



2018-19 City Manager's Trial Budget

This report transmits a balanced Trial Budget for fiscal year (FY) 2018-19.

THIS ITEM IS FOR INFORMATION AND DISCUSSION.

Throughout the year, the City Council and City Management made careful preparations for the 2018-19 budget process. In September, a list of early administrative efficiencies was approved that resulted in ongoing savings of approximately \$6 million per year. City Council also adopted a 25-year amortization period for the Public Safety Personnel Retirement System (PSPRS). Extending the amortization period generated approximately \$25 million in current year savings. This savings was used to establish the Public Safety Pension Stabilization Fund. As a result of these actions and staff's commitment to maintaining tight controls on expenditures, the General Fund (GF) portion of the 2018-19 Trial Budget includes a small surplus of approximately \$2.9 million in ongoing savings that can be used to address critical needs, requests from the community for new or expanded services, and/or be set aside to address future budget needs or revenue shortfalls. As presented, the Trial Budget includes several recommendations that continue to move the City forward in addressing critical community priorities. These priorities include the following:

- Public Safety
- Homelessness
- Neighborhoods
- Trees and Shade
- Arts and Culture
- Library Hours Restoration
- Census 2020

The Trial Budget also includes several critical Non-GF additions that address the following important community priorities:

- Responding to Community Growth
- Maintaining Our Transportation Infrastructure

Summary

The Trial Budget is an important step in the City's Zero-Based Budget development process. It provides the Mayor and City Council, the community and our employee groups an opportunity to review a proposed balanced budget well in advance of the deadlines for making final budget decisions. Between April 2 and April 17, the 2018-19 Trial Budget will be presented to Phoenix residents for input at 15 community budget hearings. A complete list of hearing dates, locations and times is included in [Attachment C](#). During this time the City also will conduct additional hearings at neighborhood and business organization meetings, increasing transparency and involvement in the budget process. As a result of public input, changes could be made to the Trial Budget when a proposed budget is presented on May 8.

Latest General Fund Budget Status

On Feb. 20, 2018, the Budget and Research Department presented a five-year General Fund forecast to the City Council. The multi-year forecast is a financial management best practice providing the City Council with a tool for long-term planning and strategic decision-making. The report explained economic, resource and expenditure assumptions providing the basis for potential ending balance ranges over the next five fiscal years. At the time, staff reported a breakeven General Fund budget for 2018-19. That is, after accounting for the estimated GF revenues and necessary cost increases plus the costs to open and operate new capital facilities, we estimated that no funds would be available to expand or add new community services.

Since that time, we have continued to revise resource and expenditure assumptions based on our detailed technical reviews. As a result of these detailed reviews, we have now determined that our budget status for next fiscal year has improved slightly. Based on current revenue collections and revised expenditure projections we now project a modest surplus of approximately \$2.9 million for next fiscal year. Further, due to higher than anticipated assessed property values, the overall property tax rate of \$2.16 can be reduced to \$2.14 next fiscal year. Additional detailed information on GF revenue and economic assumptions used to develop the Trial Budget can be found in [Attachment D](#).

Pension costs have consumed a growing share of our GF resources over the past decade. In 2018-19, GF pension costs will be approximately \$282 million, up from

just over \$150 million in 2008-09. All our efforts for efficiencies and cost reductions, as well as revenue from a recovering economy, have gone to paying 100 percent of our actuarially required contribution every year. The City Council has taken steps to address long-term pension health through COPERS reforms that will save over \$1 billion over the next 20 years; establishing a \$25 million PSPRS Stabilization Fund, and authorizing the use of Wastewater Funds to pay down the COPERS unfunded liability. State voters recently approved some reform to PSPRS. However, we still have a total unfunded pension liability of \$4.4 billion that will require continued diligence and further resource strategies in the coming years.

As presented, the Trial Budget preserves existing city services and provides for modest investments in public safety, neighborhood protection, and homelessness from the General Fund. Additions also are proposed from Enterprise or Restricted Funds for planning and development services, public transit and street transportation. A detailed listing of the general fund and non-general fund budget additions can be found in [Attachments A and B](#).

Proposed General Fund Additions

Public Safety

Police and Fire staffing continues to be the single most important priority for the City Council and the community. Since public safety hiring resumed in late 2015, Police and Fire filled staffing levels have increased by 105 filled police positions and 73 filled fire positions. The proposed budget continues that trend by providing the resources the Police Department needs to reach and maintain a total filled count of 3,125 total sworn positions. This reflects an increase of 184 officers over the current filled count of 2,941. For Fire, the budget reflects the resources the Fire Department needs to maintain a total filled count of 1,654, which is required to ensure compliance with the 2016 SAFER Grant. Currently, the total number of sworn fire positions is 1,628. The Trial Budget also reflects the third and final year of pay restorations for public safety and all other city employees. It also continues to fully fund the annual required contribution for employee pensions.

Also reflected in the 2018-19 Trial Budget is the establishment of the Public Safety Pension Stabilization Fund that was created using \$25 million in pension savings from the current fiscal year. This fund can only be used to offset public safety pension costs.

The Trial Budget also includes the following additions for Police and Fire:

Fire Department - \$342,000

The Trial Budget reflects reallocating five Fire Captains and one Fire Battalion Chief into six Firefighter positions to enhance first responder staffing levels. The savings from this reallocation will be used to partially offset a significant enhancement to the Fire Prevention Program by adding two Fire Protection Engineers, three Fire Prevention Supervisors and three Fire Prevention Specialist II positions. The additional inspections staff will be responsible for reviewing building plans, inspecting buildings for fire code violations, and evaluating and updating the Fire Code. In 2016, the Fire Department was awarded a SAFER staffing grant that provided for 32 firefighters. The Trial Budget includes approximately \$6 million in matching funds required for this grant over the next three years. Additionally, the 2018-19 CIP Budget includes the construction of Fire Station 55 located at I-17 and Jomax Road. It is anticipated that construction for the station will be completed in the fourth quarter of 2018-19 and the Fire Department is expected to request additional staffing during the 2019-20 budget process.

Police Department - \$510,000

The Trial Budget reflects the addition of five civilian positions needed to support the department's Crime Gun Intelligence Center (CGIC). The goal of CGIC is to impact gun violence and to reduce violent crime in the community. The department has been designated as a regional testing facility by the ATF and the proposed additions will facilitate the processing and testing of ballistic materials. Currently the department impounds approximately 350 firearms per month and needs more resources to process this material in a more reasonable time. The proposed additions would improve the speed of testing and are expected to have a positive impact on crime reduction. The Trial Budget also includes the addition of 13 positions for the Public Records Unit to keep up with the ever-increasing demand for records requests and to prevent backlogs like those previously experienced by the department. The cost of these positions will be funded through the reallocation of existing department resources.

Homelessness

For many years, the city has invested resources into programs designed to fight chronic homelessness. Since 2013-14, city support of the CASS Homeless Shelter has increased from \$741,000 per year to approximately \$833,000 in 2018-19. The city also provides approximately \$1.1 million in GF and grant funds to UMOM for emergency shelter services for single women and families. The city has also leveraged a number of public housing resources, such as affordable housing and

vouchers for veterans, to provide permanent ongoing housing alternatives for the community.

In response to increased demand for alternate solutions to homelessness and transient issues, the city launched Phoenix C.A.R.E.S. as a pilot program in November 2017. The program is a collaborative effort involving several City departments and contracted outreach teams to provide a comprehensive response to homelessness, including transitioning homeless to services and ensuring the remnants of encampments left behind on public and private lands are cleaned up. Of the 399 individuals who have been contacted by Homeless Outreach Teams between November 2017 and January 2018, 277 have accepted services and 10 percent were placed in permanent housing. The Trial Budget proposes the following enhancements to the city's Phoenix C.A.R.E.S program:

Human Services and Neighborhood Services - \$472,000

The Human Services Department using Community Bridges responds to approximately 265 cases per month related to homelessness. The Trial Budget proposes adding contractual funding for two additional Homeless Outreach Teams to support the program, expanding the number of teams from seven to nine. This will increase the program caseload capacity by 360 clients per year. It is estimated that this addition will increase the percentage of clients who are connected to permanent housing from approximately 10 to 30 percent. The budget also proposes adding two administrative positions needed to keep pace with the growing demand for service, to manage and coordinate referrals to the Homeless Outreach Teams, and to ensure coordination between city departments and external service providers.

Parks and Recreation - \$256,000

The proposed budget includes two new park ranger positions to assist with monitoring and enforcing park rules at flatland parks. This addition increases the number of flatland park rangers from 9 to 11 and enhances the ability to enforce park regulations and provide additional support to the Phoenix C.A.R.E.S. program as it relates to homeless issues in city parks. Overall this addition would raise the total park ranger count to 79, just two short of the pre-recession peak of 81 total park rangers.

Neighborhoods

Based on City Council direction, the Trial Budget proposes adding the resources needed to establish and monitor a Structured Sober Living Home (SSLH) Licensing

Program. The purpose of this program is to enhance the health, safety and welfare of residents of structured sober living homes and the surrounding community by establishing standards and regulations for the homes and their operators. This will bridge the gap until state regulations are in place. Based on current estimates, staff anticipates that the workload would consist of approximately 400 licensing inspections and 240 unlicensed complaint investigations annually. To implement this program, the Trial Budget proposes adding 2 positions for City Clerk and 5 positions for the Neighborhood Services Department. The projected costs of this program are based on an estimate of 400 homes. It is important to note that any change in the definition of the homes that are being licensed, the scope of the licensing review process, the total number of applicants, and/or the proposed fees would alter the projected impact to the general fund. A summary of the additions for each department follows:

City Clerk - No Cost

The Trial Budget adds two Business License Clerk positions to administer the program, which would include licensing the homes and owners. This would include performing background reviews, collecting information about the home, and verifying compliance with zoning/registration requirements. The cost of these positions is expected to be recovered through licensing fees and would result in no additional expense to the GF.

Neighborhood Services - \$235,000

The Trial Budget proposes adding two teams to conduct citywide inspections and to investigate complaints and violations of SSLH ordinances, zoning, property maintenance and environmental safety regulations. Each team is expected to be able to handle 200 license requests and 120 additional complaint investigations per year.

Trees and Shade

The Tree and Shade Master Plan was the product of a multi-department task force led by the Parks and Recreation Department. The task force met for a year and a half to evaluate the causes of Phoenix's declining urban forest. The plan strives to create a healthier, more livable and prosperous Phoenix through the strategic care, maintenance and expansion of the urban forest and engineered shade. The plan was adopted by the City Council on Jan. 5, 2010.

Street Transportation - \$450,000

Each year the city loses approximately 100-200 trees due to storm damage and

accidents in the Right-Of-Way and as many as 1,000 trees citywide. Currently there is limited funding available to replace these trees. The Trial Budget includes funding for the installation and maintenance for up to 750 more trees per year. By replacing these trees, the city will greatly enhance the livability of the city as recommended in the Tree and Shade Master Plan.

Arts and Culture/Latino Cultural Center

The City's Arts Program provides facility support and maintenance for cultural facilities such as the Phoenix Art Museum, Phoenix Theatre, Arizona Science Center, and the Phoenix Children's Museum among others. Also included in arts programming is operating support including \$25,000 for youth arts added last year.

Arts and Culture - \$189,000

The Trial Budget proposes adding a project management position to oversee the coordination and development of the Latino Cultural Center as a site is identified to bring this important community asset to reality. This position would be responsible for working with the City Council, community and the non-profit community as this important community project moves forward in the development process.

Following the Great Recession, GF support of the Arts Grant Program was significantly reduced from a high of \$787,000 in 2000-01 to just over \$212,000 in 2009-10. Over the last few years GF support of the Arts Grant Program has been slowly restored to its current funding level of \$760,000. The Trial Budget proposes adding an additional \$30,000 for the Arts Grant Program which would increase GF support of the Arts Grant Program to \$790,000, a return to pre-recession levels.

Library Hours Restoration

Library - \$295,000

Prior to the Great Recession the library averaged approximately 72 hours per branch, not including Burton Barr Library hours. Following the closure of the Burton Barr Library in the summer of 2017, four additional hours were added on Sunday to the Yucca, Century, Harmon and Ocotillo branches. The Trial Budget proposes that these hours remain as permanent additions to the library's ongoing service levels, even after Burton Barr reopens in the summer of 2018. This addition will restore branch hours to approximately 48 hours per branch or 67 percent of pre-recession level hours.

Protecting Our Future - Census 2020

Census - \$151,000

For the first time in history, the national decennial census will be conducted primarily online. This means we need great preparation and community outreach to ensure all Phoenixians are counted. The results of the 2020 census will be used to determine future allocations of state-shared revenue. To protect Phoenix's share of state-shared revenues, the Trial Budget proposes adding temporary staff and \$50,000 in contractual support to ensure that Phoenix residents are accurately counted in this process.

Proposed Non-General Fund Additions

The City budget is made up of three separate pieces: the General Fund, Enterprise Funds and Other Restricted Funds. Recommendations for the General Fund were discussed above. Enterprise Funds include Aviation, Water, Wastewater, Solid Waste and the Convention Center. These funds, with the exception of the Convention Center, are funded with user fees. The Convention Center includes fees paid by those who use the facility and Convention Center parking garages and certain earmarked sales tax categories. Enterprise funds can only be used for costs directly associated with delivering enterprise fund services. This Trial Budget proposes continuing to carefully manage the Solid Waste and Water Funds with no supplemental additions.

The Restricted Funds category includes federal and state grants, gas taxes (AHUR), debt service, the Development Services fund, the Phoenix Parks and Preserve Initiative (PPPI) and the voter-approved Transportation 2050 Fund. These funds can only be used in accordance with grant and other statutory rules. This recommended Trial Budget includes additions to keep up with growth in Development Services, AHUR and Transportation 2050 Funds.

Responding to Community Growth

Development Services Fund

Planning and Development proposes adding several new positions in order to meet the needs of current workload demands and expected increases in development activity. The proposed additions will enhance customer service and ensure a more streamlined experience for the development process. The department had 669 total staff at the height of the last economic cycle (2006-07) and decreased to a staff of 253 in 2010-11. Today the department has a staff of 364 employees. In 2006-07 the department served almost 120,000 customers. That dropped to a little over 70,000 customers in 2010-11. In 2017-18 the department is projected to serve

approximately 113,000 customers. In addition, increased complexity of infill development and the need to work with surrounding property owners and residents on a much more frequent basis than in 2006-07, places a greater demand on staff time.

Maintaining Our Transportation Infrastructure

Street Transportation Arizona Highway User Revenue (AHUR) Fund

The Street Transportation Department proposes adding several new positions in order to meet the needs of current workload demands associated with Right of Way Management and Utility Coordination. The Trial Budget also includes additional staffing needed to coordinate the department's robust capital improvement program which includes both AHUR and T2050 funded projects. Due to a \$22 million reimbursement from regional funds for the City's advancement of funding for the Dove Valley Road & I-17 improvements, the department proposes increasing the pavement and traffic management programs to accelerate street improvements citywide. The Preliminary Five-Year CIP reflects \$172 million in Street Transportation and Drainage projects for FY 2018-19.

Next Steps

Staff will publish a tabloid in English and Spanish summarizing the City Manager's Trial Budget and make it available to the public. The tabloid will be available electronically on the City's website, and copies will be available at all senior centers, community centers, libraries, and as always, at all community budget hearings. Electronic document locations will be publicized in the Arizona Republic, the Arizona Informant, La Voz, Prensa Hispana and the Asian American Times.

Next, a series of community budget hearings will be held between April 2 and April 17. A schedule of those hearings is included in the attached document. As is our practice, we will record the comments made at each hearing and transmit them each week in the Council packet. Following the community budget hearing process, the City Manager's Proposed Budget reflecting community input will be presented to City Council on May 8, 2018 and Council action on the budget is scheduled for May 22, 2018. The remaining key dates in this year's budget process are as follows:

<u>Date</u>	<u>Event</u>
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

Responsible Department

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

**ATTACHMENT A
SCHEDULE 1
2018-19**

**PROPOSED SUPPLEMENTALS
GENERAL FUND**

PUBLIC SAFETY

<u>Department</u>	<u>2018-19</u>
<u>Fire</u>	
<i>Program: Fire Prevention General Inspections, Fire Prevention Special Hazards, Fire Emergency Medical Services and Hazardous Incident Response</i>	
1. Add funding for two Fire Protection Engineers, three Fire Prevention Supervisors, and three Fire Prevention Specialist II positions. These positions will enhance the current Fire Prevention program by providing increased supervisory support to the inspectors. This addition will ensure that inspectors are provided comprehensive support from their supervisors and will ensure the Fire Prevention program's efforts are as efficient as possible. The additional cost for the 8 positions will be partially offset with savings from reallocating five Fire Captains and one Fire Battalion Division Chief to six Firefighter positions which will be reallocated to front-line service.	\$342,000 8.0
Total Fire	\$342,000 8.0
<u>Police</u>	
<i>Program: Public Records Unit</i>	
1. Add funding for one Information Technology Project Manager, three Police Records Clerks, four Administrative Aides, and five Forensic Photo Specialists to meet the staffing needs of the Phoenix Police Department Public-Traffic Records Detail. The number of public records requests has increased by 15,000 since FY2013-14. It is anticipated that additional support staff will help to prevent future public records request backlogs. This request will be funded through the reallocation of existing department resources.	\$- 13.0
<i>Program: Crime Gun Intelligence Center</i>	
2. Add one Criminal Intelligence Analyst and four Police Assistants to increase the effectiveness of the Criminal Gun Intelligence Center (CGIC) in reducing crimes related to gun violence. The CGIC is a regional resource and uses advanced technologies and investigative techniques to identify, locate and apprehend violent criminal offenders possessing guns. These positions will perform data collection, research, obtain fingerprints and DNA, and provide intelligence to law enforcement in a timely manner to assist in apprehending "trigger pullers".	\$510,000 5.0

<u>Department</u>	<u>2018-19</u>
Total Police	\$510,000 18.0
<u>Law</u>	
<i>Program: Civil Division</i>	
1. An administrative no cost conversion of two existing temporary positions assisting with public safety related matters; specifically, an Assistant City Attorney IV for the Fire Department and an Administrative Aide within the Legal Assistant Unit to provide support for the Police Department's body-worn camera program. Positions will be funded through existing budgets.	\$- -
Total Law	\$- -
<u>Office of Homeland Security and Emergency Management</u>	
<i>Program: Emergency Management Coordination</i>	
1. Add funding for one Administrative Assistant II position to serve as a dedicated Homeland Security and Emergency Management Duty Officer. This position will provide consistent support as a liaison for all homeland security and emergency incidents, coordinate communications and responses to such events, and conduct trainings. This position will be funded by charges to client enterprise departments.	\$- 1.0
Total Office of Homeland Security and Emergency Management	\$- 1.0
TOTAL PUBLIC SAFETY	\$852,000 27.0

NEIGHBORHOODS

City Clerk

<i>Program: License Services</i>	
1. Add two Business License Service Clerk positions to support the Structured Sober Living Home (SSLH) licensing program. Staff would license SSLH facilities, owners and managers, including conducting background reviews, collecting information about the home and copies of various home operation documents, and verifying compliance with zoning/registration and training requirements. It is anticipated that approximately 400 homes, and 800-1200 managers, will require licensing. Licensing costs will be offset by fee revenue.	\$- 2.0
Total City Clerk	\$- 2.0

Department

2018-19

Neighborhood Services

Program: Code Compliance Program

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|----|--|------------------|
| 1. | Add staff and equipment to enforce regulations related to the Structured Sober Living Home (SSLH) licensing program. Two teams would be established to conduct citywide SSLH inspections and investigate complaints and violations of SSLH ordinances, zoning, property maintenance and environmental safety ordinances and housing safety regulations. Staff will also conduct community outreach/education and serve as liaison to industry and community stakeholder groups. It is anticipated that approximately 400 licensing inspections will be required annually in addition to 240 unlicensed SSLH complaint investigations. Enforcement costs will be partially offset by fee revenue. | \$235,000
5.0 |
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Total Neighborhood Services	\$235,000 5.0
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TOTAL NEIGHBORHOODS	\$235,000 7.0
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HOMELESSNESS

Human Services

Program: Homeless Outreach Services

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|----|---|----------------|
| 1. | Add funding to provide contractual services for two additional Homeless Outreach Teams to support the PHX C.A.R.E.S. program, expanding the number of teams from seven to nine. This will increase the program caseload capacity by 360 clients per year. The additional resources will also allow the program to provide more clients with a level of case management beyond the initial provision of emergency services. This will result in increasing the percentage of clients who are connected to permanent housing from approximately 10% to 30%. | \$300,000
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|----|---|----------------|

Program: Homeless Outreach Services

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|----|---|-----------------|
| 2. | Add an Administrative Assistant I position to manage and coordinate case referrals to the Homeless Outreach Teams supporting the PHX C.A.R.E.S. program to improve response times. This position will also conduct research, track performance measures, and make recommendations for improvements. | \$86,000
1.0 |
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Total Human Services	\$386,000 1.0
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Department

2018-19

Neighborhood Services

Program: Code Compliance Program

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|----|--|-----------------|
| 1. | Add funding for a position for the PHX C.A.R.E.S. program to prioritize, dispatch, manage and coordinate resources, including tracking and referring cases to multiple departments (Human Services, Neighborhood Services, Public Works, Streets Transportation and Parks and Recreation). This will program maximize effectiveness and optimize response times. This position will also conduct research, analyze performance measures, evaluate effectiveness and make recommendations for improvements. | \$86,000
1.0 |
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Total Neighborhood Services	\$86,000 1.0
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Parks and Recreation

Program: Park Rangers – Community and Neighborhood Parks

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| 1. | Add two Park Ranger positions and materials to support the PHX C.A.R.E.S. program within the City’s urban park system by increasing direct contact for individuals requiring services from PHX C.A.R.E.S. Homeless Outreach Teams. | \$256,000
2.0 |
|----|--|------------------|

These positions will also increase daily Park Ranger patrol coverage from 4:00 a.m. through 11:00 p.m., monitor and educate the public on park rules, regulations and ordinances related to city park use, and provide customer service and information to daily users.

	\$256,000 2.0
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Total Parks and Recreation

TOTAL HOMELESSNESS	\$728,000 4.0
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TREES, SHADE AND CAPITAL CONSTRUCTION

Street Transportation

Program: Streetscape Management

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| 1. | Add funding for the installation of approximately 750 trees (annually) and repair or installation of irrigation systems along surface streets to enhance the city’s Tree and Shade Master Program. | \$450,000
- |
|----|--|----------------|

Program: Design and Construction Procurement

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|----|---|------------|
| 2. | Add two Contract Specialist II positions to the Design and Construction Procurement section to ensure the City’s Capital Improvement Program (CIP) to address increasing workloads and ensure contract documents are executed in a timely manner. Positions will be funded through work order credits charged to individual CIP projects. | \$-
2.0 |
|----|---|------------|

<u>Department</u>	<u>2018-19</u>
<i>Program: Municipal Facility Design and Construction</i>	
3. Add a Project Manager position to assist the Vertical Project Management section with project management and support functions due to increased workloads generated by citywide client departments. Funded through work order credits charged to individual projects.	\$- 1.0
<i>Program: City Engineer Support</i>	
4. Convert a temporary Civil Engineer III position to regular status. This position will provide dedicated support and assistance to the City Engineer to establish and manage a Capital Improvement Program project management training program. In addition, the position will be responsible for overseeing the consolidation of various project management information systems.	\$- -
Total Street Transportation	\$450,000 3.0
TOTAL TREES, SHADE AND CAPITAL CONSTRUCTION	\$450,000 3.0

ARTS & CULTURE

Office of Arts & Culture

<i>Program: Cultural Facilities Development and Property Management Services</i>	
1. Add a position to oversee the coordination and development of the Latino Cultural Center. This position would be responsible for working with the City Council, community and the non-profit community as this project moves forward in the development process to explore the development of a Latino cultural center.	\$159,000 1.0
<i>Program: Arts Grants Services and Community Initiatives</i>	
2. Increase funding for arts grants. Arts grants provide operating support, including rental support, to local arts and culture organizations.	\$30,000 -
Total Office of Arts & Culture	\$189,000 1.0
TOTAL ARTS & CULTURE	\$189,000 1.0

LIBRARY HOURS RESTORATION

<u>Department</u>	<u>2018-19</u>
<u>Library</u>	
<i>Program: Branch Libraries</i>	
1. Continue the additional four hours of service on Sundays at four branch libraries that were temporarily added because of the Burton Barr Library closure: Yucca, Century, Harmon and Ocotillo. The additional Sunday hours have resulted in an average 10% increase in usage at the four branches, serving over 21,000 people in 24 weeks.	\$295,000 4.4
Total Library	\$295,000 4.4
TOTAL LIBRARY HOURS RESTORATION	\$295,000 4.4

PROTECTING OUR FUTURE - CENSUS

<u>Census</u>	
<i>Program: Federal, State, Regional and Tribal Programs</i>	
1. Add funding for one temporary Management Assistant II and additional resources to support the 2020 Census. For the first time, the national decennial census will be conducted online rather than by mail. The Management Assistant II position and additional resources will help ensure Phoenix maximizes census participation, which will affect future federal funding allocations and state shared revenues.	\$151,000 1.0
Total Census	\$151,000 1.0
TOTAL PROTECTING OUR FUTURE - CENSUS	\$151,000 1.0
TOTAL PROPOSED GENERAL FUND ADDITIONS	\$2,900,000 47.4

**ATTACHMENT B
SCHEDULE 2
2018-19**

**PROPOSED SUPPLEMENTALS
NON-GENERAL FUND**

RESPONDING TO COMMUNITY GROWTH

<u>Department</u>	<u>2018-19</u>
<u>Community and Economic Development</u>	
<i>Program: Workforce Development Program</i>	
1. Convert eight Federally funded temporary full-time positions to regular status to continue to support the Workforce Investment and Opportunity Act (WIOA) program for the City of Phoenix. Positions include two Workforce Development Specialists, one Training Specialist, one Workforce Development Supervisor, one Customer Service Clerk, one Budget Analyst I, one Administrative Assistant I, and one Caseworker III*Workforce Development.	\$- -
Total Community and Economic Development	\$- -
<u>Planning and Development</u>	
<i>Program: Civil Plan Review and Inspections</i>	
1. Add a Traffic Engineer II and Building Code Examiner position to meet plan review turnaround times as a result of increased development activity. These positions' duties would include reviewing paving plans, streetlight reviews, minor commercial building plans, and staffing customer service counters.	\$183,000 2.0
<i>Administration</i>	
2. Add a Senior Engineering Technician and Chief Engineering Technician to support the Electronic Plan Review team. These positions will provide direct customer assistance with technical and process support.	144,000 2.0
<i>Program: Civil Plan Review and Inspections</i>	
3. Add three Civil Inspector II positions to address increased workload and customer demand.	337,000 3.0

<u>Department</u>	<u>2018-19</u>
<i>Administration</i>	
4. Add an Administrative Assistant II position to support the director with the increase in public records requests and on call contract management oversight.	94,000 1.0
<i>Program: Residential Plan Review and Inspections</i>	
5. Add two General Inspector II positions to address increased workloads.	225,000 2.0
<i>Administration</i>	
6. Add an Information Technology Analyst Programmer II position to support the department's increased mapping and spatial data needs including more than twenty GIS applications and tools.	102,000 1.0
<i>Program: Commercial Plan Review and Inspections</i>	
7. Add an Electrical Inspector II*Ind/PR, Structural Inspector II and a Senior Engineering Technician to the Annual Facilities Program to assist with increased development workloads and meet customer demands.	299,000 3.0
<i>Administration</i>	
8. Add a Planner III position to perform multi-disciplinary planning and economic research projects, including monitoring and analyzing development and permit activity and socio-economic data, to help project growth citywide and within designated impact fee areas.	102,000 1.0
<i>Administration</i>	
9. Add an Engineering Technician position to address high call volumes due to increased development activity.	59,000 1.0
<i>Program: Civil Plan Review and Inspections</i>	
10. Add two Senior Materials Technician positions to provide additional oversight of material testing performed by developers' private labs.	206,000 2.0
<i>Administration</i>	
11. Convert a temporary Principal Planner position to regular status. This position assists with the coordination of multiple departments and Arizona Department of Transportation in the planning, design and construction of the Loop 202 Freeway.	\$- -
Total Planning and Development	\$1,751,000 18.0
TOTAL RESPONDING TO COMMUNITY GROWTH	\$1,751,000 18.0

MAINTAINING OUR TRANSPORTATION INFRASTRUCTURE

<u>Department</u>	<u>2018-19</u>
<u>Public Transit</u>	
<i>Program: Regional Fixed Route Support</i>	
1. Add a Quality Assurance Engineer position to provide vehicle inspections to ensure vehicles are properly maintained per FTA Federal Transit Asset Management guidelines as new vehicles are added to support the upcoming service improvements under the Phoenix Transportation 2050 Plan.	\$92,000 1.0
Total Public Transit	\$92,000 1.0
<u>Street Transportation</u>	
<i>Program: Right of Way Management</i>	
1. Add two Chief Construction Inspector positions to address increased work load for field monitoring, improving contractor compliance and increasing public safety.	\$229,000 2.0
<i>Program: Traffic Signal Shop</i>	
2. Add an Electronic System Specialist, two Electrician*Leads, an Administrative Assistant I and a Supplies Clerk II*U3 to support the Arterial System Construction and Maintenance section as the City continues to add new traffic signals. Positions will be partially offset through work order credits charged to individual Capital Improvement Program (CIP) projects.	180,000 5.0
<i>Program: Street Cleaning</i>	
3. Add a Motorbroom Operator position to operate a supplemental motorbroom to ensure the department meets established street cleaning service levels and assist in avoiding violation of dust control mandates.	75,000 1.0
<i>Administration</i>	
4. Add a position in the Design and Construction Management section to address workload increases and ensure high quality customer service. The position will be funded through work order credits charged to CIP projects.	- 1.0

Department

2018-19

- Program: Utility Coordination and Inspection*
5. Add a Chief Engineering Technician, a Support Service Aide and four Senior Construction Inspectors to the Utility Inspection group to support increased inspection requests related to small cell wireless system installations, underground utility work related to fiber optic installations and modernization of underground natural gas infrastructure. These positions will be funded through work order credits to individual CIP projects and fee revenue. -
6.0
- Program: Street Marking and Striping*
6. Add an additional pavement marking crew consisting of a Traffic Maintenance Worker and two Trades Helper positions to support the T2050 Bike Program initiatives. This will allow for proper maintenance cycles for remarking crosswalks and turn arrows, ensuring safety of motorists, bicyclists and pedestrians. Positions will be partially offset through work order credits charged to individual Capital Improvement Program (CIP) projects. 145,000
3.0
- Program: Transportation and Drainage Design and Construction*
7. Add eight positions to support additional projects in the right of way for the Water Services Department, pedestrian crossing traffic signals and Bicycle Master Plan implementation, and Transportation 2050 Program projects such as bus bays and street maintenance. The cost of the positions will be partially offset through work order credits to CIP projects. 94,000
8.0
- Program: Traffic Signal and Transportation Administration*
8. Add a Traffic Engineer II, a Signal Systems Specialist I and a Senior Engineering Technician to support the Arterial Systems Design section with developing timing for the traffic signal network, support growing design requirements, conduct permit reviews for small wireless facilities, and respond to customer requests. These positions will be funded through work order credits to individual CIP projects and fee revenue. -
3.0
- Administration*
9. Add a Senior Business Analyst to review and update business processes and technology requirements for the Street Maintenance and Traffic Services divisions in support of T2050 projects and asset management. 136,000
1.0
- Program: Transportation and Drainage Design and Construction*
10. Convert two temporary Project Manager positions to regular status to address Capital Improvement Program pavement preservation and Americans with Disabilities Act projects. \$-
-

<u>Department</u>	<u>2018-19</u>
Total Street Transportation	\$859,000 30.0
TOTAL MAINTAINING OUR TRANSPORTATION INFRASTRUCTURE	\$951,000 31.0
TOTAL PROPOSED NON-GENERAL FUND ADDITIONS	\$2,702,000 49.0

ATTACHMENT C

City of Phoenix Locations for 2018-19 Community Budget Hearings

Date/Time	Council District(s)	Location Information
Monday, April 2, 2018 6:00 pm	D3	North Mountain Visitor Center 12950 N. 7 th Street
Tuesday, April 3, 2018 8:30 am	D1/D5	Helen Drake Senior Center 7600 N. 27 th Avenue
Tuesday, April 3, 2018 6:00 pm	D2/D3	Paradise Valley Community Center Multi Purpose Room 17402 N. 40th St.
Tuesday, April 3, 2018 6:00 pm	D5	Pendergast Community Center 10550 W. Mariposa Street
Tuesday, April 3, 2018 6:00 pm	D7	Arizona School for the Arts Band Room 1410 N. 3 rd Street
Wednesday, April 4, 2018 8:00 am	D3	Shadow Mountain Senior Center 3546 E. Sweetwater Avenue
Thursday, April 5, 2018 6:00 pm	D3/D5	Sunnyslope Community Center Multi Purpose Room 802 E. Vogel
Monday April 9, 2018 6:00 pm	D4	Steele Indian School Park Memorial Hall 300 E. Indian School Road
Wednesday, April 11, 2018 8:30 am	D8	Senior Opportunities West Senior Center 1220 S. 7th Avenue
Wednesday, April 11, 2018 6:00 pm	Citywide Spanish/ English	Maryvale Community Center Auditorium 4420 N. 51 st Avenue
Monday, April 16, 2018 8:30 am	D6	Pecos Community Center 17010 S. 48th St.
Monday, April 16, 2018 10:30 am	D6	Devonshire Community Center Auditorium 2802 E Devonshire St.
Tuesday, April 17, 2018 6:00 pm	D1/D2	Goelet A. C. Beuf Community Center Multi Purpose Room 3435 W. Pinnacle Peak Rd
Tuesday, April 17, 2018 6:00 pm	D7/D8	Cesar Chavez High School Cafeteria 3921 W. Baseline Road
Tuesday, April 17, 2018 6:00 pm	Citywide Youth	Metro Tech High School Banquet Hall 1900 W. Thomas Road



City of Phoenix

BUDGET AND RESEARCH DEPARTMENT REPORT	B.R.D. NUMBER 2018-09
SUBJECT General Fund Revenue Estimates	DATE ISSUED March 20, 2018

This report provides additional detail on General Fund (GF) revenue estimates to explain recommended revenue projections. The City is committed to providing a transparent and open budget process. Providing this information enhances the review and understanding of how revenue projections are developed to better facilitate discussions during the annual budget development process.

Careful examination of revenue estimates is required to ensure projections are as accurate as possible in order to maintain fiscal stability and long term budget management. Predicting future revenue growth is challenging and requires consistent and diligent analysis based on sound forecasting principles and methods. Revenues are monitored closely and an updated revenue report is prepared and distributed to the City Manager's Office, the City Council and the community for review monthly. General Fund revenues are comprised of several categories all of which are unique and require separate analysis. The primary revenue categories include: local taxes and related fees, primary property taxes, state shared sales, income and vehicle license taxes, and user fees and non-tax revenues.

Included in this report is an explanation of how GF revenue is projected, the sources relied upon to assist in developing estimates, economic assumptions and the methods used to analyze revenues. Also included are historical revenue actuals and growth rates, the recommended revenue estimates for 2017-18 and 2018-19 and an explanation of the influencing factors used by staff in conducting analysis for each major revenue category. The below table summarizes the 2017-18 and 2018-19 estimated GF revenues and the primary reason for the variance:

GF Revenue Category (millions)	2017-18 Estimate	2018-19 Estimate	Amount Change	Percent Change	Primary Reason for Difference
Local Taxes	\$449.8	\$465.0	\$15.2	3.4%	Continued moderate improvement in sales tax collections expected and reduced negative year-end adjustments.
Primary Property Tax	155.0	161.6	6.6	4.3%	Increase in assessed property valuation.
State Shared Sales Tax	153.2	159.4	6.2	4.0%	Continued growth expected through FY 18/19.
State Shared Income Tax	200.0	198.3	(1.7)	(0.9%)	Already known collections (based on FY 16/17 collections).
State Shared Vehicle License Tax	67.7	70.8	3.1	4.6%	Continued increases in vehicle sales expected through FY 18/19.
User Fees & Non-Taxes	138.7	128.0	(10.7)	(7.7%)	Accounts for one-time revenues in insurance proceeds for Library, sale of surplus property, and rental income in FY17/18.
Total	\$1,164.4	\$1,183.1	\$18.7	1.6%	

Revenue Projections & Trusted Sources

Projecting revenues involves complex analysis and continuous monitoring to identify variances and recommend adjustments so that expenditures do not exceed available resources and a balanced budget can be maintained. As part of the overall forecasting process, assumptions about the direction and strength of the national, state and local economy are considered along with indicators such as population, job growth and personal income. Information on program and service activity levels, rates, and fees that influence certain revenues are evaluated and proposed legislation is monitored to determine potential impacts to revenue categories such as sales taxes, state shared revenues, emergency transportation service revenues and property taxes. In addition, information from city departments on user fees and non-tax revenue is requested and analyzed each year as part of the technical budget review process. Finally, trusted economic and financial sources are relied on to provide certain revenue projections and insight into the overall direction and strength of the economy and include experts from the State's Finance Advisory Committee (FAC), Joint Legislative Budget Committee (JLBC), Arizona State University, University of Arizona (UofA) Economic and Business Research Center (EBRC), Arizona Department of Revenue, National Blue Chip, Western Blue Chip, and the US Bureau of Labor Statistics.

The city is also a member of the Forecasting Project through the EBRC at the UofA. This project is a community-sponsored research program providing project members with economic forecasts for Arizona and the Phoenix-Mesa metro area. Budget & Research (B&R) staff attends quarterly meetings, participates in discussions with other local government and private enterprise members, and receives quarterly economic reports. In the fall of 2014, B&R consulted with the UofA 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 staff to develop an enhanced econometric forecasting model for sales tax. In the Summer of 2017, staff worked with EBRC to update the tax forecasting model. The additional consulting with Drs. Hammond and Charney 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 FY 2018-19 projected growth rates for city and state sales tax are based on estimates developed using the enhanced econometric forecasting model.

Economic Assumptions

Several of the primary revenue categories are influenced by the economy and the sources mentioned above provide valuable information about the expected growth of the economy. These sources are used in developing projected revenue growth rates. B&R staff continuously monitors economic variables and what these experts are predicting when developing revenue estimations.

The overall consensus from these trusted sources is Arizona and the Phoenix Metro area are generating solid economic growth outpacing the nation, however the growth is slower than previous recoveries. They predict the state will continue to grind out solid gains assuming the national economy avoids recession. However, it is worth noting that since 1945, the average length of a U.S. economic expansion has been approximately 5 years and the longest has been 10 years. The current expansion has lasted over 8 years, which makes it the third longest expansion. While there is no natural length of time for sustained periods of economic activity, if historical averages were to hold true, the U.S. economic expansion will end at some point within the forecast range.

The greater Phoenix area had regained the jobs lost during the Great Recession. In 2017, the job growth rate of greater Phoenix was 2.2%, and is forecast to accelerate in 2018 and 2019. However, the mix of employment is different from the composition of the economy in past expansion years, and the per capita personal income was 12.2% below national average. While the economy still

faces challenges, as long as the national expansion continues, greater Phoenix is likely to sustain positive growth. It is predicted the metro Phoenix economy will continue to strengthen over the next few years with job growth reaching 2.7% by 2019, personal income growth of 6.4% and population growth of 1.8% (Economic Outlook, 2018 1st Qtr report).

Revenue Forecasting Methods

Several forecasting methods and practices are used to estimate city revenues and will vary depending on the type of revenue being analyzed. Evaluating historical growth patterns and current actuals is an important component to analysis and provides insight into the direction of the various revenue categories and the growth needed to achieve estimated revenues. Information is also collected from the economic sources mentioned earlier to ensure current and subsequent year estimates are reasonable and in-line with what these experts are predicting. The State FAC provides valuable information from a panel of respected economists and financial professionals. Included in their materials are projections of state sales tax and income tax collections. These projections are considered when developing city sales tax and state shared sales and income tax revenues for both the current and subsequent fiscal years. Additionally, information is collected from city departments during the annual technical review process which is needed to analyze the user fee and non-tax revenue category. The department's knowledge of the revenues generated by various city programs and services is essential to developing accurate projections. Staff also considers one-time revenues, adjustments and contractual agreements impacting growth when developing estimates.

In conjunction with considering historical growth, current trends, and information from trusted sources and departments, B&R staff uses several forecasting methods when preparing recommended estimates. The most common methods of revenue estimation used are: averages of actual revenue experience by varying time periods, annualization of year-to-date actuals, and most often a percent of prior year method. This last method involves analyzing the amount of revenue collected at a point in time during prior fiscal years, for example seven months, represented as a percentage of the total collections for the entire fiscal year and then applying that percentage to current year-to-date actuals. This method accounts for the seasonal nature of many city revenues and is often a more effective method than using an averages or annualizing approach. Additionally, the growth rate needed to reach the budgeted or estimated revenue is considered. If the percentage growth needed for the remaining months of the fiscal year is substantially higher or lower than the current growth rate, adjustments are made to arrive at a new estimated revenue amount for the fiscal year.

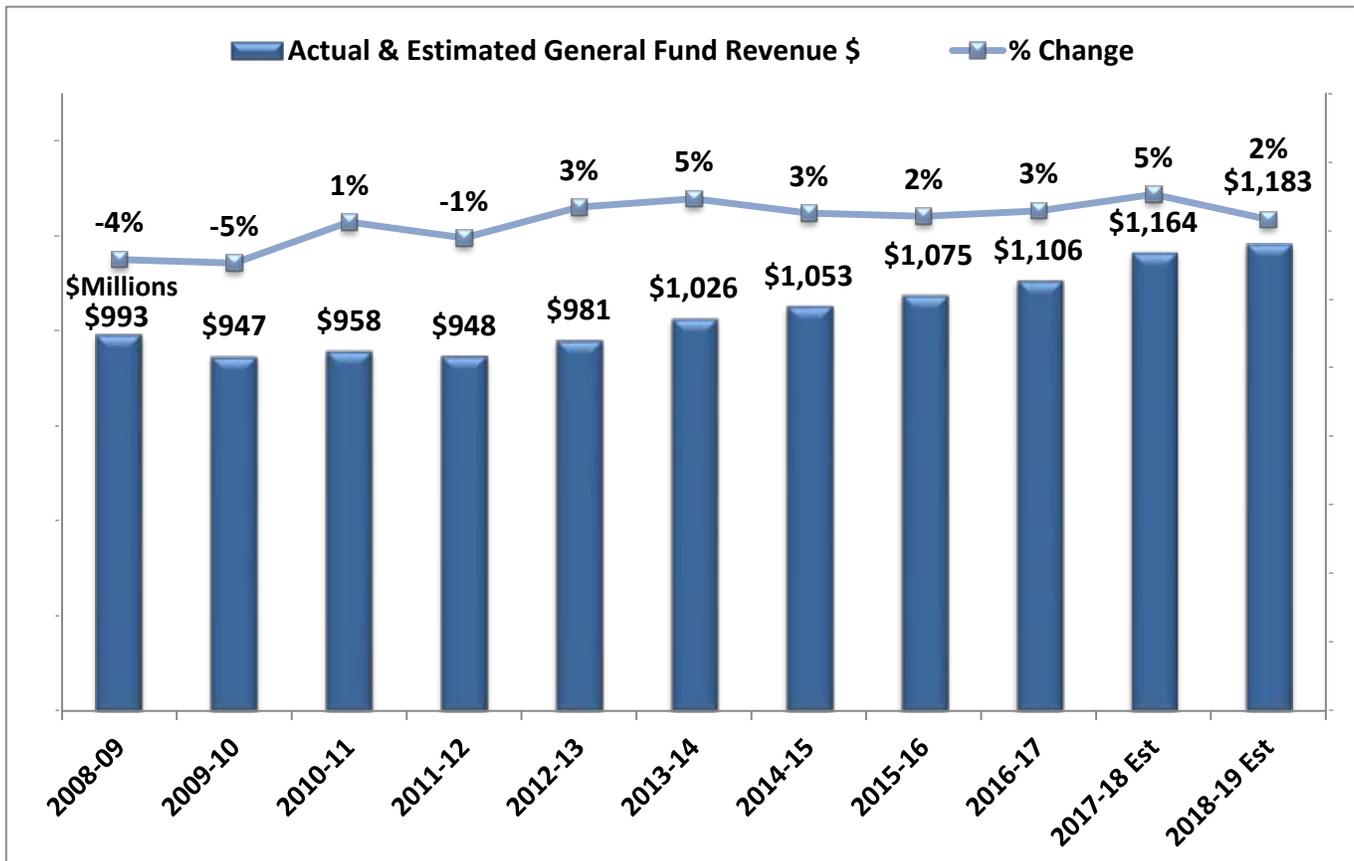
Once the current fiscal year estimate is developed, assumed growth rates are then applied to this amount to arrive at a projected revenue amount for the following fiscal year. These assumed growth rates take into account historical and recent trends in revenue data, one-time revenue adjustments, and information from city departments and our trusted sources to ensure projections are not overly conservative or aggressive.

Finally, as part of the annual budget development process each year, revenue estimates are presented to the City Manager's Office, the City Council and the community as part of the Trial and recommended budgets for consideration and approval prior to final budget adoption in June.

General Fund Revenue

To assist in explaining the basis for how GF revenue is estimated for each of the major categories, historical revenue growth and estimated revenues for the 2017-18 and 2018-19 fiscal years are provided graphically, along with a description of the revenue category and the methodology used to develop recommended revenue estimates beginning with total GF revenue.

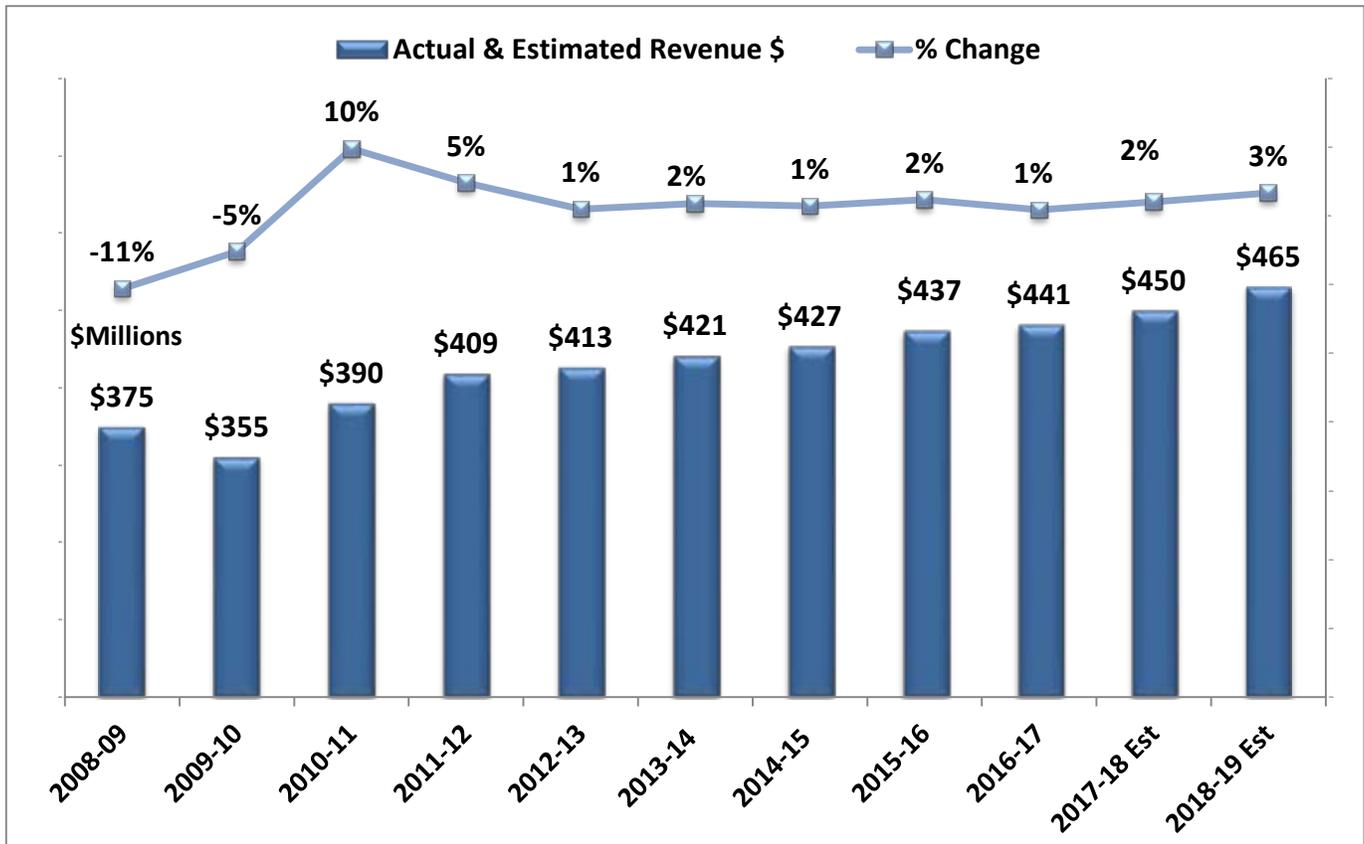
Total General Fund Revenue



**2017-18 estimate accounts for a transfer of jet fuel sales and use tax revenues from General Fund to Jet Fuel Other Restricted Fund effective in December 2017 due to a Federal Aviation Administration (FAA) policy requirement; this was subsequently included in State law. Projections for 2017-18 and 2018-19 also assume no fee increases, changes to state shared revenue formulas or legislative actions to reduce General Fund revenues.*

As mentioned, GF revenue consists of local taxes and related fees, primary property taxes, state shared sales, income and vehicle license taxes, user fees and non-tax revenues. Estimating revenues for each of these categories is conducted separately to more accurately predict the amount of revenues for the current and following fiscal year. Each category is unique with respect to the variables that comprise the revenue and influence growth. Variables that impact revenue growth include economic factors such as consumer sentiment, discretionary income, population, unemployment, job growth and construction activity. Other influencing factors may include: legislative action, City Council policy directives, legal restrictions and mandates, state statutory formulas, program enhancements or reductions, and changes in rates and fees. For these reasons, evaluating each major category separately is preferred and generates more accurate revenue projections.

Local Taxes and Related Fees, 39% of Total General Fund Revenue



*2017-18 estimate accounts for a transfer of jet fuel sales and use tax revenues from General Fund to Jet Fuel Other Restricted Fund effective in December 2017 due to a Federal Aviation Administration (FAA) policy requirement; this was subsequently included in State law.

Local taxes and related fees consist of city sales taxes, privilege license fees and other excise taxes. The majority of revenue is derived from city sales taxes which is comprised of 15 general categories collected based on a percentage of business income accruing in each category. The chart on the following page provides the current local sales tax rates by category and the percentage allocated to each fund. Privilege license fees are assessed to recover the costs associated with administering the local tax system. Other excise taxes include the jail tax and the excise tax collected on water service accounts, which provide resources to help offset jail costs paid to Maricopa County and other GF services.

Sales tax can be volatile and typically correlates to the local economy. Increases in sales tax collections are expected when the local economy expands due to underlying fundamentals such as increases in population, discretionary income, business expansion, jobs and real estate growth. The opposite holds true during times of economic contraction or recession as evidenced in 2008-09 and 2009-10. Staff analyzes historical and recent trends in sales tax data by category, evaluates cumulative growth and uses an econometric forecasting model constructed by the UofA to develop projections. Estimates provided by the FAC and JLBC are also considered to ensure projections are reasonable and not overly aggressive or conservative in nature.

The growth estimated in 2018-19 of 3% assumes continuous growth over 2017-18 and accounts for current trends in actual collections and is based on projections provided by the UofA for city sales taxes. Privilege license fees and other excise tax projections are developed using the existing fee structures, assumptions about historical trends, averages, recent collection experience and use of the percent of prior year method to account for seasonal influences in revenue activity. Privilege

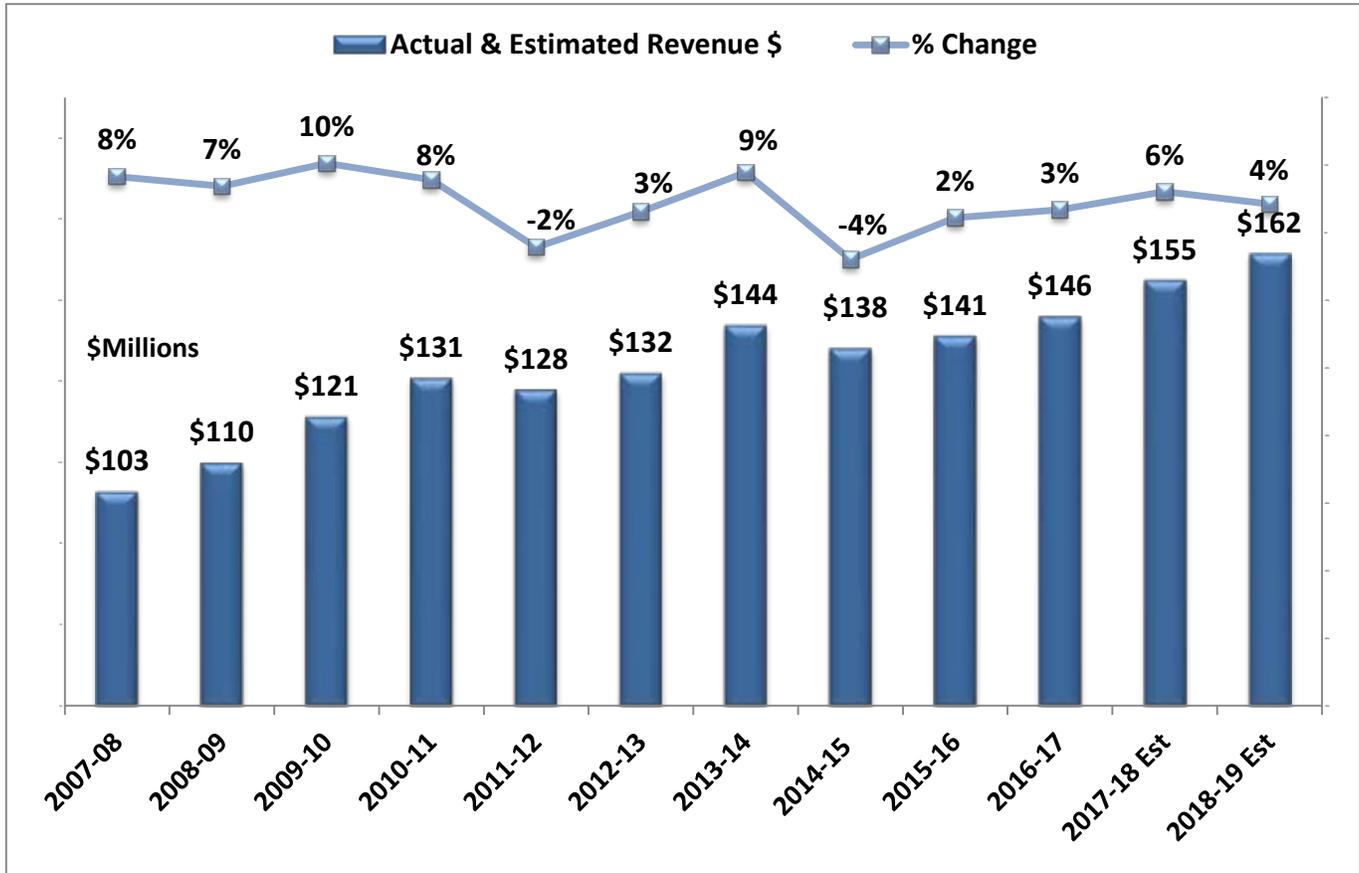
license fees in 2018-19 are estimated to be flat. The growth estimated in 2018-19 for other excise taxes assumes conservative growth and continuation of current year-to-date experience.

Current Local Sales Tax Rates by Category

	General Fund	N'hood Protection	2007 Public Safety Expansion	Public Safety Enhance.	Parks & Pres.	Transp. 2050***	Conv. Center	Sports Fac.	Capital Const.	Total
Advertising	–	–	–	–	–	–	0.5%	–	–	0.5%
Contracting	0.7%	0.1%	0.2%	–	0.1%	0.7%	0.5%	–	–	2.3%
Job Printing	0.7%	0.1%	0.2%	–	0.1%	0.7%	0.5%	–	–	2.3%
Publishing	0.7%	0.1%	0.2%	–	0.1%	0.7%	0.5%	–	–	2.3%
Transportation/Towing	0.7%	0.1%	0.2%	–	0.1%	0.7%	0.5%	–	–	2.3%
Restaurants/Bars	0.7%	0.1%	0.2%	–	0.1%	0.7%	0.5%	–	–	2.3%
Leases/Rentals/ Personal Property	1.2%	0.1%	0.2%	–	0.1%	0.7%	–	–	–	2.3%
Short-Term Motor Vehicle Rental	1.2%	0.1%	0.2%	–	0.1%	0.7%	–	2.0%	–	4.3%
Commercial Rentals	1.3%	0.1%	0.2%	–	0.1%	0.7%	–	–	–	2.4%
Lodging Rentals Under 30 Days	1.2%	0.1%	0.2%	–	0.1%	0.7%	2.0%	1.0%	–	5.3%
Lodging Rentals 30 Days and Over	1.2%	0.1%	0.2%	–	0.1%	0.7%	–	–	–	2.3%
Retail (Level 1 – amounts = < \$10,000 for a single item)	1.2%	0.1%	0.2%	–	0.1%	0.7%	–	–	–	2.3%
Retail (Level 2 – amounts > \$10,000 for a single item)	1.2%	0.1%	0.2%	–	0.1%	0.4%	–	–	–	2.0%
Amusements	1.2%	0.1%	0.2%	–	0.1%	0.7%	–	–	–	2.3%
Utilities	2.7%*	–	–	2.0%**	–	–	–	–	–	4.7%
Telecommunications	2.7%	–	–	–	–	–	–	–	2.0%	4.7%

*The General Fund portion of the utilities category includes the 2.0 percent franchise fee paid by utilities with a franchise agreement.
 **The Public Safety Enhancement designated 2.0 percent sales tax applies only to those utilities with a franchise agreement.
 ***The Transportation 2050 Fund (Proposition 104) was established by the voters effective January 1, 2016 and replaced the Transit 2000 Fund (Proposition 2000) to fund a comprehensive transportation plan with a 35-year sunset date. The Proposition increased the transaction privilege (sales) tax rates by 0.3% for various business activities.

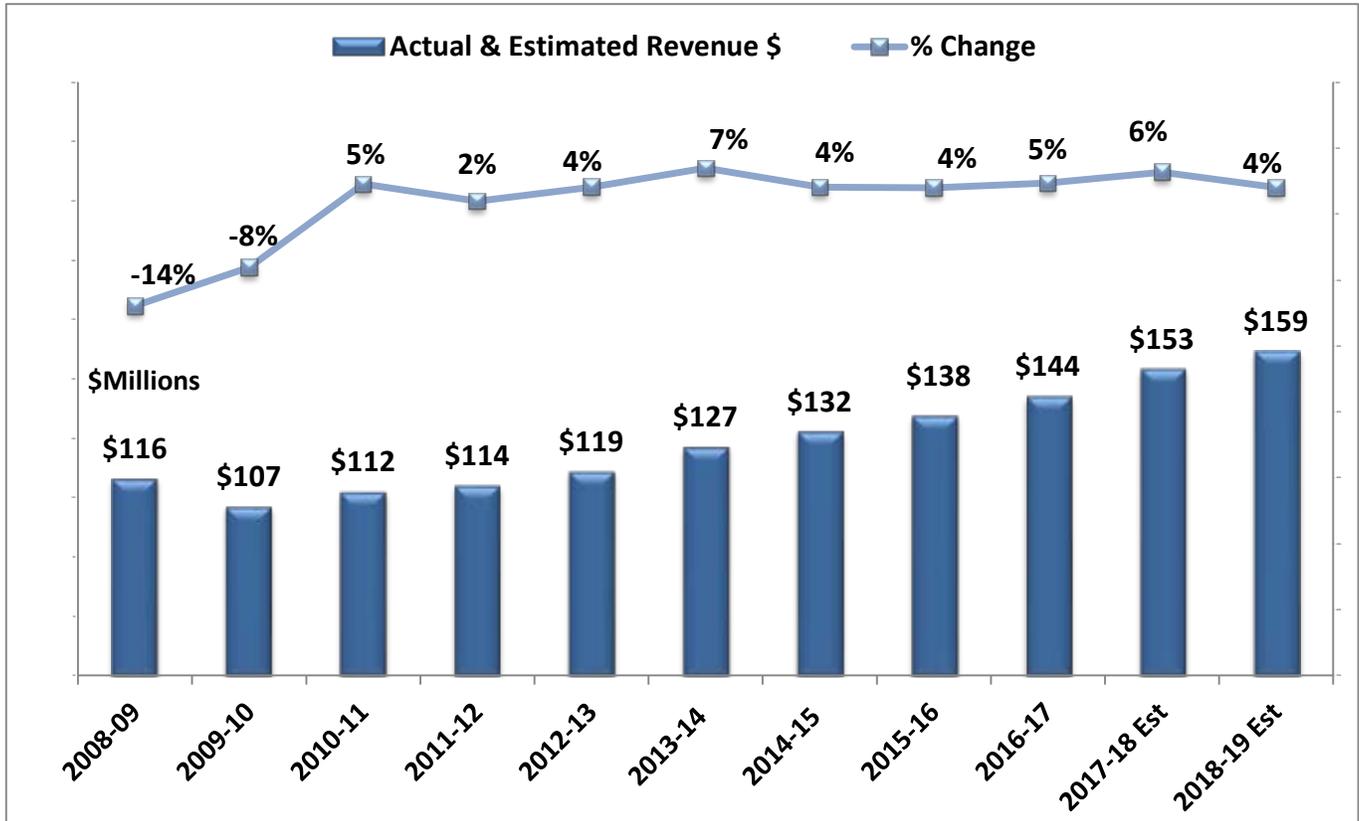
Primary Property Tax, 14% of Total General Fund Revenue



Arizona property tax law provides for two separate tax systems. A primary property tax is levied to pay current operations and maintenance expenses. Therefore, primary property tax revenue is budgeted and accounted for in the GF (and is illustrated in the above graph). A secondary property tax levy is restricted to the payment of debt service on voter approved long-term general obligation debt. Therefore, the secondary property tax revenue is budgeted and accounted for as a special revenue fund. The primary property tax levy forecast is based on the net assessed value stated in the annual "Levy Limit Worksheet" for the City of Phoenix, issued by the Maricopa County Assessor each February, multiplied by the projected primary property tax rate. The primary property tax revenue forecast assumes that 99% of the projected primary property tax levy is actually collected.

The annual amount of the primary property tax levy is limited by the Arizona Constitution to a two percent increase over the prior year levy limit plus an estimated levy for previously unassessed property (primarily new construction). Provisions in Chapter XVIII of the City Charter limit the City's primary property tax rate to \$1.00 per \$100 of assessed valuation with the exception of costs to operate library services. The proposed 2018-19 primary property tax rate, not including the portion of the rate allocated to cover the Library Department operating costs, is \$1.00 per \$100 of assessed valuation.

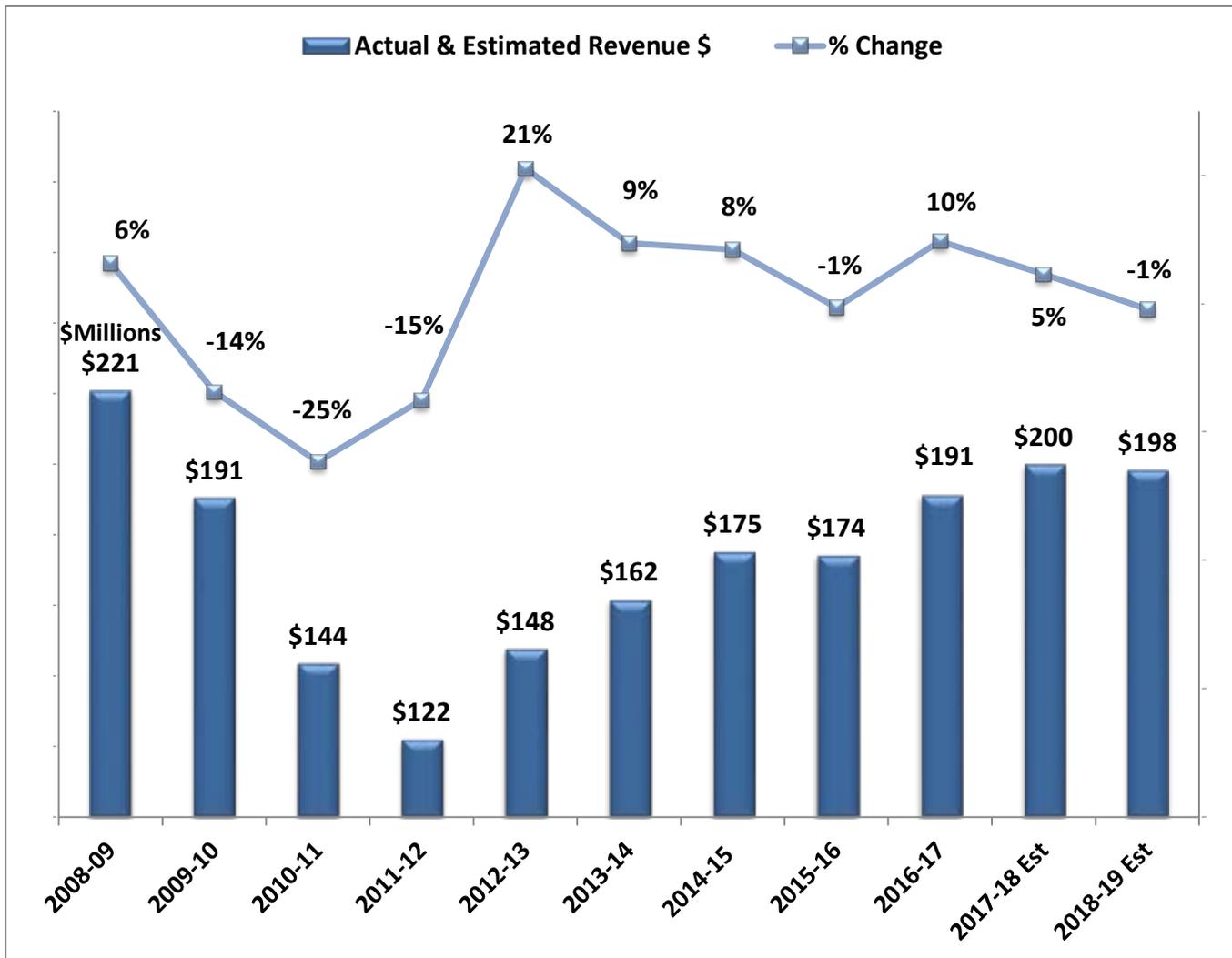
State Shared Sales Tax, 13% of Total General Fund Revenue



State sales tax revenues received by the city are governed by Arizona State Statute §42-5029. State sales tax revenues are split between a “distribution base”, of which Phoenix receives a share, and a “combined non-shared” category, which is allocated entirely to the state. With the exception of some tax categories, the distribution base consists of either 20, 32, 40, 50, or 80 percent of collections depending on the tax category. State statute §42-5029 stipulates of the monies designated in the distribution base the Arizona Department of Revenue shall pay 25 percent to incorporated cities on the basis of relative population percentages. The population share changes annually based on Census Bureau Population Estimates. The 2018-19 City of Phoenix population share is estimated to remain flat at 29.4 percent, and is based on the 2016 Census Bureau Population Estimate.

State sales tax is estimated similar to how city sales tax is forecasted. Staff analyzes historical and recent trends in sales tax data by category and evaluates cumulative growth when developing revised estimates. Projections provided by the UofA EBRC, using an econometric sales tax model, were used to develop 2018-19 estimates; and information from the FAC and JLBC were considered to ensure current fiscal year estimates are reasonable and in-line with what these experts are projecting.

State Shared Income Tax, 17% of Total General Fund Revenue

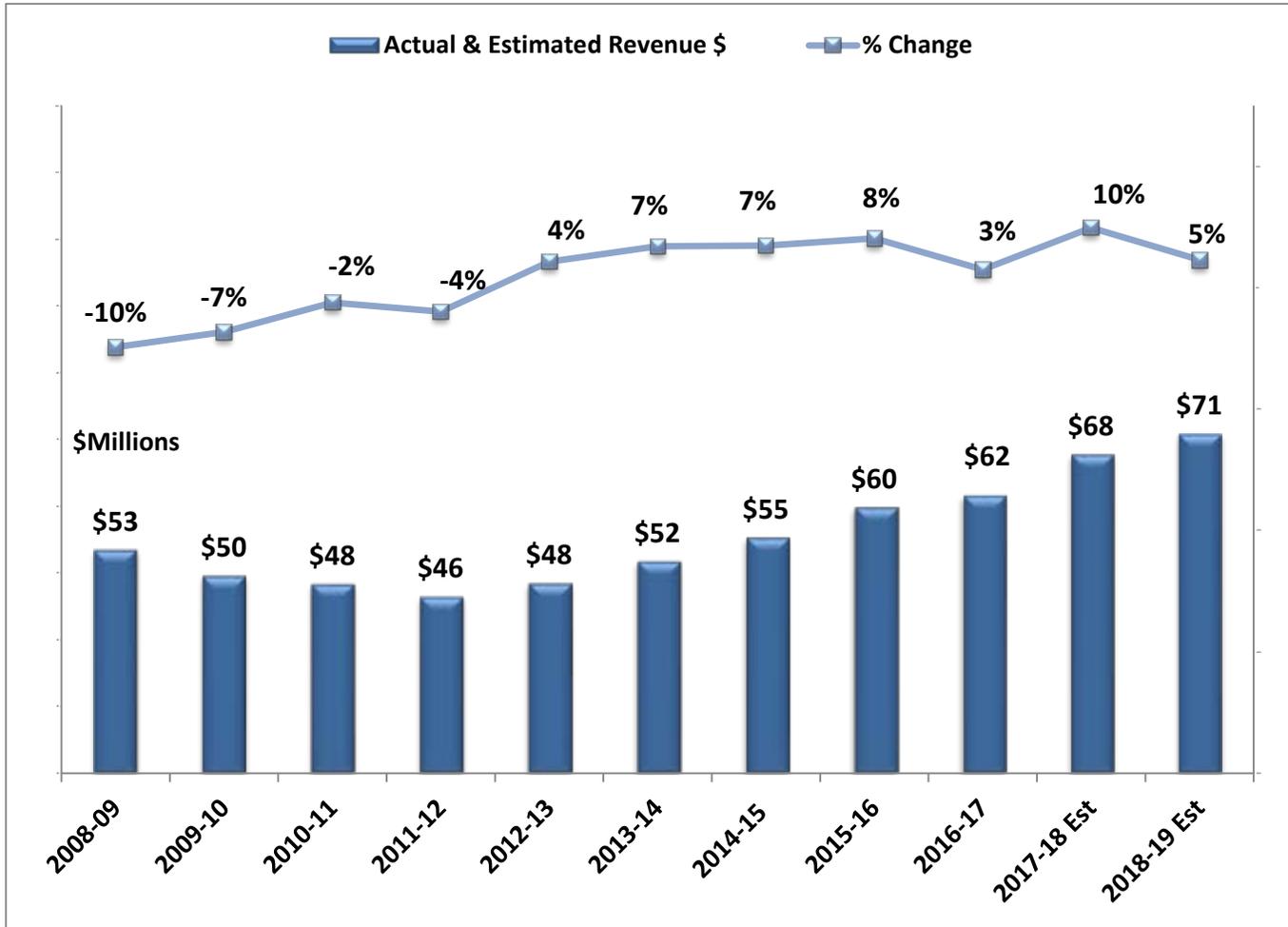


State shared income tax revenue, also known as the Urban Revenue Sharing Fund, was established by voter initiative in 1972 and is governed by Arizona Revised Statute §43-206. The statute stipulates that 15 percent of the net proceeds of state individual and corporate income tax collected two years preceding the current fiscal year be distributed to incorporated cities and towns. Individual cities receive their portion based on the cities' share of the state population. The 2018-19 City of Phoenix population share is estimated to remain flat at 29.4 percent, and is based on the 2016 Census Bureau Population Estimate. This rate will change annually based on Census Bureau Population Estimates.

As a result of the initiative, Arizona Revised Statute §43-201 stipulates the area of income taxation is preempted by the state and a county, city, town or other political subdivision shall not levy an income tax as long as the Urban Revenue Sharing Fund is maintained as provided in §43-206.

Since state shared income tax revenue is based on actual collections from two years preceding the current fiscal year, the 2017-18 and 2018-19 projected revenue is known and is based on actual collections received in 2015-16 and 2016-17, respectively. The state shared income tax reduction in 2018-19 is due to declining corporate income tax collections in 2016-17.

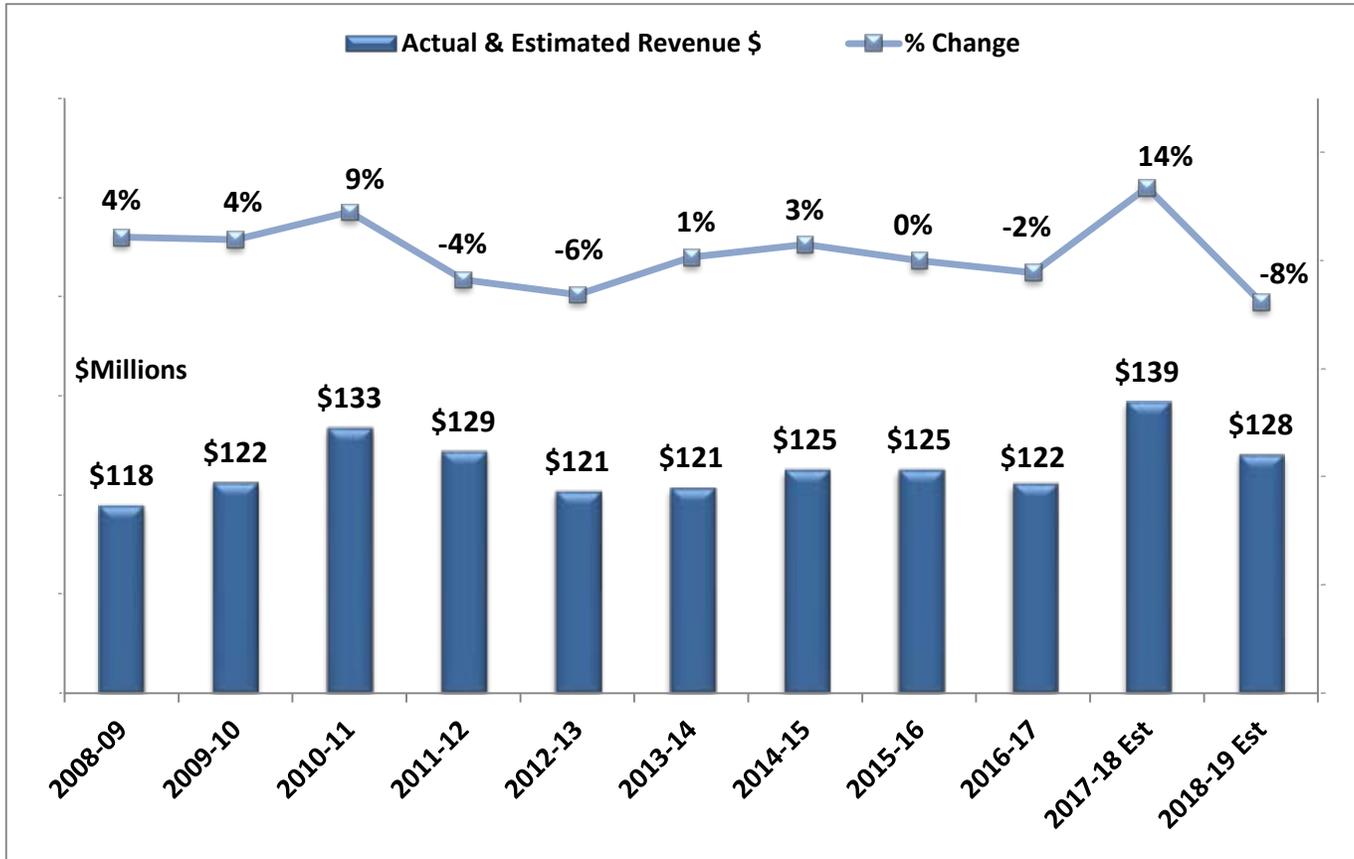
State Shared Vehicle License Tax, 6% of Total General Fund Revenue



State shared vehicle license taxes have been distributed to cities and towns since 1941. The tax is assessed on the basis of an ad valorem rate on each \$100 in value. The value is equal to a percent of the manufacturer's retail price at the time of initial registration. During each succeeding year, this value is decreased until the established minimum amount is reached. The Arizona Department of Transportation collects and distributes the tax according to Arizona Revised Statute §28-5808. The distribution to individual cities is based on their relative population within the county. The 2018-19 City of Phoenix population share is estimated at 41.0 percent, and is based on the 2016 Census Bureau Population Estimate. This rate will change annually based on Census Bureau Population Estimates.

Vehicle License Tax revenues are often correlated to the overall strength of the economy. Similar to sales tax revenues when the economy is growing this revenue category will also exhibit growth, as illustrated in the above graph. Revenues are estimated by evaluating historical growth patterns, year-to-date cumulative growth and applying the percent of prior year method to year-to-date actuals, which accounts for the seasonality in collections. Staff will also consider projections provided by the Arizona Department of Transportation, which are published annually for this revenue source, and any available recent economic information pertaining to projections on the local economy and vehicle sales when formulating recommended current and subsequent year estimates. The growth estimated in 2018-19 of 5% assumes this category will continue to grow but at a slower pace than in 2017-18.

User Fees and Non-Tax Revenues, 11% of Total General Fund Revenue



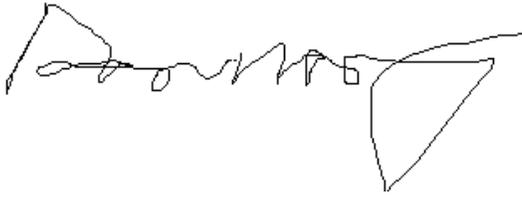
User Fees and Non-Tax Revenues include collections from licenses and permits, fines and forfeitures, cable television fees, user fees from several city departments designed to recover the costs of providing specific city services including Parks and Recreation, Library, Planning, Police, Fire, and Streets; other service charges including interest income, parking meter revenue, in lieu property taxes, sales of surplus property, various rental income, parking garages revenue and concessions; miscellaneous service charges in Finance, Housing, Human Services and Neighborhood Services.

B&R staff relies on departments to provide essential information concerning activity levels, fee increases or decreases and program changes which impact the variety of revenue sources in this category. Technical revenue reviews are conducted twice each fiscal year as part of the annual budget development process. Departments are asked to provide revenue estimates and reasons for changes from prior year actuals. Staff conducts a line-item analysis of all revenues and uses various methods including annualization and percent of prior year, as well as consideration of one-time and contractual revenues, program enhancements or reductions and other adjustments when developing estimates.

The growth estimated in 2018-19 of -7.7% accounts for one-time revenues in insurance proceeds for the Burton Barr Central Library, sale of surplus property, and rental income in 2017-18.

In addition to the technical reviews that are conducted twice each fiscal year, B&R staff monitors revenues monthly to determine if adjustments to projections are necessary. The proposed estimates are then reviewed by B&R management and finally incorporated into the GF proposed revenue projections for consideration by the City Manager, the City Council and the community.

This report is for informational purposes only and is intended to provide the City Council and the community with explanations on how GF revenues are analyzed and developed to better facilitate discussions during the annual budget development process.

A handwritten signature in black ink, appearing to read 'Dan Wang', with a horizontal line extending to the right from the end of the signature.

Dan Wang
Budget Analyst III