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## 2017-18 Year-End General Fund Budget Results and 2019-20 Budget Calendar

This report provides a review of the 2017-18 General Fund (GF) budget results. Resources exceeded estimates by \$7.4 million or 0.6 percent and spending came in lower by \$12.1 million or 1.0 percent. As a result, the GF ending balance was approximately \$19.5 million higher than anticipated. As a caution, the additional \$19.5 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 and **Attachment B** provides a comparison of GF actuals to the revised estimate, department by department.

This report requests Council approval to transfer \$10 million of the excess fund balance into the Public Safety Personnel Retirement System (PSPRS) Reserve Fund and set aside the remaining \$9.5 million until the budget status for FY 2019-20 is known. This report also requests adoption of the 2019-20 budget calendar.

### **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 five years. GF Revenues for the 2017-18 fiscal year were \$8.3 million or 0.7 percent more than the revised estimate. The variance is mostly attributable to city and state sales taxes, and insurance proceeds for the Burton Barr Central Library.

Over the coming months, staff will begin evaluating the current year revenue forecast, as well as developing the forecast for next year. While our percentage of state-shared revenue for the current year dropped by 0.2% (about \$3 million) from what was forecast, staff believe this will be more than offset by growth in city and state sales tax and other revenue categories. Additional insight will be gained as current year revenue trends begin to emerge.

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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 1.0 percent below forecast. Through the end of 2017-18, more than \$134.3 million in efficiencies have been identified across the organization.

As a result of our improved revenue accuracy and our continued commitment to control expenditures, we begin FY 2018-19 in a very strong position. This strong position will be extremely beneficial as we look ahead to developing a balanced budget for FY 2019-20.

## **2017-18 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 2017-18 were estimated to end the fiscal year at \$1,304.5 million. Actual total resources were \$1,311.9 million; a positive difference of \$7.4 million or 0.6%. Total 2017-18 GF revenues (collections) ended the fiscal year at \$1,172.7 million, compared to the estimate of \$1,164.4 million for a variance of \$8.3 million or 0.7%. The variance is mostly attributable to city and state sales taxes, and insurance proceeds for the Burton Barr Central Library.

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 University of Arizona, 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.

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## **Expenditures**

Total expenditures were estimated at \$1,189.4 million, and actual expenditures were \$1,177.3 million, or \$12.1 million (1.0 percent) less than estimated. This variance is comprised of savings in department operating expenditures of \$11.8 million ([Attachment B](#)) and GF capital savings of approximately \$300,000. 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 299 non-sworn GF vacancies. At the end of the year the number of vacant GF positions increased to approximately 351. 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 October. 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.

## **2017-18 General Fund Ending Balance**

The FY 2017-18 GF ending fund balance was estimated to be \$115.1 million. However, as a result of higher than anticipated resources and the reduced expenditures discussed earlier in the report, the actual ending balance was \$134.6 million. This means that FY 2018-19 begins the year with \$19.5 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.

During last year's budget process, significant decisions were made by City Council to improve our financial position in terms of PSPRS. In January, City Council agreed to preserve the City's ability to provide services by adopting a 25-year amortization period and establishing a PSPRS Reserve Fund using one-time savings of \$25 million. The Pension Reserve Fund may be used in the future to supplement the actuarially determined annual contributions if there are significant PSPRS increases or a downturn in the economy. This policy positions the City to be more resilient during a recession with the goal of maintaining continuous services for public safety.

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At this point, staff recommends that \$10 million of the excess fund balance be transferred into the PSPRS Pension Reserve Fund and \$9.5 million be set aside until the budget status for FY 2019-20 is known. As we move forward in the formal budget process, the status of FY 2019-20 will be updated periodically. The next planned report is January 2019. Once the actual status of FY 2019-20 is determined in February a decision can be made regarding the best use of the remaining \$9.5 million in GF resources.

### **Looking Ahead**

As we move forward with the development of the 2019-20 operating budget, we are also focused on several challenges. These challenges include:

- Continued increases in pension costs, particularly in PSPRS;
- Increased employee costs resulting from labor negotiations;
- Deferred maintenance and aging infrastructure such as vehicles, equipment, and City Hall and other facilities;
- Demand for additional or expanded GF services;
- Protecting against any economic downturn; and
- Potential reduction in state and federal funding or new unfunded state or federal mandates.

The 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:

- Modified-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 or increased demand for expanded services, 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 2019 GF Early Status Report.

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### **2019-20 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 and all legally required advertising. Staff requests City Council approval of the 2019-20 Community Budget Process Calendar reflected in [Attachment C](#) to this report.

### **Responsible Department**

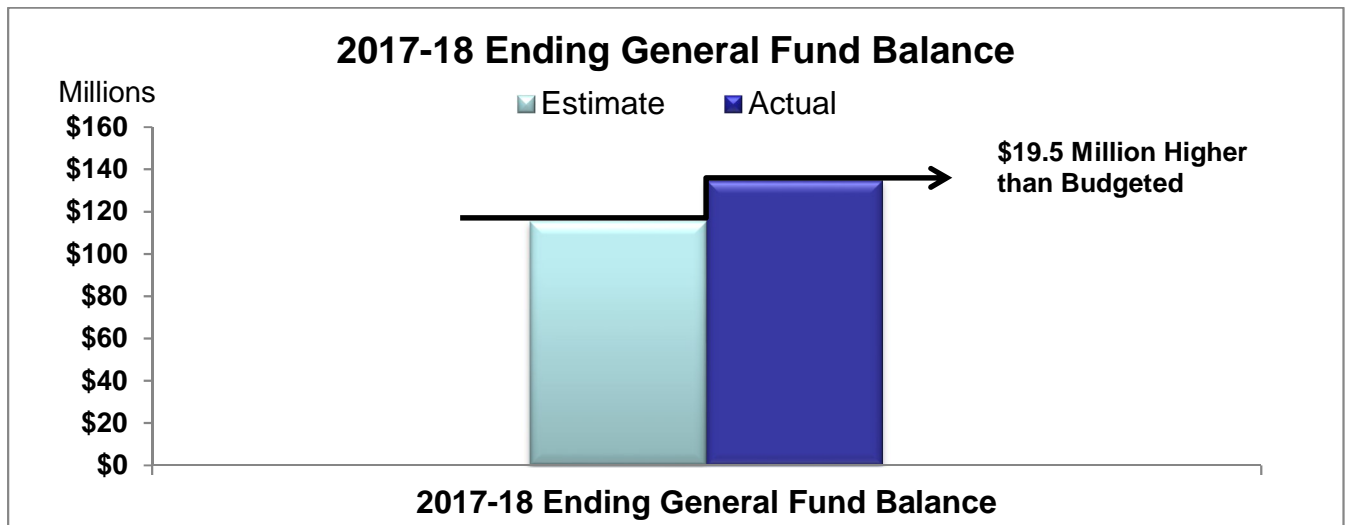
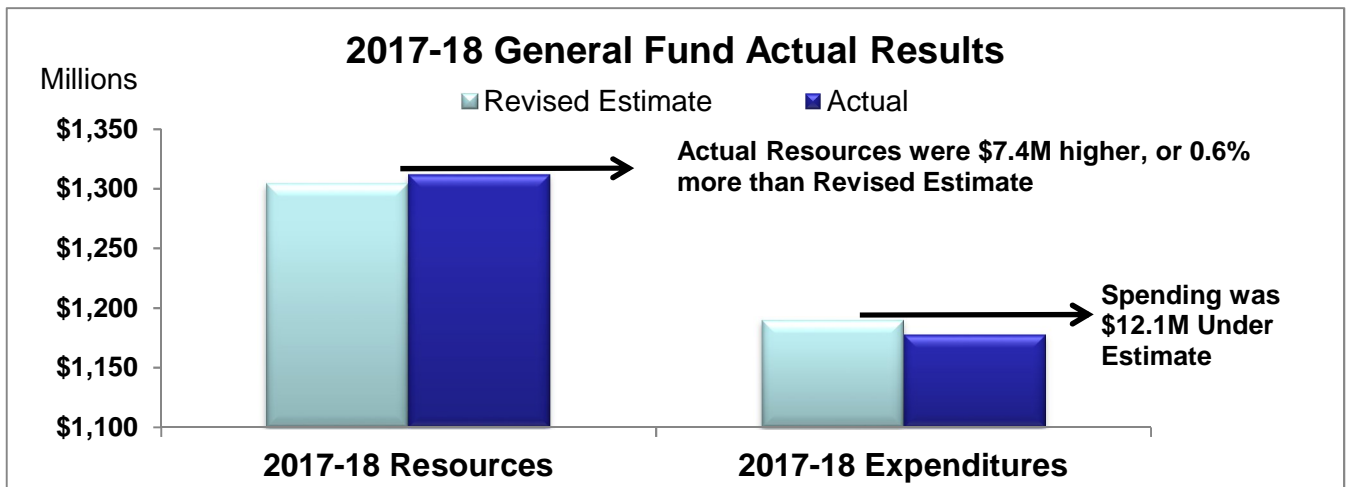
This item is submitted by City Manager Ed Zuercher and the Budget and Research Department.

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# ATTACHMENT A

For 2017-18, City department's actual GF spending was \$12.1 million under estimate. Total GF resources were \$7.4 million more than estimates. As a result, the year-end fund balance was \$19.5 million more than estimated.

	Actual	Estimate	Actual vs Estimate
<b>GF Resources</b>	1,311.9	1,304.5	0.6%
<b>GF Collections</b>	1,172.7	1,164.4	0.7%
<b>GF Expenditures</b>	1,177.3	1,189.4	-1.0%
<b>GF Fund Balance</b>	134.6	115.1	16.9%



**ATTACHMENT B**  
**2017-18 COMPARISON OF GENERAL FUND OPERATING EXPENDITURES**  
**REVISED ESTIMATE TO PRE-AUDIT ACTUALS**  
(In Thousands of Dollars)

Program	Estimate	Pre-Audit Actuals	Variance		
			Amount	Percentage	
<b>General Government</b>					
Mayor	\$ 1,962	\$ 1,560	\$ (402)	-20.5%	
City Council	4,216	3,429	(787)	-18.7%	
City Manager	2,327	2,227	(100)	-4.3%	
Government Relations	1,042	1,044	2	0.2%	
Communications Office	2,103	2,063	(40)	-1.9%	
City Auditor	2,726	2,575	(151)	-5.5%	
Equal Opportunity	2,325	2,329	4	0.2%	
Human Resources	10,298	10,202	(96)	-0.9%	
Phoenix Employment Relations Board	97	74	(23)	-23.7%	
Regional Wireless Cooperative	-	-	-	-	
Retirement Systems	-	-	-	-	
Law	5,471	4,983	(488)	-8.9%	
Information Technology	36,591	35,635	(956)	-2.6%	
City Clerk and Elections	4,671	4,574	(97)	-2.1%	
Finance	23,092	21,712	(1,380)	-6.0%	
Budget and Research	3,029	2,957	(72)	-2.4%	
<b>Total General Government</b>	<b>\$ 99,950</b>	<b>\$ 95,364</b>	<b>\$ (4,586)</b>	<b>-4.6%</b>	
<b>Public Safety</b>					
Police	\$ 527,768	\$ 527,742	\$ (26)	0.0%	
Fire	290,355	290,119	(236)	-0.1%	
Emergency Management	80	99	19	23.8%	
<b>Total Public Safety</b>	<b>\$ 818,203</b>	<b>\$ 817,960</b>	<b>\$ (243)</b>	<b>0.0%</b>	
<b>Criminal Justice</b>					
Municipal Court	\$ 28,496	\$ 27,298	\$ (1,198)	-4.2%	
City Prosecutor	14,720	14,609	(111)	-0.8%	
Public Defender	4,894	4,934	40	0.8%	
<b>Total Criminal Justice</b>	<b>\$ 48,110</b>	<b>\$ 46,841</b>	<b>\$ (1,269)</b>	<b>-2.6%</b>	
<b>Transportation</b>					
Street Transportation	\$ 17,063	\$ 14,743	\$ (2,320)	-13.6%	
Aviation	-	-	-	-	
Public Transit	1,623	1,623	-	0.0%	
<b>Total Transportation</b>	<b>\$ 18,686</b>	<b>\$ 16,366</b>	<b>\$ (2,320)</b>	<b>-12.4%</b>	

**ATTACHMENT B**  
**2017-18 COMPARISON OF GENERAL FUND OPERATING EXPENDITURES**  
**REVISED ESTIMATE TO PRE-AUDIT ACTUALS**  
(In Thousands of Dollars)

Program	Estimate	Pre-Audit Actuals	Variance		
			Amount	Percentage	
<b>Community Development</b>					
Planning and Development Services	\$ 3,950	\$ 3,533	\$ (417)	-10.6%	
Housing	54	49	(5)	0.0%	
Community and Economic Development	5,086	4,735	(351)	-6.9%	
Neighborhood Services	13,122	11,927	(1,195)	-9.1%	
PCDIC	-	-	-	-	
<b>Total Community Development</b>	<b>\$ 22,212</b>	<b>\$ 20,244</b>	<b>\$ (1,968)</b>	<b>-8.9%</b>	
<b>Community Enrichment</b>					
Parks and Recreation	\$ 91,979	\$ 91,904	\$ (75)	-0.1%	
Library	40,139	40,155	16	0.0%	
Phoenix Convention Center	2,000	2,055	55	2.8%	
Human Services	17,902	17,749	(153)	-0.9%	
Office of Arts and Culture	4,821	4,462	(359)	-7.4%	
<b>Total Community Enrichment</b>	<b>\$ 156,841</b>	<b>\$ 156,325</b>	<b>\$ (516)</b>	<b>-0.3%</b>	
<b>Environmental Services</b>					
Water	\$ -	\$ -	\$ -	-	
Solid Waste Management	-	-	-	-	
Public Works	13,013	12,188	(825)	-6.3%	
Environmental Programs	532	436	(96)	-18.0%	
Office of Sustainability	426	433	7	1.6%	
<b>Total Environmental Services</b>	<b>\$ 13,971</b>	<b>\$ 13,057</b>	<b>\$ (914)</b>	<b>-6.5%</b>	
<b>Contingencies</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>-</b>	
<b>GRAND TOTAL</b>	<b>\$ 1,177,973</b>	<b>\$ 1,166,157</b>	<b>\$ (11,816)</b>	<b>-1.0%</b>	



# ATTACHMENT C

## 2019-20 BUDGET ADOPTION CALENDAR

<b>Date</b>	<b>Budget Items</b>
February 5, 2019	2019-20 Inventory of Programs (Zero-Based Budget)
February 26, 2019	Preliminary 2019-20 Budget Status and 5-Year General Fund Forecast
March 19, 2019	City Manager's Trial Budget and Preliminary CIP
April 1, 2019	Publish Budget Tabloid
April 2019	Community Budget Hearings
May 7, 2019	City Manager's Proposed Budget
May 21, 2019	Council Budget Decision
June 5, 2019	2019-20 Tentative Budget Ordinance Adoption
June 19, 2019	2019-20 Funding Plan and Final Budget Ordinance Adoption
July 3, 2019	2019-20 Property Tax Levy Ordinance Adoption