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## 2016-17 Year-End General Fund Budget Results & 2018-19 Budget Efficiencies Reduction Plan

This report provides an early review of the 2016-17 General Fund (GF) budget results. Resources exceeded estimates by \$300,000 or 0.02 percent and spending came in lower by \$14.0 million or 1.2 percent. As a result, the GF ending balance was approximately \$14.4 million higher than anticipated. As a caution, the additional \$14.4 million is one-time, not ongoing, and is largely the result of annual vacancy savings that was higher than expected. [Attachment A](#) provides graphical illustrations of GF budget results.

This report also requests Council adoption of the 2018-19 budget calendar and approval of approximately \$10.7 million in GF efficiencies ([Attachment B](#)), including eliminating 12.4 FTE vacancies plus other administrative savings. Another \$2.1 million in savings ([Attachment C](#)) is possible, but will require separate Council policy direction this fall.

### **THIS ITEM IS FOR DISCUSSION AND POSSIBLE ACTION.**

#### **Summary**

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 contract approved by the City Council, Budget and Research staff has been honing the sales tax revenue forecasts models for the past four years. GF Revenues for the 2016-17 fiscal year were \$2.0 million or 0.2 percent less than the revised estimate. The variance is mainly due to an unexpected negative year-end accounting adjustment for city sales tax. At this time, we are carefully monitoring revenue but currently see no need to adjust the revenue forecasts for the current fiscal year. Additional insight will be gained over the coming months as current year trends begin to emerge.

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 1.2 percent below forecast. Through the end of 2016-17, more than \$123.6 million in efficiencies have been identified across the organization. Additionally, the City Manager asked all GF departments this summer to identify 1.5% of their

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budgets for potential administrative reduction. This was to include a review of:

- vacancies;
- contracts;
- commodities;
- administrative costs; and
- allocation of costs to proper funds.

No programs or services for the public were allowed to be identified for reductions, since that will be part of the Council's budget review in 2018. As a result of the review, departments identified \$10.7 million and 12.4 FTE in reductions, which will free up one-time resources and ongoing reductions. This will reduce the projected 2018-19 budget deficit. A summary of these items can be found in [Attachments B and C](#). [Attachment C](#) contains two potential reductions of an additional \$2.1 million that require Council policy direction later in the fall.

As a result of our improved revenue accuracy and our continued commitment to control expenditures, we begin FY 2017-18 in a very strong position. This strong position will be extremely beneficial as we look ahead to developing a balanced budget for FY 2018-19.

## **2016-17 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; and
- beginning fund balance.

Total GF resources in FY 2016-17 were estimated to end the fiscal year at \$1,249.5 million. Actual total resources were \$1,249.8 million; a positive difference of \$300,000 or 0.02%. Total 2016-17 GF revenues ended the fiscal year at \$1,105.8 million, compared to the estimate of \$1,107.8 million for a variance of -\$2.0 million or -0.2%. The variance is mainly due to an unexpected negative year-end accounting adjustment for city sales tax.

Budget and Research staff will continue to consult with economic experts from the

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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 \$1,119.3 million, and actual expenditures were \$1,105.3 million, or \$14.0 million (1.2 percent) less than estimated. From a best practices standpoint, small variances between actual and budget figures are normal and expected. Generally speaking, variances of less than 3 percent are considered acceptable. Last year's savings was primarily the result of City departments achieving more salary savings than expected and increased work order credits. At the beginning of the fiscal year, there were approximately 415 non-sworn GF vacancies. At the end of the year the number of vacant GF positions decreased to approximately 310. While departments were actively filling vacancies, the natural turnover of the recruiting process resulted in additional salary savings beyond what was expected. Also contributing to the year-end savings were increased work order credits from several departments including Law, Police, Public Works, and Streets.

Budget and Research staff will continue to evaluate expenditures during the upcoming zero-based budget process which begins in a few months. During this year's process, a deeper review of both salary savings and work order credits will be conducted in an effort to close the gap between estimated expenditures and actuals.

### 2016-17 General Fund Ending Balance

The FY 2016-17 GF ending fund balance was estimated to be \$130.1 million. However, as a result of higher than anticipated resources and the reduced expenditures discussed earlier in the report, the actual ending balance was \$144.5 million. This means that FY 2017-18 begins the year with \$14.4 million more in available resources than was budgeted. However it is important to note that most of the increased fund balance is considered one-time savings and should not be viewed as a source to fund new initiatives or ongoing expenditures.

At this point, staff recommends that the additional \$14.4 million be set aside until the budget status for FY 2018-19 is known. As we move forward in the formal budget process, the status of FY 2018-19 will be updated periodically. The next planned report is January 2018. Once the actual status of FY 2018-19 is determined in February a

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decision can be made regarding the best use of available resources. These resources include the one-time resources in extra fund balance and any other one-time resources identified in a review of citywide unrestricted fund balances.

### **Looking Ahead**

As we move forward with the development of the 2018-19 operating budget, we are also focused on several challenges. These challenges include:

- continued increases in pension costs, particularly in PSPRS;
- deferred maintenance and aging infrastructure such as vehicles, equipment, and City Hall and other facilities;
- protecting against any economic downturn; and
- potential reduction in state and federal funding or new unfunded state or federal mandates.

These items above will add significant pressure to the General Fund operating budget. However, staff's work in the following areas are attempts to alleviate some of the pressure. These items include:

- zero-based budget reviews;
- e-procurement savings;
- sale of excess property;
- disposing of underutilized vehicles; and
- continued focus on identifying efficiencies.

However, if we continue to face significant budget deficits, program reductions and/or new revenues will have to be considered.

As referenced earlier in this report, we will continue meeting with all GF departments to identify ongoing efficiencies that could reduce annual operating expenditures without impacting services to the community. All feasible efficiencies will be incorporated into the upcoming zero based budget reviews and reflected in the January 2018 GF Early Status Report.

### **2018-19 Community Budget Process Calendar**

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

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approval of the 2018-19 Community Budget Process Calendar reflected in **Attachment D** to this report.

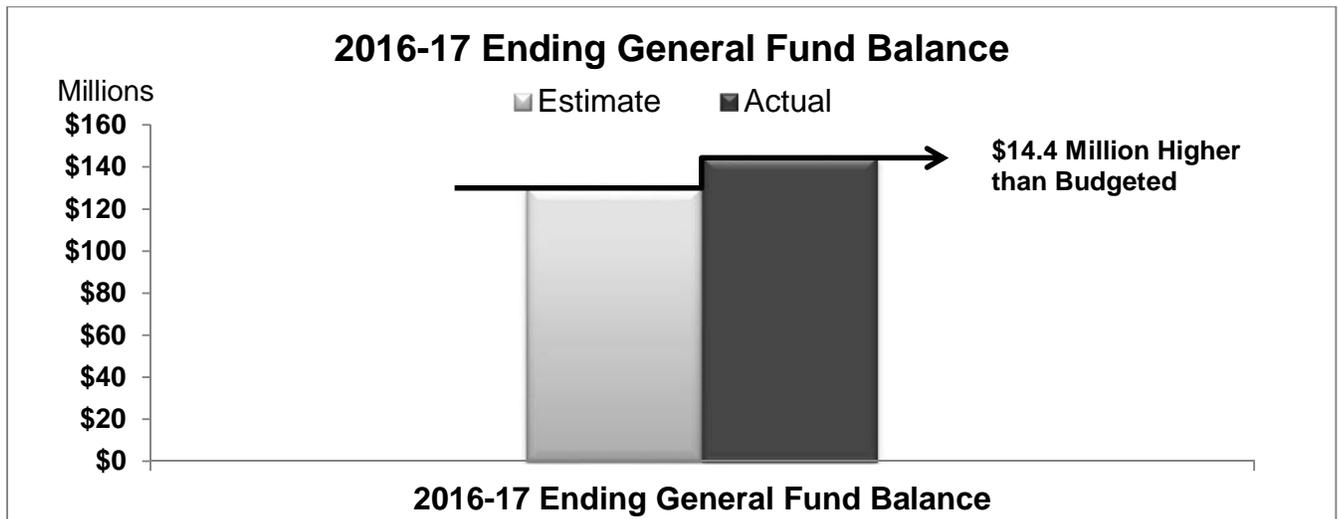
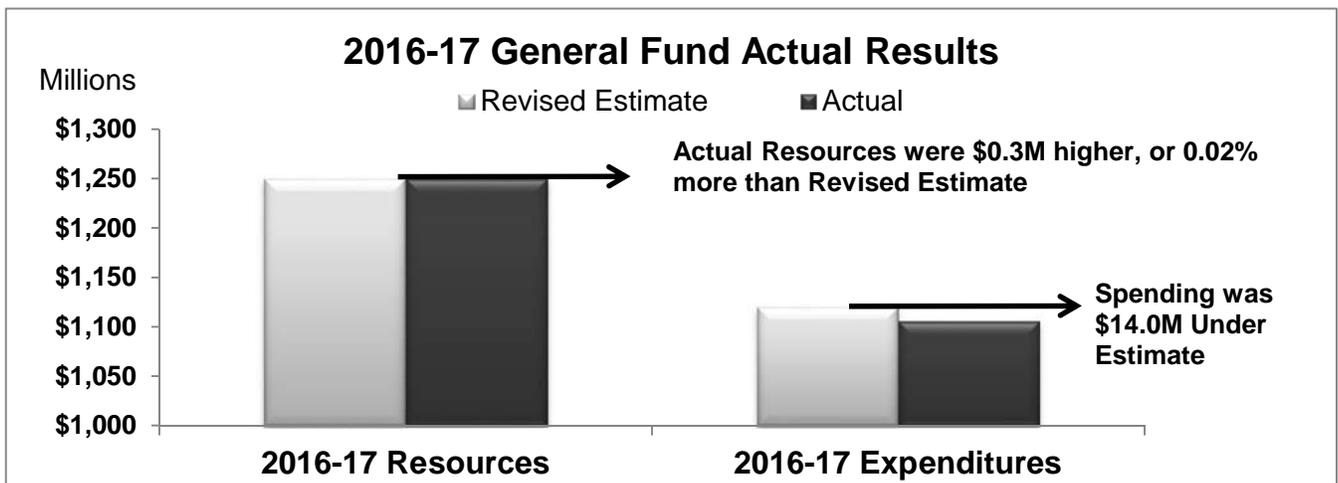
**Responsible Department**

This item is submitted by City Manager Ed Zuercher and the Budget and Research Department.

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# ATTACHMENT A

	Actual	Estimate	Actual vs Estimate
<b>GF Resources</b>	1,249.8	1,249.5	0.0%
<b>GF Collections</b>	1,105.8	1,107.8	-0.2%
<b>GF Expenditures</b>	1,105.3	1,119.3	-1.2%
<b>GF Fund Balance</b>	144.5	130.1	11.1%



## ATTACHMENT B – EARLY EFFICIENCY ACTIONS

The City Manager asked all General Fund Departments this summer to identify 1.5% of their budgets for potential administrative reduction. This was to include a review of:

- Vacancies
- Contracts
- Commodities
- Administrative costs
- Allocation of costs to proper funds

**No programs for the public were allowed to be identified, since that will be part of the Council’s budget review in 2018.** As a result, departments were able to identify the following reductions, which will free up one-time resources and ongoing reductions which will reduce the projected 2018-19 budget deficit.

Department	FY 1017-18	FY 2018-19	FTE
<u>Budget &amp; Research</u> Savings due to appropriately charging staff costs associated with the Capital Improvement Program to various programs.	\$(59,000)	\$(59,000)	-
<u>City Auditor</u> Savings are primarily due to reallocating a vacant position to an entry level audit classification.	\$-	\$(68,000)	-
<u>City Manager’s Office</u> Savings primarily due to eliminating a vacant position.	\$(58,000)	\$(58,000)	(1.0)
<u>Communication Office</u> Savings due to a variety of contract reductions.	\$-	\$(32,000)	-
<u>Community and Economic Development</u> Savings are primarily due to reduced required support to the Phoenix Community Development and Investment Corporation (PCDIC).	\$(155,000)	\$(130,000)	-
<u>Equal Opportunity</u> Savings are due to more appropriately charging staff time for non-general fund activity.	\$(59,000)	\$(59,000)	-

<b>Department</b>	<b>FY 1017-18</b>	<b>FY 2018-19</b>	<b>FTE</b>
<u><i>Finance</i></u> Savings are primarily due to the transition of sales tax collections to the State of Arizona and converting a vacant position to work on real estate activities related to Transportation 2050.	\$(138,000)	\$(391,000)	-
<u><i>Fire</i></u> Savings are primarily due to the elimination of vacant positions and reductions to various contractual line items.	\$(313,000)	\$(1,197,000)	(3.1)
<u><i>Human Resources</i></u> Savings are primarily due to more appropriately charging staff time to trust accounts and converting vacant full-time positions to part-time.	\$(181,000)	\$(181,000)	(0.8)
<u><i>Human Services</i></u> Savings are primarily due to eliminating vacant positions and continued changes for breakfast options at Senior Centers.	\$(278,000)	\$(345,000)	(2.0)
<u><i>Information Technology Services</i></u> Savings are primarily due to new cost effective software agreements and less than expected computer hardware maintenance expenses.	\$(214,000)	\$(414,000)	-
<u><i>Library</i></u> Savings are primarily due to a new custodial services contract, the conversion to LED lighting fixtures and elimination of two part-time Library positions which represent the equivalent of one full-time position.	\$-	\$(343,000)	(1.0)
<u><i>Neighborhood Services</i></u> Savings are primarily due to the implementation of the Abatement Lien Program and sourcing an alternative graffiti tracking software solution.	\$-	\$(199,000)	-
<u><i>Office of Arts and Culture</i></u> Savings are primarily due to the elimination of a vacant part-time position.	\$-	\$(22,000)	(0.5)

<b>Department</b>	<b>FY 1017-18</b>	<b>FY 2018-19</b>	<b>FTE</b>
<u><i>Parks and Recreation</i></u> Savings are primarily due to the elimination of two vacant positions, and more appropriately charging staff time and other costs for non-general fund activity.	\$(194,000)	\$(237,000)	(2.0)
<u><i>Phoenix Convention Center - General Fund Garages</i></u> Savings due to efficiencies from the consolidation of the operation of downtown parking garages and increased automation.	\$(31,000)	\$(31,000)	-
<u><i>Planning and Development</i></u> Savings due to more appropriately charging staff time for non-general fund activity.	\$(73,000)	\$(73,000)	-
<u><i>Police</i></u> Savings due to costs associated with increased hiring allocated to the Public Safety Specialty Funds commensurate with the hiring targets in each fund.	\$(2,127,000)	\$(2,127,000)	-
<u><i>Public Defender</i></u> Savings due to eliminating vacant positions.	\$(56,000)	\$(76,000)	(2.0)
<u><i>Public Transit</i></u> Savings due to adjusting contract to recent historical usage of the Senior Center Shuttle program.	\$(90,000)	\$(90,000)	-
<u><i>Public Works</i></u> Savings due to insourcing solid waste refuse lube services, conversion to LED lighting fixtures and reallocating a vacant position to a needed job classification.	\$(49,000)	\$(203,000)	-
<u><i>Street Transportation</i></u> Savings due to additional street maintenance work in the Capital Improvement Program budget resulting from lower staff vacancy rates and increasing water/sewer infrastructure repairs.	\$-	\$(283,000)	-
<b><u>TOTAL SAVINGS</u></b>	<b>\$(4,075,000)</b>	<b>\$(6,618,000)</b>	<b>(12.4)</b>

**ATTACHMENT C – OPERATING EFFICIENCIES REQUIRING CITY COUNCIL  
POLICY DIRECTION**

<b>Department</b>	<b>FY 1017-18</b>	<b>FY 2018-19</b>	<b>FTE</b>
<u><i>Parks and Recreation</i></u> Savings can be achieved by transferring operation of Papago Baseball Complex to the City of Scottsdale through an intergovernmental agreement. This item will be reviewed by the Parks, Arts, Education and Equality Subcommittee and full City Council separately this fall.	\$-	\$(1,246,000)	-
<u><i>Police</i></u> Savings can be achieved by charging to the Neighborhood Block Watch Grant (NBWG) program the Police staff positions needed to administer NBWG. The NBWG has a balance of over \$3 million that is growing each year, so this change would not impact the funding level of NBWG. This item will be reviewed with the Public Safety and Veterans Subcommittee and full City Council separately this fall.	\$(440,000)	\$(440,000)	-
<b><u>TOTAL SAVINGS</u></b>	<b>\$(440,000)</b>	<b>\$(1,686,000)</b>	<b>-</b>

# ATTACHMENT D

## 2018-19 BUDGET ADOPTION CALENDAR

<b>Date</b>	<b>Budget Items</b>
February 6, 2018	2018-19 Inventory of Programs (Zero-Based Budget)
February 27, 2018	Preliminary 2018-19 Budget Status and 5-Year General Fund Forecast
March 20, 2018	City Manager's Trial Budget and Preliminary CIP
April 2, 2018	Publish Budget Tabloid
April 2018	Community Budget Hearings
May 8, 2018	City Manager's Proposed Budget
May 22, 2018	Council Budget Decision
June 6, 2018	2018-19 Tentative Budget Ordinance Adoption
June 20, 2018	2018-19 Funding Plan and Final Budget Ordinance Adoption
July 5, 2018	2018-19 Property Tax Levy Ordinance Adoption