



## **Public Safety Funds Balancing Plan**

The attached report updates the Mayor and City Council on the status of the Council adopted balancing plan for the public safety dedicated funds. The Council's adopted plan was successful in preventing sworn layoffs and balancing a deficit in the sales tax funds. Hiring is underway to reach the sustainable level of 3,125 police officers and 1,615 firefighters.

### **THIS ITEM IS FOR INFORMATION ONLY**

#### **Summary**

The City Council adopted balancing plan has been a success with all funds ending FY 2015-16 with positive balances. Hiring has resumed in both departments and is expected to continue as previously reported. However, the ability to sustain the hiring targets in both departments is dependent on sufficient resources to cover estimated expenditures. The significant rise in pension costs is a challenge and staff will continue to monitor the Public Safety Funds and update Council on any recommended changes as needed. Future risks include public safety pension costs. Since 2007-08, PSPRS costs have increased by 173%. Significant future pension increases could affect hiring plans. At the current time, however, the hiring targets in Police and Fire are recommended to proceed.

#### **Responsible Department**

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



# City of Phoenix

<b>RESEARCH REPORT BUDGET AND RESEARCH DEPARTMENT</b>		B.R. REPORT NUMBER <b>2017-07</b>
		DATE ISSUED February 21, 2017
TO: <b>ED ZUERCHER</b> CITY MANAGER	FOR THE BUDGET AND RESEARCH DIRECTOR BY: <b>JEFF BARTON</b> BUDGET AND RESEARCH DIRECTOR	
SUBJECT <b>PUBLIC SAFETY FUNDS BALANCING OVERVIEW</b>		
<p>This report updates the Mayor and City Council on the status of the Council adopted balancing plan for the public safety dedicated funds, which includes Proposition 1 and 301 (0.3% sales tax increment) and the utility tax from 2005 (<b>Attachment A</b>). Over the past six years, the Budget and Research Department has worked closely with the Police and Fire departments to implement the City Council-adopted Public Safety Specialty Fund Balancing Plan. As planned, all of the funds ended FY 2015-16 with positive ending balances and hiring resumed beginning in March 2015 and will continue in both departments given resources are sufficient to cover expenditures. In addition to the original hiring plan, and with funds freed up by the passing of the Transportation 2050 sales tax in August 2015, Police initiated a plan to hire an additional 125 officers last fiscal year and Fire will be hiring an additional 50 firefighters this fiscal year as a result of a recent SAFER grant.</p> <p><u>THE ISSUE</u></p> <p>In FY 2008-09 City sales tax collections fell significantly below projections due to the Great Recession, while public safety expenses grew creating a significant structural budget gap. The decline in revenues resulted in large deficits and required strategic planning to bring the funds in balance while minimizing the impact to public safety service delivery. At the direction of the City Council, a multi-year balancing plan was adopted in October 2010 to realign revenues with expenditures and bring the funds into balance with no layoffs to sworn personnel using an attrition based approach. That plan was successful and has achieved its first goal of obtaining positive fund balances. To ensure the funds remain balanced, staff monitors the funds closely and works collaboratively with Police and Fire to achieve staffing goals.</p> <p><u>OTHER INFORMATION</u></p> <p>This report is the seventh update to the City Council on the balancing plan since October 2010. The balancing plan was necessary because in 2010, without corrective action the Public Safety funds were projected to reach a (\$47) million balance by the end of FY 2010-11. Without the corrective action plan, that deficit would have grown by about (\$28) million per year and reach about (\$187) million by the end of FY 2015-16.</p> <p>In order to maintain the City’s high credit ratings and continue sound financial practices, it was critical that the deficit be addressed to avoid carrying such significant negative</p>		

fund balances. Solutions to close the deficit included cost reductions to the Police and Fire programs supported by these funds and immediately laying off approximately 450 filled sworn positions, or the addition of new revenue, either through increased taxes or through cuts to other General Fund services that would free up funds to address the negative balances. The City Council approved a plan to address the deficit using a measured, multi-year approach to balance these funds with no sworn layoffs.

The planned attrition temporarily reduced the number of filled sworn Police Officers and Firefighters over the past several years. As a result of the balancing plan, limited hiring began in March 2015 for Police, while Fire has completed five academies since the last report in February 2016 with another academy starting in March 2017. Federal SAFER grants have allowed significant hiring in Fire, and two COPS grants, one in 2013 and another in 2015, allowed some additional hiring in Police.

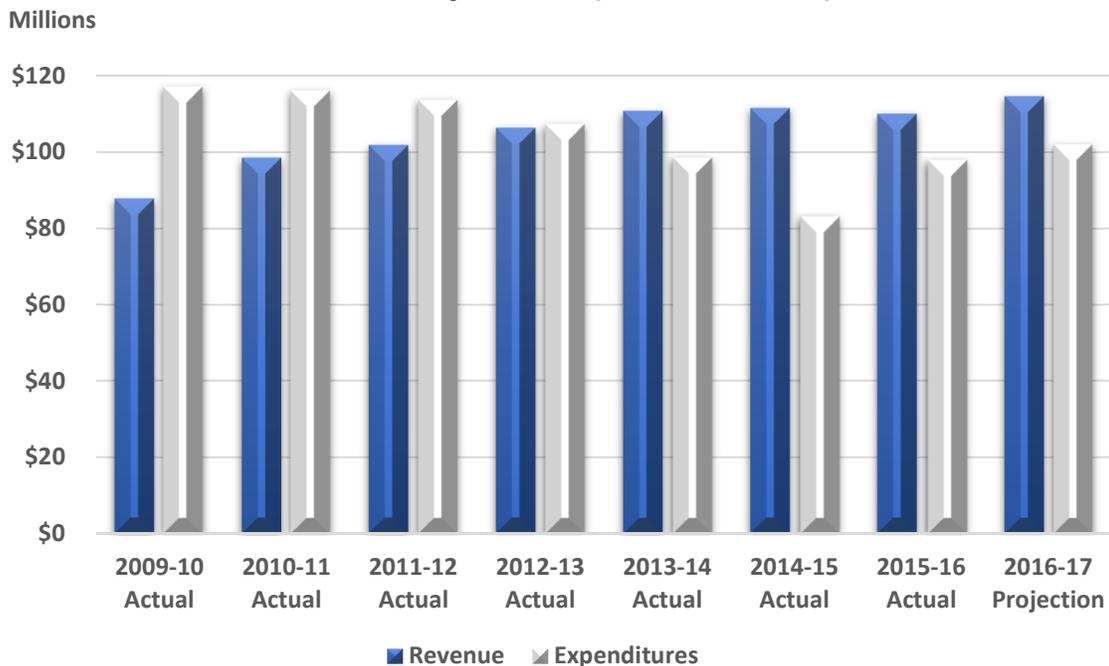
As the analysis that follows explains, hiring in both Police and Fire will be limited and controlled to ensure that the number of positions hired can be sustained without exceeding the ongoing available resources.

### Public Safety Funds Deficit

Several factors converged to cause the severe Public Safety funds deficits:

- Full hiring of the sworn positions authorized by the Public Safety funds.
- Negotiated Public Safety compensation increases in the 2008-2010 contracts that included market adjustments to pay of just under 12% (NOTE: the 2010-2012 contracts included compensation concessions of 3.2%, of which about one-half was restored in the 2012-2014 contract. The current contract includes employee concession restorations of 1.9% in FY 2016-17; 1.0% in FY 2017-18; and 1.3% in FY 2018-19.
- The estimated costs per sworn position have increased 40% since FY 2007-08.
- Increases to pension costs. From FY 2007-08 to the current year, sworn Public Safety pension costs increased about 173%. Public Safety pension costs are also expected to increase substantially each year for the next several years.
- Gap between revenue from sales tax and expenditures due to the recession, as illustrated in the graph on the following page.

## Public Safety Funds (Police & Fire)



The City Council took action to implement the Public Safety funds balancing plan with the following directives:

- No layoffs to sworn personnel
- Sworn hiring freeze (excluding grants or other funds)
- As vacancies occur in General Fund positions, Police and Fire personnel are moved from Specialty Funded positions into General Fund positions
- Establish a minimum 5% operating contingency

Also in FY 2010-11, the City Council authorized the transfer of \$15 million of one-time funding available in the General Fund to the Public Safety funds. This one-time funding helped avoid further delay to the hiring of Police Officers and Firefighters.

### Current Status, Challenges and Planned Hiring

The balancing plan currently provides for the continued hiring of new Police Officers and Firefighters and is based on the delicate balance between available resources and ongoing staffing costs. However, the rising cost of pensions is a challenge and places pressure on all funds.

The required employer contribution rate to the Public Safety Personnel Retirement System (PSPRS) has increased significantly due to actuarial changes, plan earnings, repealed pension reform measures from the Fields and Hall State Supreme Court decisions, and to some extent pension reform as illustrated in the chart on the following page.

	FY 2007-08	FY 2016-17	FY 2017-18
Police	19.0%	48.2%	67.3%
Fire	20.1%	45.4%	62.7%

The ability to continue hiring based on the balancing plan assumes future resources are adequate to offset the increases in pension costs. If resources are not sufficient to cover these increases, this will have an adverse effect on the number of Police Officers and Firefighters that can be sustained in the Specialty Funds.

The expected impact of hiring on Public Safety staffing is estimated in the charts on the following page. The charts show the peak sworn Police and Fire filled counts in FY 2008-09 as compared to the current filled count and the projected filled counts based on current projected resources and expenditures.

Scheduled hiring dates are approximate and based on several assumptions to variables that could change such as anticipated DROP retirement dates, natural attrition, recruitment levels, academy washout rates, etc. Additionally, any unanticipated decreases to dedicated sales taxes for these funds, and/or material increases to pension or other sworn Police Officer or Firefighter costs may necessitate the need to adjust the timing of the schedule and/or the number of sworn positions that can be sustained.

Police

On February 17, 2015, the Council Transportation and Infrastructure Subcommittee discussed the Citizens Committee on the Future of Phoenix Transportation’s comprehensive transportation plan and funding recommendations. The Subcommittee’s approved motion included a recommendation to reallocate \$16 million in annual General Fund support to Public Transit for the hiring of additional Police Officers, if the Council referred the recommended tax to voters and voters approved the ballot measure. In August 2015, voters approved the Transportation 2050 sales tax. As a result, City Council directed staff to reallocate the \$16 million in General Funds no longer required by Public Transit to be used for the hiring of 125 additional Police Officers.

It is important to note that hiring in Police actually occurred before the Police portion of the specialty funds came into full balance. For this reason, planned hiring is deliberate to ensure that each fund can fully sustain all of the filled positions in each of the specialty funds. The Police hiring plan included the hiring of 125 officers in FY 2015-16 based on the previously discussed Council action related to the Transportation 2050 sales tax. Based on current and future revenue projections, it is anticipated that Police can support and sustain a total filled sworn count of approximately 3,125 filled sworn positions.

The department is also actively pursuing opportunities to civilianize work currently performed by police officers. The objective is to maximize the number of officers serving in patrol and performing other critical first responder duties. To accomplish this goal, additional civilian positions would need to be funded in the budget. This would require additional resources as the officer positions will not be eliminated but rather redeployed to perform more critical first responder duties throughout the police department.

<b>POLICE</b>			
<b>Fiscal Year</b>	<b>Filled Sworn*</b>	<b>Pension Rate</b>	<b>Avg. Pension Cost Per Filled Position</b>
2008-09 Actual	3,375	25.02%	\$13,000
Current Actual	2,858	48.17%	\$40,000
2016-17 Projection*	2,800-2,900	48.17%	\$40,000
2017-18 Projection*	2,900-3,125	67.30%	\$51,000
Future FY's Projection*	3,100-3,125	68.07%	\$54,000 - \$58,000

\*Reflects projected range (+/-25) for the fiscal year-end filled counts for Police net of hiring, known DROP retirements, and assumed attrition.

**Attachment B** provides a more detailed Police hiring schedule, which is subject to change based on what actually occurs with several assumed variables.

## Fire

As discussed earlier in this report, Fire has been awarded five SAFER grants that have allowed the advance hiring of 148 Firefighter positions since October 2010. These 148 Firefighter positions represent all of the positions that would have been hired when the Fire portion of the Public Safety Funds reached the required balance. The balancing plan has always assumed these federal grant-funded positions would be absorbed back into ongoing City funding when the grants end. The financial impact of absorbing these positions back into the Fire portion of the Public Safety Funds is approximately \$22,000,000. The current SAFER grant will expire in February 2019.

As a result of the SAFER grants, Fire has accumulated a one-time fund balance that can be used to accelerate the hiring of new Firefighters to offset known DROP retirements. It must be emphasized that this funding is a one-time resource and cannot be used to sustain ongoing position costs. The planned new hires and expected retirements are included in the chart below. As a result of the recent SAFER grant the hiring target was increased from 1,615 to 1,643 and reflects the filled position count of 1,593 at the time of the grant application and the addition of 50 SAFER positions. Once the grant expires in 2019 the additional 50 SAFER positions must be absorbed back into either the General Fund or the Specialty Funds. The staffing target will be decreased back to 1,615, which is the anticipated sustainable sworn filled position count based on current revenue and expenditure projections.

<b>FIRE</b>			
<b>Fiscal Year</b>	<b>Filled Sworn*</b>	<b>Pension Rate</b>	<b>Avg. Pension Cost Per Filled Position</b>
2008-09 Actual	1,671	25.70%	\$12,000
Current Actual	1,599	45.44%	\$38,000
2016-17 Projection*	1,595-1,635	45.44%	\$38,000
2017-18 Projection*	1,630-1,645	62.69%	\$53,000
Future FY's Projection*	1,600-1,615	63.76%	\$56,000 - \$61,000

\*Reflects projected range (+/-15) for the fiscal year-end filled counts for Fire net of hiring, known DROP retirements, and assumed attrition. Reflects the addition of 50 SAFER grant positions and a decrease in the hiring target back to 1,615 upon expiration of the grant in 2019.

**Attachment C** provides a more detailed Firefighter hiring schedule, which is subject to change based on what actually occurs with several assumed variables.

## CONCLUSION

The City Council-adopted balancing plan has been a success and there have been no layoffs of sworn personnel. Hiring of new Police Officers resumed in March 2015 and hiring of new Firefighters continues as previously reported. However, without an infusion of new revenue to offset increases in PSPRS pension costs, hiring of new Police Officers and Firefighters is anticipated to be slow and will require deliberate analysis. Future hiring and staffing levels will be monitored to ensure sustainability and that on-going expenses do not exceed revenue in future years. Budget and Research staff will continue to assess the Public Safety funds and bring any required changes back for approval by the City Council, as needed.

## RECOMMENDATION

This report is for information and discussion.

## ATTACHMENTS

Attachment A- Public Safety Dedicated Funds

Attachment B- Planned Police Officer Hiring Schedule

Attachment C- Planned Firefighter Hiring Schedule

## **Attachment A- Public Safety Dedicated Funds**

The Police and Fire departments have three specialty sales tax funds that were added to hire additional Police Officers, Firefighters and public safety support personnel. With the passing of the Transportation 2050 sales tax in August 2015, Police has additional resources to fund 125 Police Officer positions. The recently awarded SAFER grant in Fire will allow the pre-hiring of 50 sworn positions to arrive at a target of 1,643. Authorized positions for all three Fire specialty funds were moved to a newly created SAFER fund.

**Proposition 301 (Neighborhood Protection)** – This fund accounts for a 0.1% increment of the City's sales tax rate and was approved by voters in 1993. The funds were put in place to be used for the expansion of Police, Fire, and Block Watch programs allocated as follows: Police 70%; Fire 25%; and Block Watch 5%.

The ballot language established a minimum of 200 sworn Police positions and 70 sworn Fire positions in this fund. Through the years, additional positions were added to these funds in both Police and Fire. There are currently 211 authorized sworn Police positions and 77 authorized sworn Fire positions in this fund.

**Public Safety Enhancement Fund (PSEF)** – This fund accounts for a 2.0% increment of the utilities sales tax implemented in 2005 through franchise agreements. The Police PSEF is dedicated to Police and the Office of Homeland Security & Emergency Management (OHS&EM) needs and receives 62% of the revenues generated. The Fire PSEF is dedicated to Fire needs and receives 38% of the revenues generated.

The ballot language for this fund did not establish a minimum number of positions in Police, OHS&EM or Fire. There are currently 108 sworn and 77 civilian authorized positions in the Police and OHS&EM portion of this fund, and 87 sworn and 13 civilian authorized positions in the Fire portion of this fund.

**Proposition 1 (Public Safety Expansion)** – This fund accounts for a 0.2% increment of the City's sales tax rate, and was approved by Phoenix voters in 2007. The ballot language established a minimum 400 sworn and 100 civilian staff in Police and 100 sworn positions in Fire in this fund. Police receives 80% of the revenue generated and Fire receives 20%.

There are currently 400 sworn and 116 civilian authorized positions in the Police portion of this fund. There are 100 sworn and 1 civilian authorized positions in the Fire portion of this fund. Authorized civilians in these funds include positions that assist in responding to emergencies, enforcing laws, solving crimes, maintaining specialized equipment, etc.

## Attachment B- Planned Police Officer Hiring Schedule

Month	DROP Retirements	Revised Hiring Plan	Projected Sworn Filled Count <sup>1</sup>
Feb-17 <sup>2</sup>	(2)	10	2,858
Mar-17	(1)	10	2,867
Apr-17	(4)	25	2,888
May-17	(3)	10	2,895
Jun-17	(4)	15	2,906
Jul-17	(3)	25	2,928
Aug-17	(1)	25	2,952
Sep-17	(3)	25	2,974
Oct-17	(2)	25	2,997
Nov-17	(2)	25	3,020
Dec-17	(10)	24	3,034
Jan-18	(1)	20	3,053
Feb-18	(1)	15	3,067
Mar-18	(4)	20	3,083
Apr-18	(0)	15	3,098
May-18	(2)	25	3,121
Jun-18	(11)	15	3,125
Jul-18	(2)	10	3,133
Aug-18	(1)	0	3,132
Sep-18	(5)	0	3,127
Oct-18	(5)	25	3,147
Nov-18	(4)	0	3,143
Dec-18	(13)	25	3,155
Jan-19	(2)	0	3,153
Feb-19	(3)	0	3,150
Mar-19	(6)	0	3,144
Apr-19	(4)	0	3,140
May-19	(12)	10	3,138
Jun-19	(28)	15	3,125
Jul-19	(4)	0	3,121
Aug-19	(1)	15	3,135
Sep-19	(2)	0	3,133
Oct-19	(13)	0	3,120
Nov-19	(8)	25	3,137
Dec-19	(12)	0	3,125
Jan-20	(5)	15	3,135
Feb-20	(6)	0	3,129
Mar-20	(5)	0	3,124
Apr-20	(5)	15	3,134
May-20	(9)	0	3,125
Jun-20	(20)	20	3,125

<sup>1</sup> "Projected Filled Count" is based on each month's DROP retirements and the Revised Hiring Plan. The counts are based on current revenue and expenditure projections; any material changes to these variables could impact the timing and sustainability of this plan. The variables include anticipated vs actual DROP retirements, pension rates, recruitment levels, academy washout rates, natural attrition, etc.

<sup>2</sup> Current filled count effective February 1, 2017. Filled count as of June 30, 2016, was 2,804.

### Attachment C- Planned Firefighter Hiring Schedule

Month	DROP Retirements	Revised Hiring Plan	Projected Sworn Filled Count <sup>1</sup>
Feb-17 <sup>2</sup>	(2)	0	1,599
Mar-17	(1)	25	1,623
Apr-17	(1)	0	1,622
May-17	(3)	0	1,619
Jun-17	(11)	25	1,633
Jul-17	(4)	0	1,629
Aug-17	(1)	0	1,628
Sep-17	(3)	0	1,625
Oct-17	0	18	1,643
Nov-17	(1)	0	1,642
Dec-17	(4)	0	1,638
Jan-18	0	0	1,638
Feb-18	0	0	1,638
Mar-18	(1)	0	1,637
Apr-18	(2)	0	1,635
May-18	(1)	0	1,634
Jun-18	(12)	21	1,643
Jul-18	(2)	0	1,641
Aug-18	(4)	0	1,637
Sep-18	(5)	0	1,632
Oct-18	(2)	15	1,645
Nov-18	0	0	1,645
Dec-18	(4)	0	1,641
Jan-19	0	0	1,641
Feb-19	(4)	0	1,637
Mar-19	(1)	0	1,636
Apr-19	0	0	1,636
May-19	(2)	0	1,634
Jun-19	(31)	12	1,615
Jul-19	0	0	1,615
Aug-19	(3)	0	1,612
Sep-19	(3)	0	1,609
Oct-19	(25)	26	1,610
Nov-19	(5)	0	1,605
Dec-19	(6)	0	1,599
Jan-20	(1)	0	1,598
Feb-20	(5)	15	1,608
Mar-20	(2)	0	1,606
Apr-20	(4)	0	1,602
May-20	(2)	0	1,600
Jun-20	(8)	23	1,615

<sup>1</sup> "Projected Filled Count" is based on each month's DROP retirements and the Revised Hiring Plan. The counts are based on current revenue and expenditure projections; any material changes to these variables could impact the timing and sustainability of this plan. The variables include anticipated vs actual DROP retirements, pension rates, recruitment levels, academy washout rates, natural attrition, etc. The projected filled sworn count of 1,643 includes positions funded from the recently awarded SAFER grant. Upon expiration of the grant in 2019, these positions must be absorbed back into city funds and the sustainable filled sworn position count will be lowered to 1,615.

<sup>2</sup> Current filled count effective February 1, 2017. Filled count as of June 30, 2016, was 1,596.