City Council Policy Session

City of Phoenix

City Council Report

Agenda Date: 2/21/2017, **Item No.** 3

Five-Year General Fund Forecast

This report transmits the preliminary status for the General Fund (GF) fiscal year (FY) 2017-18 budget and a five-year GF forecast through FY 2021-22 (Attached). The five-year forecast is being presented to the Mayor and City Council for the sixth consecutive year and provides an essential tool in long-term budget discussions and decision making. The forecast currently shows a balanced budget for 2017-18.

THIS ITEM IS FOR INFORMATION ONLY.

Summary

The February 2016 Five-Year Forecast projected that without any action, the City of Phoenix would have a GF budget deficit of ($9M) to ($30M) for 2017-18. With sustained effort, several steps have led to a projected balanced budget for FY 2017-18 (this assumes no actions by the State to change revenue from existing projections). These include accumulating one-time savings of $10.5 million in FY 2015-16 and proactive steps in 2016-17 to reduce ongoing costs and to defer and reduce spending wherever possible.

Over the last few years the City Council has taken necessary actions to protect City services while facing very challenging financial conditions. The City Council has led important fiscal reform measures, including:

- $125 million in innovation and efficiency savings to date since 2010
- Elimination of approximately 2,700 positions since FY 2007-08; resulting in the smallest government per capita since 1970-71
- Consistently raising the contingency fund to its highest level in our history
- Balancing the deficit in the Public Safety funds without sworn layoffs and the planned hiring of more than 490 Police Officers and 180 Firefighters between now and the end of FY 19-20.

With this strong fiscal planning and early action, the projected funding gap for 2017-18 has been eliminated. Over the next few weeks, staff will continue to refine both revenue and expenditure estimates until we have a final status in March for the City Manager's Trial Budget.

FY 2017-18

The major challenge for 2017-18 is rising pension costs. GF pension costs in COPERS (the system for civilian employees) are expected to increase by about $1M as compared to the current year budget. This growth is tied to recent actuarial changes, plan earnings and payroll growth. The GF costs for PSPRS (the system for sworn Police and Fire personnel) will increase by about $58M as compared to the current year budget. This growth is tied to recent actuarial changes, plan earnings, payroll growth, repealed pension reform measures from the Fields and Hall State Supreme Court decisions, and to some extent pension reform. As the five-year forecast shows, rising pension costs will add significant pressure to the GF budget going forward. However, the pension reform measures for COPERS enacted by the City Council and approved by Phoenix voters mean these short-term increases are anticipated to slow over time and are expected to result in significant savings over the next two decades.

There are also other cost increases not within our control including:

- State charges for the implementation of Transaction Privilege Tax (TPT) Reform are expected to increase each year through fiscal year 2019-20. The State is expected to charge the City $3.3 million in 2017-18; $4.3 million in 2018-19; and $5.3 million in 2019-20.

- The jail per diem rates for booking and daily housing charged by the Maricopa County Sheriff's Office (MCSO) are increasing by 6.1% and 12.6% respectively and will result in an increase of approximately $1.5 million. Next year's booking rate is $325.65 per inmate and the housing rate is $101.72 per day.

Overall, non-pension costs have been stable and manageable.

FY 2018 and Beyond

The FY 2018-19 forecast is for a deficit of between $43 and $64 million, assuming no actions are taken. This is due to increased pension costs and the spending down of the set-asides and the carryover fund balance. Solving this deficit in 2018-19 will set the budget on firmer ground for 2019 through 2022, assuming no unexpected further increases in pension costs or unanticipated actions by the State.

As we look ahead to the second year of the forecast and beyond, the areas of concern are service costs, service levels and revenue. Service costs include employee compensation levels, use of technology and other ways to do our existing work more efficiently. Service levels involve the amount of services, hours and the number of

facilities we keep open to serve the public. Revenues consider taxes, fees, and the impact of economic growth.

Finally, we are keeping an eye on capital repair and the replacement of vehicle fleet, facilities and technology.

The Phoenix City Charter requires a balanced budget each year. On March 21, a balanced City Manager's Trial Budget will be presented for Council and Community discussion along with the Preliminary Five-Year Capital Improvement Program (CIP). The budget will present options for debt service payments and one-time capital requests. Community Budget Hearings will begin on April 3, 2017.

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

City of Phoenix

RESEARCH REPORT BUDGET AND RESEARCH DEPARTMENT	B.R. REPORT NUMBER **2017-06** DATE ISSUED February 21, 2017
TO: **ED ZUERCHER** CITY MANAGER	FOR THE BUDGET AND RESEARCH DIRECTOR BY: **JEFF BARTON** BUDGET AND RESEARCH DIRECTOR

SUBJECT
FIVE-YEAR FORECAST AND PRELIMINARY GENERAL FUND STATUS FOR FY 2017-18

BACKGROUND

Development and presentation of the five-year forecast is an important step in the City's budget process. Evaluating projected available resources and identifying potential ongoing budget surpluses or funding gaps will allow City Management and Council to develop strategic plans to ensure the continuation of city operations and optimize services to the community.

The Five-Year Forecast estimates future revenues and expenditures for the General Fund for the current fiscal year through fiscal year 2021-22. The purpose of this forecast is to identify key trends in revenues and expenditures and to provide information about the financial landscape anticipated over the next few years. The information contained in this forecast is based on data available through January 2017.

The General Fund five-year forecast (**Attachment A**) is provided to the City Council and the community for consideration and provides city policy-makers:

- A strategic financial management best practice
- A framework for strategic decision-making
- The opportunity to make policy changes to maximize city resources and service delivery
- A roadmap to continued fiscal health and award-winning budgetary and financial reporting

The forecast is not an official policy or legal budget document and does not enact any budgetary allocations. The forecast is also not intended to set or precisely predict future revenues or expenditures. Rather, the forecast presents current estimates based on several economic and financial assumptions of the future direction and ranges of growth rates for both resources and expenditures. The economic, revenue, and expenditures assumptions are provided in **Attachment B**.

The forecast is built on several assumptions outlined in Attachment B regarding:

- The national, state and local economy
- Population and job growth
- Revenue growth
- Impacts of anticipated increasing pension liabilities
- Cost management practices
- Future year expenses

All of these factors are subject to change and detailed further in this report.

Projecting future available resources and expenses over multiple years is complex and involves several assumptions concerning how revenue and expenditures will grow over time. In order to model potential future budgetary scenarios under varying economic conditions, a range is provided for resources and expenditures. The differences between the upper and lower ends of the ranges increase slightly in the later years of the forecast reflecting additional economic uncertainty. The top of each range represents the “optimistic” forecast, while the bottom of the range represents the “pessimistic” forecast. All of the ranges are based upon the assumptions described in this report.

It is important to note, if any of these assumptions as described were to change or modeled differently, the ranges of amounts presented in the forecast would need to be revised. Unexpected economic shocks, recessions, legislative mandates or other risks to the forecast can also adversely affect projections.

Additionally, even slight variances in the revenue and expenditure growth rates in the initial years of the forecast result in substantial changes to the later years due to the compounding effect of the changes. For example, a variance in revenue growth in FY 2017-18 of only 1%, can result in a variance of $11M to the ending balance, which would impact the ending fund balances in the subsequent forecast years. Long term forecasts become less reliable the further they are from development because of the many underlying assumptions subject to frequent fluctuations.

Projections are formulated in the first six months of the fiscal year and are based on a current projection of where staff believes resources and expenditures will be for the current fiscal year and the subsequent five years. In order to create the most reliable revenue and expenditure projections, staff relies on several economic sources, months of actual collections and extensive technical reviews before recommending estimates to City management and ultimately the City Council for final consideration.

OTHER INFORMATION

It is important to note that the preliminary FY 2017-18 budget is based on existing state-shared revenue models and statutory obligations. Any changes to state shared revenue formulas or other revenue sources proposed in the Governor's budget or in legislative bills that would negatively impact the GF budget are not reflected and would need to be solved, if adopted by the State.

Preliminary Status of 2017-18 General Fund Budget

2017-18 Resources- The chart below shows the preliminary resources projection:

GF Resource Category	2017-18 Preliminary Estimate (in millions)	2017-18 Preliminary Projected Annual Growth Rate %
Local Sales & Excise Taxes	$458	2.8%
State-Shared Revenue [1]	$409	3.3%
Primary Property Tax [2]	$151	4.0%
User Fees and Other	$120	0.3%
Beginning Balance [3]	$120	N/A
Transfers/Recoveries [3]	$8	N/A
Total GF Resources	**$1,266**[4]	**1.5%**

[1] This does not reflect any negative impact to State-Shared Revenue resulting from the FY 2017-18 State budget, nor legislative changes that have recently been proposed or discussed during the current legislative session.

[2] Assumes the continuation of City Council's adopted policy to maximize the primary levy in order to preserve GF services. Any deviation from this policy would require an ongoing reduction to GF programs.

[3] Estimates for beginning balance and transfers/recoveries are not derived from annual growth rate projections or broader economic factors.

[4] It is important to note that this number is inflated by $48 million of one-time carryover.

Revenue Forecasting Model- In the fall of 2014, Budget and Research consulted with the University of Arizona's Eller College of Management, Economic and Business Research Center (EBRC) to enhance the City's sales tax revenue forecasting process. Dr. George Hammond, EBRC Director, and Dr. Alberta Charney, Senior Research Economist, spent several months working with City staff to develop an enhanced econometric sales tax forecasting model for all categories of City sales tax. The EBRC leads the State of Arizona Forecasting Project, which provides in-depth economic forecast analysis and databases on a subscription basis to businesses, organizations, and government via membership. The additional consulting with Drs. Hammond and Charney has provided the City with solid, independent economic and statistical expertise used to develop a statistically valid forecasting model specifically for the City of Phoenix. The projected growth rates in each category of sales tax for the FY 2017-18 estimate and five-year forecast are based on projections developed with the enhanced econometric forecasting model.

2017-18 Expenditures- The preliminary expenditure estimates may change as cost estimates are further refined in the coming weeks. At this time, the preliminary FY 2017-18 General Fund expenditures are projected at $1.266 billion. This compares to the adopted GF expenditure budget of

$1.222 billion for FY 2016-17. This increase is largely a result of employee compensation and increased pension costs. Last year the City Council approved three-year labor contracts that restored employee concessions totaling 4.2%. The agreements include restoration of 1.9% in FY 2016-17; 1.0% in FY 2017-18; and 1.3% in FY 2018-19. The preliminary 2017-18 budget reflects the second year of these agreements totaling approximately $30 million.

Pension Costs- GF pension costs in COPERS are expected to increase by about $1M as compared to the current year budget. This growth is tied to recent actuarial changes, plan earnings and payroll growth. The GF costs for sworn Police and Fire pensions will increase by about $58M as compared to the current year budget. This growth is tied to recent actuarial changes, plan earnings, payroll growth, repealed pension reform measures from the Fields and Hall State Supreme Court decisions, and to some extent pension reform. As the five-year forecast shows, rising pension costs will add significant pressure to the GF budget going forward. However, the pension reform measures enacted by the City Council and approved by Phoenix voters mean these short-term increases are anticipated to slow over time and are expected to result in significant savings over the next two decades.

Other Expenditure Changes- Aside from pension, other areas where costs are preliminarily estimated to increase in FY 2017-18 include:

- State charges for the implementation of Transaction Privilege Tax (TPT) Reform are expected to increase each year through fiscal year 2019-20. The State is expected to charge the City $3.3 million in 2017-18; $4.3 million in 2018-19; and $5.3 million in 2019-20.

- The jail per diem rates for booking and daily housing charged by the Maricopa County Sheriff's Office (MCSO) are increasing by 6.1% and 12.6% respectively and will result in an increase of approximately $1.5 million. Next year's booking rate is $325.65 per inmate and the housing rate is $101.72 per day.

- The Contingency fund is assumed to increase from $48 million to $50 million, remaining on track to grow to recommended levels. The growth in the contingency fund reflects an increase of approximately $2 million per year going forward. Next year also reflects a <u>one-time</u> set-aside of $5 million for body-worn camera implementation.

Detailed preliminary estimates with multiple year-to-year comparisons are included in the Zero-Based Budget Inventory of Programs document, which was presented to the Council at the February 7, 2017 Policy Session and is available online at phoenix.gov/budget. Revenue and expense estimates continue to be developed, and more definitive estimates will be presented along with the City Manager's Trial Budget in March.

RECOMMENDATION

The General Fund preliminary 2017-18 budget status and Five-Year Forecast are provided for information and discussion.

ATTACHMENTS

Attachment A- Five-Year General Fund Forecast

Attachment B- Forecast Assumption

ATTACHMENT A
5-Year General Fund Forecast ($Millions)

	2016-17 Adopted Budget	2017-18 Preliminary Budget Estimate	2018-19 Forecast	For Planning Purposes Only 2019-20 Forecast	2020-21 Forecast	2021-22 Forecast
Resources						
Local Taxes	$446	$458	$473 - $480	$490 - $505	$505 - $529	$524 - $557
State Shared Revenues	390	409	417 – 423	432 – 445	444 – 465	463 – 492
Primary Property Tax	145	151	156 – 158	161 – 166	166 – 174	171 – 182
User Fees and Other	121	120	122 – 124	124 – 128	127 – 132	129 – 137
Other (Carryover Balance, Transfers, Recoveries)	74	80	13	8	13	15
Unused Contingency from Prior Year	46	48	50	52	54	56
Total Resources	**$1,222**	**$1,266**	**$1,231 - $1,248**	**$1,267 - $1,304**	**$1,309 - $1,367**	**$1,358 - $1,439**
Expenditures						
Operating Expenditures	$894	$903	$918 - $914	$874 - $869	$904 - $898	$949 - $941
Civilian Pension	86	87	94	101	104	106
Sworn Public Safety Pension	149	207	216	223	228	235
Contingency	48	50	52	54	56	58
Set-Asides	35	5	0	0	0	0
Pay-As-You-Go Capital (Includes Technology Plan)	10	6	7	7	6	6
Minimum Vehicles	-	8	8	8	8	8
Total Expenditures	**$1,222**	**$1,266**	**$1,295 - $1,291**	**$1,267 - $1,262**	**$1,306 - $1,300**	**$1,362 - $1,354**
PROJECTED (DEFICIT)/SURPLUS:	**$ -**	**$ -**	**$(64) - $(43)**	**$0 - $42**	**$3 - $67**	**$(4) - $85**

Key Resource Forecast Assumptions:

* The forecast assumes modest revenue growth with no recession, no fee increases or decreases and no new revenue sources.

* No changes to current revenue base as provided in state and city laws or to state shared revenue formulas.

* Relative population share used in calculating state shared revenues in 2016-17 was based on the 2015 Census Bureau Population Estimate. It was projected to remain flat throughout the forecast period. The actual share will change annually based on Census Bureau Population Estimates and the 2021-22 share will be impacted by the 2020 Decennial Census.

Other Forecast Notes:

* Ranges provided for revenues and operating expenditures. Upper & lower ends of ranges increase slightly in later years of forecast reflecting additional economic uncertainty in the later years.

* Ranges include pessimistic and optimistic scenario within assumptions provided by the primary sources of economic information mentioned in this report.

* When a baseline deficit or surplus is projected, the next year's operating expenses are assumed to be decreased or increased by the baseline deficit/surplus amount prior to applying the assumed annual projected growth rate, as the City is required by Charter to balance the budget each year.

Key Expenditure Forecast Assumptions:

* The contingency fund increases annually $2M through the forecast period.

* Includes minimal additional future funding for infrastructure or capital equipment replacements, program enhancements, unfunded mandates, expiring grants, etc.

* 2017-18 and 2018-19 employee costs based on projections under the current Council-adopted pay plan ordinance and employee contracts. No assumptions have been made concerning future labor contract negotiations. Pension costs based on required and projected contribution rates provided by the respective pension system actuaries.

* Non-personnel related expenditures for 2018-19 and beyond assumes expenditure growth is in line with recent historical averages.

* Expenses for projected debt service related to the public safety mandated radio conversion and the new phone system conversion are included in the forecast.

ATTACHMENT B

Forecast Assumptions

Economic Sources - Budget and Research staff relies on several different sources for economic data and forecasts to assist with developing revenue and expenditure projections.

The list below includes the primary sources of information:

- State Finance Advisory Committee (FAC) which includes several economists and finance professionals from the private and public sectors
- State Joint Legislative Budget Committee (JLBC)
- University of Arizona (U of A), Economic Business Research Center
- Global Insight, IHS
- Arizona State University (ASU) – WP Carey School of Business, and Western Blue Chip
- Arizona Department of Administration (ADOA) - Employment and Population Statistics Office
- JP Morgan Chase Economic Outlook Center
- Blue Chip Economic Indicators – National Level
- U.S. Bureau of Labor Statistics
- U.S. Census Bureau
- Phoenix Business Journal
- University of Arizona (U of A) Forecasting Project – A community-sponsored research program within the Economic and Business Research Center providing project members with economic forecasts for Arizona, the Phoenix-Mesa metro area, and the Tucson metro area. City staff attends the Forecasting Project quarterly meetings and receives quarterly reports and data/projections used to assist in developing our forecasts. Forecasting Project data relies on Global Insight, IHS which is a well-known economics organization that provides comprehensive economic and financial information. The data from this project is incorporated into an econometric software program used to forecast sales tax.

Economic Outlook

The overall consensus from these trusted sources is economic growth in Arizona and the Phoenix Metro area is anticipated to continue, and outpace the U.S economy, however at a pace that is slower than previous recoveries. They do predict economic expansion will continue but at a moderate pace with no recession on the forecast horizon. However, it is worth noting that at the October 2016 FAC meeting the presentation handout included information regarding a possible future recession, “A recession is typically associated with at least 2 consecutive quarters of decline in US GDP. We are now in the 88th month of the current recovery. The average post-1982 expansion is 95 months and the longest is 120 months. We would reach the 120-month mark at the end of FY 2018 -19”.

At the national level, the National Blue Chip of Economic Indicators forecast GDP growth of 2.3% in 2017, which is predicted to expand by more this year than last, but by less than 2014 and 2015. They attribute the rebound in 2017 to a general improvement in business confidence, a recovery in the energy sector, and a recuperation of industrial production. Real residential investment and government spending and investment are expected to grow in 2017 too. However, trade will remain a significant drag on GDP as a strong U.S dollar and relatively softer economic growth abroad dampen export growth. The consensus also forecasts the Federal Reserve will raise interests rates in 2017 (Blue Chip Economic Indicators, Vol. 42, No. 1 January 2017).

Arizona has regained the jobs lost during the Great Recession. Through November 2016, Arizona employment is 106.7% recovered (U.S. Bureau of Labor Statistics). However, the mix of employment

is different from the composition of the economy in past expansion years, and the per capita personal income is below national average, ranked 42nd among all states (Economic Forecasting Luncheon, December 2016).

The State's FAC indicated in January 2017 that Arizona ranks 14th in economic momentum. The rankings for major economic factors are listed below:

	AZ Rate	AZ Rank
Change in Personal Income (Sept)	3.8%	18
Change in Population (July)	1.7%	8
Change in Employment (Nov)	1.1%	29
Unemployment Rate (Nov)	5.0%	32

Although Arizona still ranks behind half of the U.S. in some of the categories including change in employment and unemployment rate, there is positive news. According to the U of A Economic Business Research Center, "the odds favor continued growth in the U.S. and Arizona economies this year and next" (Economic Outlook, 2016 4th Quarter Report).

Other significant economic assumptions from trusted sources built into this forecast include the following:

- Personal income for the Phoenix Metro area is projected to grow an average of 6.4% for the forecast and range from 6.0% to 7.0% (UA/Global Insight).
- Growth in population is expected to continue, but at lower rates than historical growth. Phoenix Metro population is projected to grow 2.1% in 2017 slightly up from 1.9% in 2016 (U of A Economic Research Center).
- Non-farm employment in metro Phoenix is estimated to grow 3.2% in 2017, up slightly from 3.1 % in 2016 (U of A Economic Research Center).
- Greater Phoenix unemployment is estimated to fall to 5.2% in 2017, compared to 5.6% in 2016 (U of A Economic Research Center).
- The near term outlook for real estate in Greater Phoenix remains bullish. Single family residential building projected to increase by 12% in 2017, which will be the best year for single family housing since 2007 (ASU W.P. Carey School of Business- Greater Phoenix Blue Chip Forecast).
- Inflation is expected to increase during the forecast period with the Consumer Price Index-All Urban Consumers (CPI-U) rising by 2.3% in FY 2017-18. (UA Economic Research Center). In the past 50 years, CPI-U has ranged from negative 0.4% in 2009, to a high of 13.5% in 1980 (U.S. Department of Labor Bureau of Labor Statistics).
- Concerns regarding foreign economic markets continue to present risks to the national economy, including continued slowing of China and U.K.'s economy. Additionally, forecasts of GDP growth in Australia and India slipped in January 2017 (National Blue Chip, January 2017).

Resource Assumptions- Revenue growth rates are determined using information from our above mentioned trusted sources, analyzing actual revenue trends and averages, and factoring in any known policy or legislative changes.

Revenue assumptions beyond the broader economic considerations are described below:

- No further period of recession with modest revenue growth for the forecast horizon.
- Annual revenue growth rates range from 2.9% to 4.3% during the forecast period.
- No impact to current revenue tax base, as provided in applicable state statutes and City ordinances.
- No future impact to state shared revenue formulas or legislation or action that could impact city revenue sources.
- Phoenix's relative population share, which impacts state shared revenue collections, was projected to remain flat throughout the forecast period. The actual share will change annually based on Census Bureau Population Estimates and the 2021-22 share will be impacted by the 2020 Decennial Census.
- The forecast does not include any further negative financial impact to the City that may result from the previous Governor's Tax Simplification Task Force recommendations, including tax portal implementation and associated legislation.
- The forecast does not include any negative financial impact to the City that may result from the Governor's budget proposal, which includes a provision allowing universities to retain Transaction Privilege Tax.
- No future fee increases or decreases and no new sources of revenue.
- Potential increases to revenue resulting from economic development efforts and further innovation and efficiency savings are not included in the forecast.
- Ranges provided for revenues: upper and lower ends of ranges increase slightly in later years of the forecast reflecting additional economic uncertainty.

Expenditure Assumptions- Assumptions regarding forecasted expenditures are described below:

- Annual operating expenditure growth rates, except for pension, are based on the projected Consumer Price Index and historical averages.
- The forecast assumes an increase in pension costs based on historical actuals and information made public by the City of Phoenix Employees Retirement System (COPERS) and the Arizona Public Safety Personnel Retirement System (PSPRS) actuaries. The forecast does not attempt to predict future pension liabilities, assets or other plan assumptions, but rather to account for the currently anticipated rising costs of pension systems.
- The impact of pension reform measures approved by voters and the costs for PSPRS resulting from the ruling in the Hall vs. Elected Officials Retirement Plan have been included in the forecast based on projections provided by the plan's actuary.
- The forecast does not include the impact of additional potential reform measures for COPERS or PSPRS or the impact of pending litigation.
- The forecast assumes minimal, gradual increases in expenditures for critical vehicle replacements and IT plan additions and no additional funding for infrastructure and capital equipment replacements, program enhancements, new unfunded mandates, or expiring grants.
- Pay-as-you-go capital costs are based on the preliminary estimates in the five-year Capital Improvement Program.

- The forecast includes projected debt service for the mandated Regional Wireless Cooperative radio replacements and the replacement of the city phone system and associated technology infrastructure.
- The contingency fund is assumed to increase annually $2 million through the forecast period.
- The 2017-18 and 2018-19 total compensation costs are based on projections under the current Council-adopted pay plan ordinance and employee contracts.
- No other financial impact from changes to labor unit contracts resulting from future negotiations is assumed.
- In forecast years with a projected baseline deficit or surplus, the next year's operating expenses are assumed to decrease or increase by the baseline deficit/surplus amount prior to applying the assumed annual growth projection, as the City is required by Charter to balance the budget each year.
- Ranges provided for operating expenditures: upper and lower ends of ranges increase slightly in later years of the forecast reflecting additional economic uncertainty.

Other Items Not Included in Base Budget or the Five-Year Forecast- The costs below are items and needs that do not currently have a funding source and therefore were not included in the base budget or the five-year forecast. These costs may need to be ultimately borne, in part or in whole, by the General Fund if no other funding source is identified by the time these costs are imminent.

- The Fire Department needs additional funding to replace apparatus equipment including pumpers, ambulances and ladders, which were originally purchased with voter approved General Obligation Bond funds. Of the 88 fire pumper trucks in the fleet, 45 will be due for replacement in the next five years. With limited funding available, a lease/purchase program was approved by Council to authorize the purchase of 15 fire pumper trucks at a cost of $1.2 million per year starting in FY 2014-15, and these costs have been included in the forecast. However, costs for the remaining pumper trucks, ladder trucks and other equipment were not included in the forecast.
- The Police Department has a fleet of six helicopters. Five of these helicopters are used to support daily patrol operations and one is used for mountain rescue. All of these helicopters are over ten years old and require a significant amount of annual maintenance to keep them operational and safe according to FAA standards. Given the age, maintenance and number of hours these helicopters are used annually it is likely that they will need to be replaced in the near future. The estimated cost of a replacement helicopter is between $4 - $5 million.
- In addition to the Fire and Police equipment noted above, over 1,900 other GF city vehicles will come due for replacement through FY 2020-21. These include vehicles used by all city departments including police patrol cars.
- The Police Department requires additional funding to implement a body camera program. A fully functional and operational body camera program will require approximately 2,000 cameras and between 40 and 50 additional staff in the Police and Law Departments. There is also a significant cost to maintain and store the video footage. Storage costs are expected to increase year over year as the amount of required storage increases exponentially. At this time, the estimated annual cost of a fully operational body camera program is estimated at between $5 and $12 million. The 2017-18 preliminary budget reflects $5M in GF set-aside to assist with this project.

- Other aging City infrastructure and critical equipment, technology needs, etc. have also been deferred due to funding shortages and the freezing of the 2006 General Obligation bond program. Additional maintenance and replacement costs are not built into the forecast. Examples of these projects include replacing fire life safety systems in City facilities and replacing the access and badging control system. The fire life safety system replacement project is currently estimated at approximately $5 million. The Access and Badging Control System used by Public Works to limit access to City facilities will reach end of life in 2018. At that time the badging system will be completely unsupported by the manufacturer and parts may become obsolete. Public Works staff are currently working to identify the scope, cost and timing of this project.
- The Fire Department needs to replace its aging Computer-Aided-Dispatch (CAD) System. Through mutual aid agreements, Fire currently provides dispatch services for 29 agencies including Phoenix. The billing solution currently used by the department is antiquated and over 23 years old. Staff in Fire, Information Technology and Finance are evaluating options to replace or upgrade the current system. At this time, the estimated cost to replace or upgrade this system is between $16 and $18 million, however these costs would be split almost 50-50 between Phoenix and the mutual aid partners.