
CITY COUNCIL REPORT

TO: Ed Zuercher
City Manager

FROM: Jeff Barton
Budget and Research Director

SUBJECT: 2015-16 GENERAL FUND BUDGET RESULTS

This report provides an early review of 2015-16 General Fund budget results. Resources exceeded estimates by 0.7% and spending came in lower by 0.2%. As a result, the general fund balance is \$10.5 million over expected results. As a caution, this additional \$10.5 million is one-time, not ongoing, and is largely the result of year-end accounting adjustments. Actual revenue, absent year-end adjustments, was in line with projections so current year revenue adjustments are not required at this time.

THE ISSUE

Two factors drive our ability to develop a balanced budget: building accurate revenue forecasts and careful spending controls. With consultation from a University of Arizona (U of A) contract approved by the City Council, Budget & Research staff have been honing the sales tax revenue forecast models for the past three years. For FY 2015-16, our revenue forecast came within 0.6% of actuals. As a result, there is currently no need to adjust revenue forecasts for the current year.

With regards to expenditures, under direction of the City Council, City employees continue to focus on saving money and being more efficient in service delivery. Spending came in 0.2% below forecast. Further, through the end of FY 2015-16 over \$112 million in efficiencies have been identified across the organization. As a result, of our improved revenue accuracy and our continued commitment to control expenditures the City begins FY 2016-17 in a very strong position. This strong position will be extremely beneficial as the City looks ahead to developing a balanced budget for FY 2017-18.

In summary, Budget and Research's forecasting and citywide expenditure controls worked well for FY 2015-16:

	Actual	Estimate	Actual vs Estimate
GF Resources	1,179.0	1,170.4	0.7%
GF Collections	1,069.3	1,068.5	0.1%
GF Expenditures	1,066.5	1,068.4	-0.2%
GF Fund Balance	102.0	112.5	10.3%

OTHER INFORMATION

2015-16 General Fund Results

Resources - Total resources include:

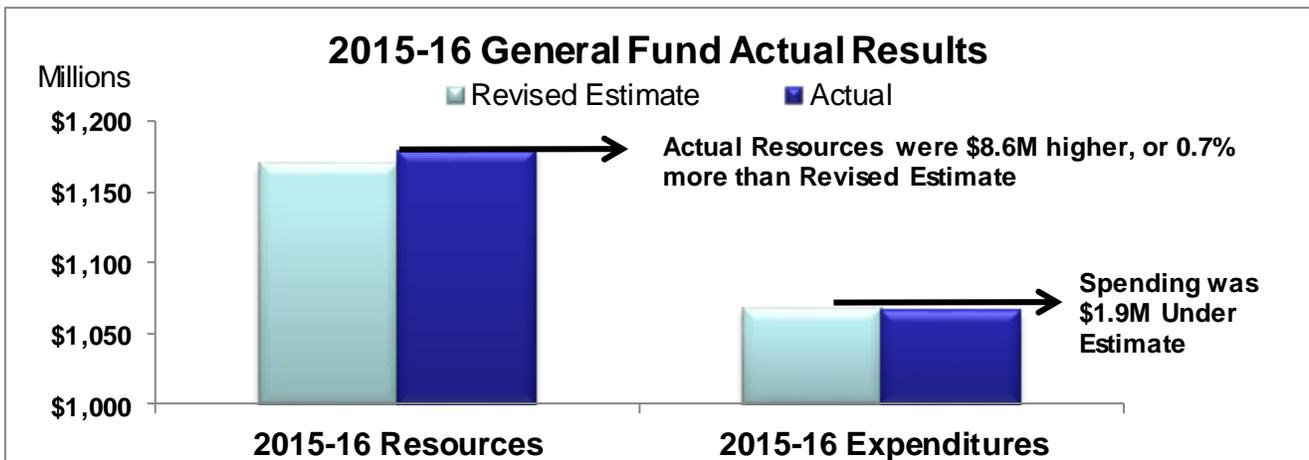
- Annual revenue
- Recoveries of prior year encumbrances that were not spent
- Net transfers from other funds, such as payroll, accounting and other general administrative costs provided to the airport and other enterprise funded departments
- Beginning fund balance

Total General Fund resources in FY 2015-16 were estimated to end the fiscal year at \$1,170.4 million. Actual total resources were \$1,179.0 million; a positive difference of \$8.6 million or 0.7%. Total 2015-16 GF revenues ended the fiscal year at \$1,074.7 million, compared to the estimate of \$1,068.5 million for a variance of \$6.2 million or 0.6%. The variance is artificially increased as a result of year-end accounting adjustments to city sales tax, which could not be estimated, totaling \$5.4 million.

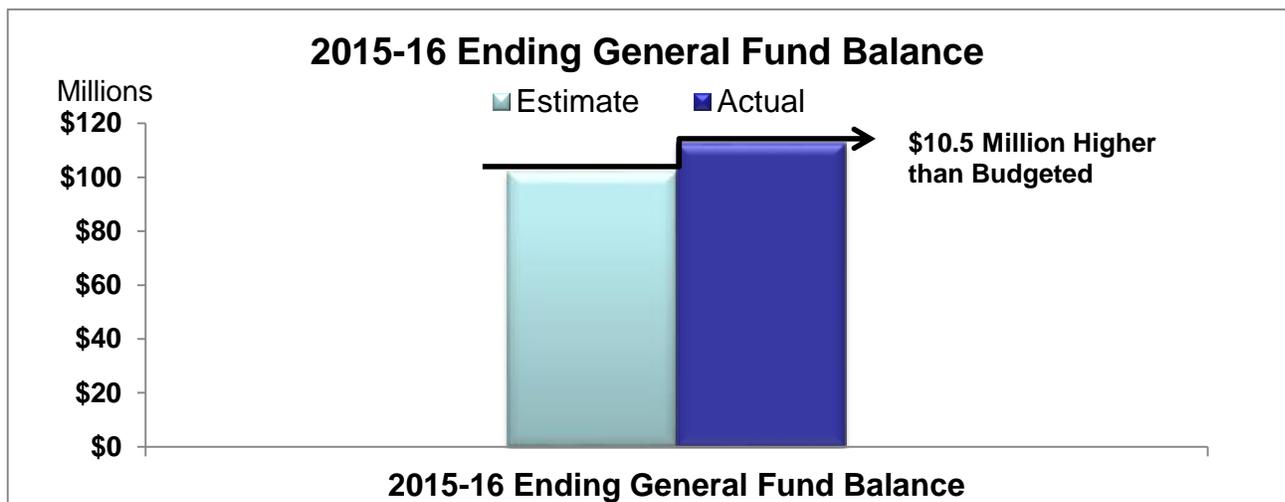
The adjusted GF revenue variance excluding these year-end accounting adjustments was only \$800k or 0.1%. Year-end city sales tax accounting adjustments can fluctuate from year to year and can negatively influence the overall revenue variance. Unlike city sales tax categories, accounting adjustments are not based on trends, seasonal factors, or predictable variables. To illustrate, the 2014-15 and 2013-14 city sales tax revenues included year-end accounting adjustments of (\$5.3) million and \$1.4 million respectively. To evaluate revenue forecasting accuracy, it is best to analyze variances without year-end accounting adjustments.

Budget and Research staff will continue to consult with economic experts from the University of Arizona, which coordinates the State Forecast Project. The City of Phoenix is taking advantage of our membership in the Forecast Project to receive outside expert consulting on the City's process for projecting sales taxes, the largest component of General Fund revenue. The use of additional resources and tools in the revenue estimation process, including the econometric model provided by the U of A, and the enhancements in our annual revenue and central review process that have been implemented in the last few years have resulted in more accurate estimates and increased efficiencies.

Expenditures - Total expenditures were estimated at \$1,068.4 million, and actual expenditures were \$1,066.5 million, or \$1.9 million less than estimated. This savings was primarily the result of City departments working hard to reduce spending at the end of last year. Also as a part of the 2016-17 budget development process 119 vacant General Fund positions were eliminated, generating annual savings of approximately \$11 million. Budget and Research staff will continue to evaluate expenditures during the upcoming zero-based budget process which begins in a few months.



2015-16 General Fund Ending Balance – The FY 2015-16 GF ending fund balance was estimated to be \$102.0 million. However, as a result of higher than anticipated resources and the reduced expenditures discussed earlier in the report, the actual ending balance was \$112.5 million. This means that FY 2016-17 begins the year with \$10.5 million more in available resources than was budgeted. However, it is important to note that most of the increased fund balance is the result of year-end accounting adjustments and one-time savings and should not be viewed as a source to fund new initiatives or ongoing expenditures. At this point, we recommend that the additional \$10.5 million be set aside until the budget status for FY 2017-18 is known. As we move forward in the formal budget process, the status of FY 2017-18 will be updated periodically. The next planned report is early December. Once the actual status of FY 2017-18 is determined in February and March a decision can be made regarding the best use of available resources, including the one-time resources in extra fund balance and any one-time resources identified in a review of citywide unrestricted fund balances.



Looking Ahead

As we move forward with the development of the 2017-18 operating budget, staff is also focused on several challenges. These challenges include:

- Timing and reconciliation issues with the state taking over Transaction Privilege Tax (TPT) collections;
- Continued increases in pension costs, particularly in PSPRS;

- Increased police overtime costs;
- State or federal unfunded mandates;
- Deferred maintenance and aging infrastructure such as vehicles, equipment, and City Hall and other facilities;
- Future economic downturns

While acknowledging that the items above could add significant pressure to the General Fund operating budget, we are also optimistic that staff's work in the following areas will continue to help to alleviate that pressure. These items include:

- Zero-based budget reviews;
- e-procurement savings;
- Sale of excess property;
- Disposing of underutilized vehicles
- Continued efficiencies

As established by City Council last year, staff will continue to review expenditures and revenue on an ongoing basis and return to the City Council with any adjustments needed in a timely manner.

RECOMMENDATION

The City Charter and Code contain legal deadlines and actions that must be followed in adopting the budget. In cases where the deadlines conflict, the City meets the earlier of the two dates or a date designated by the City Council. Adoption of the budget calendar ensures compliance with the City Charter and Code and also allows staff to properly plan the budget development process. Staff requests City Council approval of the 2017-18 Community Budget Process calendar shown below.

Date	Budget Items
February 7, 2017	2017-18 Inventory of Programs (Zero-Based Budget)
February 21, 2017	Preliminary 2017-18 Budget Status; 5-Year General Fund Forecast; and Updated Public Safety Funds Forecast
March 21, 2017	City Manager's Trial Budget and Preliminary CIP
April 3, 2017	Publish Budget Tabloid
April 2017	Community Budget Hearings
May 9, 2017	City Manager's Proposed Budget
May 23, 2017	Council Budget Decision
June 7, 2017	2017-18 Tentative Budget Ordinance Adoption
June 21, 2017	2017-18 Funding Plan and Final Budget Ordinance Adoption
July 6, 2017	2017-18 Property Tax Levy Ordinance Adoption