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## CITY COUNCIL REPORT

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### POLICY AGENDA

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TO: Ed Zuercher  
City Manager

AGENDA DATE: February 23, 2016

FROM: Jeff Barton  
Budget and Research Director

ITEM: 2

SUBJECT: PUBLIC SAFETY FUNDS BALANCING OVERVIEW

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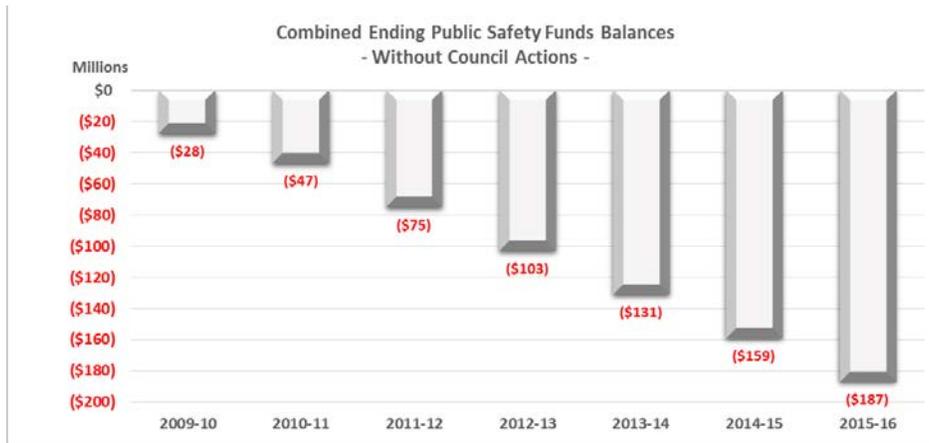
This report updates the Mayor and City Council on the status of the Council adopted balancing plan for the public safety dedicated funds, which includes Proposition 1 and 301 (0.3% sales tax increment) and the utility tax from 2005 (**Attachment A**). Over the past five years, the Budget and Research 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 will have positive balances at the end of Fiscal Year (FY) 2015-16 and hiring has resumed in both departments as of March 2015 and will continue to ensure that staffing targets are achieved. 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 has initiated a plan to hire an additional 125 officers this fiscal year.

#### THE ISSUE

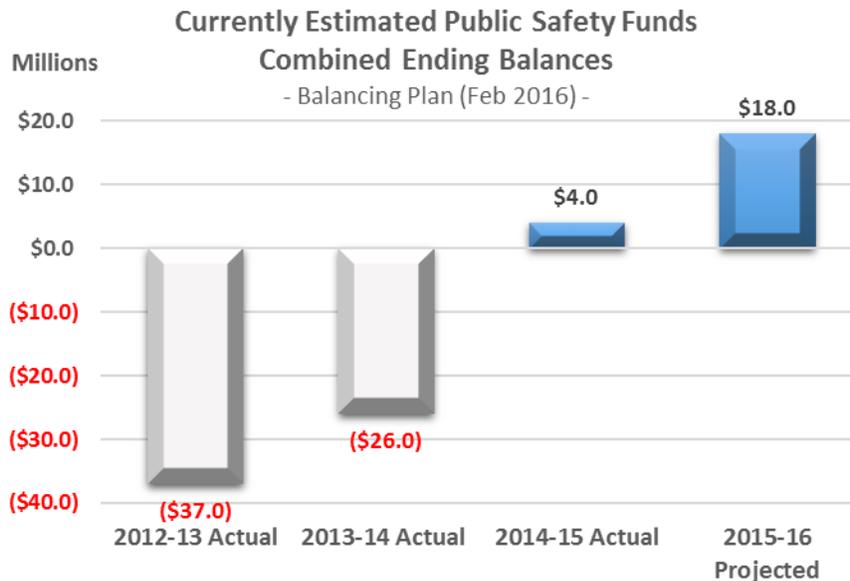
Due to the Great Recession, City sales tax collections fell significantly below projections beginning in FY 2008-09, while public safety expenses grew. As a result, the City accumulated a large deficit between revenue and expenses for the dedicated funds. The deficit had to be balanced. In October 2010, the City Council adopted a multi-year plan to balance the funds with no layoffs to sworn personnel. The plan has achieved its first goal of obtaining positive fund balances. Currently, the Police and Fire departments are working steadily on hiring activities to achieve the desired sworn staffing goals.

#### OTHER INFORMATION

This report is the sixth 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.



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 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.



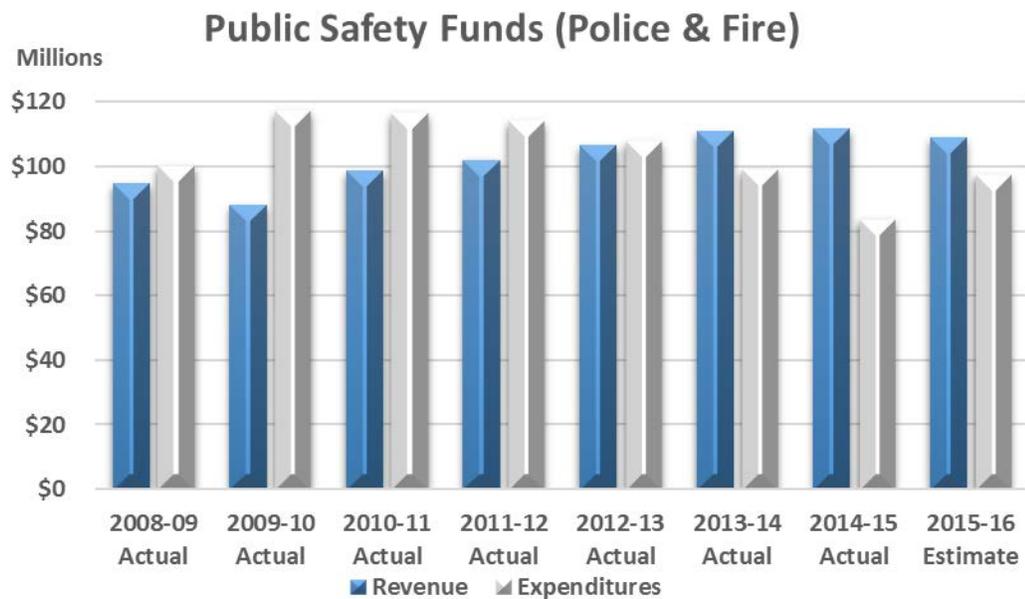
The planned attrition has temporarily reduced the number of filled sworn Police Officers and Firefighters over the past five years. Limited hiring occurred in March 2015 for Police, while Fire has completed four academies since the last report in February 2015 with another academy just starting in January 2016. 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 contracts reflect compensation concessions totaling 2.5%).
- The estimated costs per sworn position have increased 31% since FY 2007-08.
- Increases to pension costs. From FY 2007-08 to the current year, sworn Public Safety pension costs increased about 120%. Public Safety pension costs are also expected to increase substantially each year for the next several years.
- Health care costs also increased. Since FY 2007-08 to the current year, costs of health insurance have increased about 9%.
- Severe revenue decline due to the impact of the recession on sales taxes providing revenue to these funds, as shown in the graph below:



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 and Planned Hiring

The balancing plan remains on track and the hiring of new Police Officers and Firefighters is expected to continue based on the delicate balance between available resources and ongoing staffing costs.

The expected impact of hiring on Public Safety staffing is estimated in the charts below. 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 once sustainability occurs based on projected revenue.

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 now also reflects 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.

<b>POLICE</b>	
<b>Fiscal Year</b>	<b>Filled Sworn</b>
2008-09 Actual	3,375
Current Actual	2,771
2015-16 Projection*	2,890-2,915
2016-17 Projection*	2,975-3,000
2017-18 Projection*	3,100-3,125
Future FY's Projection*	3,100-3,125

\*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 four SAFER grants that have allowed the advance hiring of 98 Firefighter positions since October 2010. These 98 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 \$11,000,000. Two of the SAFER grants have already expired and the third is expected to expire this month.

As a result of the SAFER grants, Fire has accumulated a one-time fund balance that can be used to partially fund replacement equipment and 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 costs. The planned new hires and expected retirements are included in the chart below. Based on current and future revenue projections, it is anticipated that Fire can support and sustain a total filled sworn count of approximately 1,615 filled sworn positions.

<b>FIRE</b>	
<b>FISCAL YEAR</b>	<b>Filled Sworn*</b>
2008-09 Actual	1,671
Current Actual	1,621
2015-16 Projection*	1,600-1,615
Future FY's Projection*	1,600-1,615

\*Reflects projected range (+/-15) for the fiscal year-end filled counts for Fire net of hiring, known DROP retirements, and assumed attrition.

**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 Public Safety Personal Retirement System (PSPRS), 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 currently fund 125 Police Officer positions.

**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 65 authorized sworn Fire positions in this fund. In addition, there are 42 authorized sworn Fire positions that belong to this fund that are currently reflected in a federal SAFER grant. As this final grant expires this month, these 42 positions will be returned to this fund and the true authorized count will be 107 sworn Fire positions.

**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 83 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. In addition, there are 25 authorized Sworn Police Officer positions that belong to this fund that are currently reflected in Federal COPS Grants. As these grants expire, these 25 positions will be returned to 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.

Since the inception of Prop 1 in 2007, the City has hired a total of 469 new Police Officers through fiscal year 2010-11. This increased the Police force in accordance with the ballot requirement of 400 new sworn positions. As had been expected, a significant portion of those hires did not fulfill all of the requirements involved in transitioning from a recruit to a Police Officer. As outlined in the attrition based balancing plan, this fund has accrued a substantial amount of vacancies, as the current number of filled sworn Police positions in this fund is 140.

## Attachment B- Planned Police Officer Hiring Schedule

Month	DROP Retirements	Revised Hiring Plan <sup>1</sup>	Projected Sworn Filled Count <sup>2</sup>
Feb-16 <sup>3</sup>	(3)	15	2,771
Mar-16	(10)	15	2,776
Apr-16 <sup>4</sup>	(7)	50	2,819
May-16 <sup>4</sup>	(10)	50	2,859
Jun-16 <sup>4</sup>	(10)	41	2,890
Jul-16	(3)	25	2,912
Aug-16	(5)	10	2,917
Sep-16	(3)	20	2,934
Oct-16	(2)	25	2,957
Nov-16	(8)	0	2,949
Dec-16	(12)	0	2,937
Jan-17	(4)	25	2,958
Feb-17	(2)	0	2,956
Mar-17	(1)	0	2,955
Apr-17	(4)	25	2,976
May-17	(4)	0	2,972
Jun-17	(4)	15	2,983
Jul-17	(3)	25	3,005
Aug-17	(1)	0	3,004
Sep-17	(4)	25	3,025
Oct-17	(3)	15	3,037
Nov-17	(2)	25	3,060
Dec-17	(10)	0	3,050
Jan-18	(1)	25	3,074
Feb-18	(1)	0	3,073
Mar-18	(5)	25	3,093
Apr-18	0	0	3,093
May-18	(3)	25	3,115
Jun-18	(13)	23	3,125
Jul-18	(2)	0	3,123
Aug-18	(2)	0	3,121
Sep-18	(5)	15	3,131
Oct-18	(5)	0	3,126
Nov-18	(6)	0	3,120
Dec-18	(14)	0	3,106
Jan-19	(3)	20	3,123
Feb-19	(3)	0	3,120
Mar-19	(6)	20	3,134
Apr-19	(4)	0	3,130
May-19	(13)	13	3,130
Jun-19	(30)	25	3,125

<sup>1</sup> Reflects the "Revised Hiring Plan" which includes the addition of 125 Police officers positions from the Transportation 2050 funding.

<sup>2</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>3</sup> Current filled count effective February 1, 2016. Filled count as of June 30, 2015 was 2,740.

<sup>4</sup> As of 2/1/2016, 76 open recruit/lateral officer positions are available to Police for hire. This is a result of recruitment challenges and academy washout rates during the past year. The "Projected Filled Count" assumes Police is able to hold large academy classes at the end of FY2015-16 to reach recruitment targets.

## Attachment C- Planned Firefighter Hiring Schedule

Month	DROP Retirements*	Revised Hiring Plan*	Projected Sworn Filled Count <sup>1</sup>
Feb-16 <sup>2</sup>	(7)	0	1,621
Mar-16	(9)	0	1,612
Apr-16	(6)	25	1,631
May-16	(4)	0	1,627
Jun-16	(15)	0	1,612
Jul-16	(1)	0	1,611
Aug-16	(1)	0	1,610
Sep-16	(1)	25	1,634
Oct-16	(2)	0	1,632
Nov-16	(1)	0	1,631
Dec-16	(8)	0	1,623
Jan-17	(1)	0	1,622
Feb-17	(2)	11	1,631
Mar-17	(1)	0	1,630
Apr-17	(1)	0	1,629
May-17	(3)	0	1,626
Jun-17	(11)	0	1,615
Jul-17	(4)	0	1,611
Aug-17	(2)	0	1,609
Sep-17	(3)	0	1,606
Oct-17	0	16	1,622
Nov-17	(2)	0	1,620
Dec-17	(4)	0	1,616
Jan-18	0	0	1,616
Feb-18	0	0	1,616
Mar-18	(1)	0	1,615
Apr-18	(2)	15	1,628
May-18	(1)	0	1,627
Jun-18	(12)	0	1,615
Jul-18	(2)	0	1,613
Aug-18	(4)	0	1,609
Sep-18	(5)	0	1,604
Oct-18	(2)	15	1,617
Nov-18	0	0	1,617
Dec-18	(4)	0	1,613
Jan-19	0	0	1,613
Feb-19	(4)	15	1,624
Mar-19	(1)	0	1,623
Apr-19	0	0	1,623
May-19	(2)	0	1,621
Jun-19	(31)	25	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.

<sup>2</sup> Current filled count effective February 1, 2016. Filled count as of June 30, 2015 was 1,549.

\*Revised as of 2/23/16 2:00pm