, this budget is based on the assumption that 3.2% concession agreements will be reached with all employees. If agreements are not reached through our labor negotiations process outlined in city ordinance, then some or all of the program restorations achieved due to these savings will still need to be cut.

The specific programs and services proposed for restoration through employee sacrifices were based on the following criteria:

- Community priorities heard at the Budget Hearings
- City Council priorities
- Programs that generate significant revenue (direct or indirect)
- Balancing labor unit equity – correlation between concessions and jobs restored
- Achieving balance between food tax and employee sacrifice restorations

In summary, General Fund restorations recommended from employee concessions include a small increase to the Contingency Fund, restoring softball facilities, partially restoring Reach 11 funding, restoring nine after-school PAC sites, and restorations for both street landscaping and general parks maintenance. The plan recommends restoring home-delivered meals to seniors, establishing food bank partnerships, partially restoring the reductions in support for the homeless, and restoring three library branches but with reduced services. A total of 80 sworn police positions, including those in patrol and crime-free multi-housing are recommended to be restored. Three fire engine companies, fire prevention inspectors and emergency dispatchers are recommended in the Fire Department. Restorations are also recommended in Municipal Court, Prosecutor and Public Defender. Finally, inspectors are recommended in Neighborhood Services along with small restorations to a number of internal service departments.

In non-General Fund departments, employee concessions made it possible to recommend restoring Solid Waste bulk trash pick-up to four times per year with no fee increase. Savings from employee concessions are also recommended to restore two new-construction inspectors in the Fire Department that are funded with Development Services fees.

A complete list of proposed restorations made possible by employee wage and benefit sacrifices is contained in Schedule 1.

NEW RESOURCES – EMERGENCY FOOD TAX

Also at the February 2 Policy meeting, the Mayor and City Council voted to remove the exemption for food for home consumption from the City's 2.0% sales tax. Commonly called the "food tax," over the next 15 months this revenue stream will provide an additional \$62.5 million for city programs, of which \$37.5 million will go to the General Fund. The remaining \$25 million will provide funding for the dedicated Public Safety, Transit 2000 and Parks and Preserve sales tax funds.

At the Mayor and Council's request, staff returned to the February 9 Policy meeting with a specific plan showing the programs and services proposed for restoration with the food tax revenue. In summary, the General Fund plan recommends increasing the Contingency Fund, restoring 5 senior centers, 5 large community centers, 14 small community centers, 3 branch libraries, the remainder of Reach 11 funding, another 21 after-school PAC sites, a street maintenance crew, 117 sworn and 12 civilian Police positions, 3 fire engine companies, 1 fire ladder company and 1 full-time ambulance.

The additional funding for the dedicated Public Safety Funds will reduce, but likely not eliminate, the need for sworn police and fire layoffs within the next year. Over the last 18 months, several of these funds have spent more money than they have taken in. We had hoped to address these funding shortfalls through attrition, but with the worsening sales tax collections, it appeared significant layoffs would be necessary in January 2011. With the additional sales tax revenue through the food tax, and reduced costs due to employee concessions, the number of layoffs needed will be reduced. Over the summer, we will revise our forecast for these funds and bring a fiscally responsible plan for addressing the continued shortfall to the Mayor and Council in early fall.

The additional funding available for the dedicated Transit 2000 Fund is recommended to restore same-day Dial-A-Ride, early morning Dial-A-Ride, bus service for fixed route 39, late night light rail service on Friday and Saturday, and effective in July, early morning weekday fixed route service that was cut last December. This new funding will also stabilize the Transit 2000 fund so that the need for future bus and light rail service cuts can be minimized.

The additional funding for the dedicated Parks and Preserve Fund will allow the Parks Department to continue its plan for park and preserve acquisition, and the upgrade and repair of existing parks.

A complete list of proposed restorations made possible by the Mayor and Council's action to implement the food tax is contained in Schedule 2.

REVISED GENERAL FUND SHORTFALL

Because of the \$68.6 million in new General Fund resources available through the food tax and the employee wage and benefit sacrifices, we no longer need to cut \$139.2 million in General Fund programs and services. In order to increase our General Fund reserves, a total of \$3.0 million of the new resources will be used to increase our Contingency Fund. Currently, the Contingency Fund is only 2.7% of total expenditures. Best practices recommend a contingency fund of 5% of total expenditures. Staff recommends increasing the Contingency Fund each year for the next several years, with the goal of achieving a fund that equals 5% of General Fund expenditures. Our current level of contingency funding provides little flexibility to withstand even modest economic downturns.

An additional \$500,000 of the new resources will be set aside for innovation and efficiency audits as authorized by the City Council. After these adjustments, \$34.7 million in food tax and \$30.4 million in wage and benefit savings are available to restore programs and services. These two new resources reduce the amount of cuts needed to balance the General Fund budget through June 2011 to \$74.1 million. The Sworn Public Safety Restoration Plan described below further reduces the total General Fund cuts necessary by \$10.0 million, and new fees and revenue in some Parks programs reduces the deficit another \$0.4 million, resulting in final cuts of \$63.7 million.

SWORN PUBLIC SAFETY RESTORATION PLAN

Even after the food tax and employee concessions made additional resources available, several sworn police and fire positions remained at risk for layoff. In Police, a total of 153 sworn positions, out of the originally proposed 353, remained at risk of layoff after the additional resources became available. Staff worked closely with Police management to determine another 85 positions could be saved through a variety of measures including additional savings in the Police Department's budget, salary savings from vacant civilian police positions, voluntary furlough savings and the addition of necessary sworn staff in Water, Aviation and Transit.

The Police Department's sworn restoration plan includes additional General Fund savings of \$3.0 million from within their budget, savings in citywide retirement incentives that will not be needed, and new or alternative funding sources. If all these options are implemented, 68 sworn positions are still not restored. Further options for these remaining positions are explained in the Police Department Restoration memo attached to this report. That memo outlines a plan to have no sworn layoffs. A detailed listing of these funding and position adjustment options is also included in Schedule 3.

In addition, the 2010-11 Police budget includes sworn salary savings of \$21.4 million that result from the 266 sworn positions they agreed to hold vacant as part of last year's budget balancing process. The 266 sworn vacancies were needed by November 2009 to achieve their budgeted savings. As of this week, the Police Department is still 98 vacancies short. If these additional vacancies are not achieved by July 1, 2010, the Police Department's budget for next year will be out of balance by as much as \$11.5 million.

The Fire Department was able to identify another \$2.3 million in efficiency savings in their budget over the next 15 months. The savings were found in a variety of line items including overtime, commodities, contractals and capital equipment. When these savings are combined with the department's middle manager and executive furlough savings, we are able to restore one Battalion and one Shift Command, saving twelve chiefs and twelve captains to provide incident command and supervision at emergency incidents.

NON-GENERAL FUND BUDGET RECOMMENDATIONS

In the Trial Budget presented on February 2, staff reported that several non-General-Fund reductions were also needed. The funds affected included Phoenix Convention Center, Public Transit, Solid Waste, Development Services, other special revenue and grant funds. This report reflects no changes to the original proposals for the Phoenix Convention Center or special revenue funds. There were restorations and adjustments in Public Transit, Development Services, Solid Waste and grant funds.

In Aviation, the Voluntary Acquisition Relocation Service (VARs) Program is currently contracted with a private sector company. The Aviation Fund will save approximately \$2.0 million by hiring city employees to provide the same services to the neighborhoods adjacent to the airport.

Finally, in order to comply with the Arizona Department of Environmental Quality's permit requirements for the City's municipal storm sewer system, additional staff and financial resources must be made available. The new permit has significant new requirements that the City cannot meet with current staffing. This budget plan recommends increasing the existing storm water fee in September from \$0.20 per month to \$0.70 per month for residential customers. Other water users will be assessed a graduated amount based on their meter size. Savings from employee concessions will allow a reduction in the water rate at least commensurate with this \$0.50 increase. Staff is currently determining how much the rate can be reduced and will return to Council with this information later this spring.

STATE-SHARED REVENUE

As always, these budget recommendations are based on the assumption that no change to state-shared revenue formulas is imposed by the State legislature. Our state-shared income tax for next year will already be almost \$50 million less than this year based on current formulas. This loss of \$50 million is a major contributor to our revenue shortfall for next year. Any changes to state-shared revenue formulas will mean that some of the restorations made possible by employee concessions and the emergency food tax will still need to be cut.

CITY COUNCIL ACTION REQUESTED

Mayor and City Council approval of the budget plan presented in this report and the attached schedules, including the Sworn Public Safety restoration plan, is recommended. In addition, staff requests Council direction on the remaining Police sworn positions at risk of layoff. Nearly all General Fund program and service reductions will be effective on April 5, 2010.

ATTACHMENTS

- Schedule 1: Restorations with Employee Concessions (yellow)
- Schedule 2: Restorations with Emergency Food Tax Revenue (terra green)
- Schedule 3: Sworn Public Safety Restoration Plan (blue)
- Schedule 4: General Fund Budget Reductions by Department (white)
- Schedule 5: Non-General Fund Budget Reductions by Fund and Department (tan)
- Schedule 6: General Fund New Capital Facility Costs (goldenrod)
- Schedule 7: Non-General Fund New Capital Facility Costs (pink)
- Schedule 8: Non-General Fund Budget Additions (salmon)
- Schedule 9: Department Consolidations (ivory)