



## Five-Year General Fund Forecast

This report transmits the preliminary status for the General Fund (GF) fiscal year (FY) 2020-21 budget and a five-year GF forecast through FY 2024-25 (**Attachments A and B**). The five-year forecast is being presented to the Mayor and City Council for the ninth consecutive year and provides an essential tool in long-term budget discussions and decision making. The forecast currently shows a projected surplus of approximately \$28 million for FY 2020-21. While we are confident with our current forecast, it is important to note that it is based on pre-holiday sales tax collections. Given the year-to-date revenue growth it is likely that revenue estimates could be adjusted in the next few weeks, resulting in additional resources. The forecast shows a structurally balanced budget, where ongoing revenues are available for existing programs. However, we are always mindful of employee and pension costs and the potential for a recession, which is modeled for the second consecutive year in the attached Budget and Research report (**Attachments C through E**).

### **THIS ITEM IS FOR INFORMATION AND DISCUSSION.**

#### **Summary**

The February 2020 Five-Year Forecast projected that without any action, the City of Phoenix would have a GF budget status between (\$10 million) to \$14 million for 2020-21. As a result of strong revenue collections and sustained effort by staff to spend wisely, several steps have led to a potential surplus of \$28 million for FY 2020-21 (this assumes no actions by the State to change revenue from existing projections and no economic downturn in the next 12-15 months). These include accumulating one-time savings of \$19.5 million in FY 2018-19 and proactive steps in FY 2019-20 to reduce ongoing costs and to defer and reduce spending wherever possible.

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

- \$134 million in innovation and efficiency savings to date, since 2010.
  - Net reduction in city employee count of approximately 2,700 positions since FY 2007-08, resulting in the smallest government per capita since 1970-71.
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- Consistently raising the contingency fund to its highest level in our history.
- Balancing the deficit in the Public Safety funds without sworn layoffs and the planned hiring of more than 425 Police Officers and 90 Firefighters between now and the end of FY 2020-21.
- Creating a Pension Reserve Fund which currently carries a balance of \$35 million that can only be used on Public Safety Pensions.

Through deliberate fiscal planning, early action and a strong economy, the projected funding gap for FY 2020-21 has been eliminated. Over the next few weeks, staff will continue to refine both revenue and expenditure estimates until we have a final status in March for the City Manager's Trial Budget.

### FY 2020-21

The preliminary expenditure estimates may change as cost estimates are further refined in the coming weeks; however at this time the preliminary FY 2020-21 GF expenditures to continue existing levels of service are projected to be \$1.438 billion. This compares to the adopted GF expenditure budget of \$1.393 billion for FY 2019-20. The increase accounts for Council priorities and previous commitments including:

- Negotiated \$27.6 million increase in employee compensation (\$16.6 million on-going and \$11.0 one-time);
- Increased civilian (\$3 million) and sworn (\$13 million) pension costs; and
- Increased contingency to maintain a four percent reserve (approximately \$4 million).

Combined GF civilian (COPERS) and sworn (PSPRS) pension costs are expected to increase by approximately \$16 million as compared to the FY 2019-20 budget. These increases are largely driven by reduced plan earnings and unrealized projected payroll growth. COPERS costs account for approximately \$3 million or 19 percent of the increase. PSPRS pension costs account for approximately \$13 million or 81 percent of the total increase. If a 20-year amortization period were used for PSPRS (instead of the adopted 25-year period), the projected GF public safety pension costs would increase by approximately \$30 million this year and \$36 million next year. This would have not only eliminated our projected \$28 million surplus, but would have also increased the likelihood for projected deficits throughout the forecast period.

As the five-year forecast shows, pension costs, particularly PSPRS, will continue to add significant pressure to the GF budget going forward. However, the pension reform measures for COPERS and PSPRS adopted by the State Legislature, City Council and Phoenix voters mean these short-term increases are anticipated to slow over time

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and are expected to result in significant savings over the next two decades.

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

- State charges for the implementation of Transaction Privilege Tax (TPT) reform are expected to increase from approximately \$4.4 million this year to \$4.9 million in FY 2020-21.
- The jail per diem rates charged by the Maricopa County Sheriff's Office (MCSO) for the incarceration of Phoenix prisoners will result in an increase of approximately \$1.0 million in FY 2020-21. Next year's booking rate is \$396.98 per inmate, an increase of 8.3 percent, and the housing rate is \$102.55 per day, a decrease of 2.5 percent. Staff from Police, Law and the Municipal Court are working to identify creative solutions to reduce city jail costs. Staff also continue to engage Maricopa County and the Sheriff's Office on cost containment measures.

Overall, non-pension operating expenditures (not including Pay-As-You-Go and vehicles) have been planned and manageable, increasing by \$28 million (or 2.7 percent) of which \$27.6 million is tied to negotiated employee compensation.

#### FY 2021-22 and Beyond

This year's forecast illustrates very similar results to last year's forecast. The baseline (midpoint) forecast for each year with the exception of FY 2021-22 reflects a balanced budget. As we look ahead the areas of concern for the GF budget are service costs, service levels, capital needs, and revenue. Service costs include employee compensation levels, use of technology and other ways to do our existing work more efficiently, and capital needs. Service levels involve the amount of services, hours and the number of facilities we keep open to serve the public. Revenues consider taxes, fees, economic growth, and the impact that the 2020 Census may have on the City's relative population share. The current forecast assumes no changes to existing labor contracts or service levels. It does, however, assume any surplus is incorporated into the subsequent years' expenditures, whether in labor costs, added services, set-asides, or other uses of the funds. The current labor contracts expire at the end of next fiscal year (June 2021) and contract negotiations will begin in December 2020. Any changes to these contracts will impact FY 2021-22 and beyond.

The Phoenix City Charter requires a balanced budget each year. On March 17, a balanced City Manager's Trial Budget will be presented for Council and Community discussion along with the Preliminary Five-Year Capital Improvement Program (CIP). The CIP budget will present options for debt service payments and one-time capital requests. Community Budget Hearings will begin in April ([Attachment F](#)).

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**Responsible Department**

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

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# City of Phoenix

<b>RESEARCH REPORT BUDGET AND RESEARCH DEPARTMENT</b>	B.R. REPORT NUMBER <b>2020-05</b>
	DATE ISSUED March 3, 2020

TO: <b>ED ZUERCHER</b> CITY MANAGER	FOR THE BUDGET AND RESEARCH DIRECTOR BY: <b>JEFF BARTON</b> BUDGET AND RESEARCH DIRECTOR
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SUBJECT <b>FIVE-YEAR FORECAST AND PRELIMINARY GENERAL FUND STATUS FOR FY 2020-21</b>
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## BACKGROUND

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

The Five-Year Forecast estimates future revenues and expenditures of the General Fund for the current fiscal year through fiscal year 2024-25. The purpose of this forecast is to identify key trends in revenues and expenditures and to provide information about the financial landscape anticipated over the next few years. The information contained in this forecast is based on data available through January 2020.

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

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

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

The forecast is built on several assumptions outlined in [Attachment B](#) regarding:

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

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

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

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

Additionally, even slight variances in the revenue and expenditure growth rates in the initial years of the forecast result in substantial changes to the later years due to the compounding effect of the changes. For example, a variance in revenue growth in FY 2020-21 of only 1%, can result in a variance of \$12.8 million to the ending balance, which would impact the ending fund balances in the subsequent forecast years. Long term forecasts become less reliable the further they are from development because of the many underlying assumptions subject to frequent fluctuations.

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

It has been more than ten years since the end of the last recession. According to the National Bureau of Economic Research, the U.S. is in its longest economic expansion in history, breaking the record of 120 months of economic growth. Although the economy continues to grow, there are still risks that could derail the longest expansion ever. To better prepare the City for future challenges, “Stress testing” scenarios for moderate and severe recessions are included in this report ([Attachment C, D and E](#)).

## OTHER INFORMATION

It is important to note that the preliminary FY 2020-21 budget is based on existing state-shared revenue models and statutory obligations. Any changes to state shared revenue formulas or other revenue sources proposed in the Governor's budget or in legislative bills that would impact the GF budget are not reflected and would need to be addressed, if adopted by the State.

### Preliminary Status of 2020-21 General Fund Budget

2020-21 Resources- The chart below shows the preliminary resources projection:

<b>GF Resource Category</b>	<b>2020-21 Preliminary Estimate (in millions)</b>	<b>2020-21 Preliminary Projected Annual Growth Rate %</b>
Local Sales & Excise Taxes	\$533	4.2%
State-Shared Revenue <sup>1</sup>	\$496	7.8%
Primary Property Tax <sup>2</sup>	\$180	5.3%
User Fees and Other	\$141	1.4%
Beginning Balance <sup>3</sup>	\$103	N/A
Transfers/Recoveries <sup>3</sup>	\$13	N/A
<b>Total GF Resources</b>	<b>\$1,466</b>	<b>2.9%</b>

<sup>1</sup> This does not reflect any impact to State-Shared Revenue resulting from the FY 2020-21 State budget, nor legislative changes that have recently been proposed or discussed during the current legislative session.

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

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

*Revenue Forecasting Model*- In the fall of 2014, Budget and Research consulted with the University of Arizona's Eller College of Management, Economic and Business Research Center (EBRC) to enhance the City's sales tax revenue forecasting process. Dr. George Hammond, EBRC Director, and Dr. Alberta Charney, Senior Research Economist, spent several months working with City staff to develop an enhanced econometric sales tax forecasting model for all categories of City and State sales tax. In the Summer of 2017, staff worked with EBRC to update the tax forecasting model. The EBRC leads the State of Arizona Forecasting Project, which provides in-depth economic forecast analysis and databases on a subscription basis to businesses, organizations, and government via membership. The additional consulting with Drs. Hammond and Charney has provided the City with solid, independent economic and statistical expertise used to develop a statistically valid forecasting model specifically for the City of Phoenix. The projected growth rates in each category of sales tax for the FY 2020-21 estimate and five-year forecast are based on projections developed with the enhanced econometric forecasting model.

2020-21 Expenditures- The preliminary expenditure estimates may change as cost estimates are further refined in the coming weeks. At this time, the preliminary FY 2020-21 General Fund



expenditures are projected to be \$1.438 billion. Comparing to the adopted GF expenditure budget of \$1.394 billion for FY 2019-20, the increase is primarily due to increase in employee compensation and additional expenditures for pension.

*Pension Costs* - Expected changes in COPERS and PSPRS pension costs are as follows:

- **COPERS:** GF pension costs in COPERS are expected to increase by about \$3 million as compared to the current year budget. The overall trend in COPERS pension cost has been driven by recent actuarial changes, plan earnings, and payroll growth.
- **PSPRS:** The GF costs for sworn Police and Fire are expected to increase by about \$13 million compared to the current year budget. The primary factors contributing to the growth over the current year budget are recent actuarial changes, plan earnings, and changes to the payroll base. The overall trend in sworn Police and Fire pension cost has also been impacted by repealed pension reform measures from the Fields and Hall State Supreme Court decisions, and to some extent pension reform. As the five-year forecast shows, rising pension costs will add significant pressure to the GF budget going forward. However, the pension reform measures enacted by the City Council and approved by Phoenix voters mean these short-term increases are anticipated to slow over time and are expected to result in significant savings over the next two decades.

*Contingency* – The contingency fund is assumed to increase from \$55 million to \$59 million in FY 2020-21, remaining on track to grow to recommended levels. The growth in the contingency fund reflects an increase of \$4 million per year from FY 2020-21 to FY 2024-25. FY 2020-21 also reflects a one-time set-aside of \$0.3 million for Police to begin implementing National Police Foundation recommendations.

Detailed preliminary estimates with multiple year-to-year comparisons are included in the [Zero-Based Budget Inventory of Programs](#) document, which was presented to the Council on February 4, 2020 and is available online at [phoenix.gov/budget](http://phoenix.gov/budget). Revenue and expense estimates continue to be developed, and more definitive estimates will be presented along with the City Manager’s Trial Budget in March.

## **RECOMMENDATION**

The General Fund preliminary 2020-21 budget status and Five-Year Forecast are provided for information and discussion.

## **ATTACHMENTS**

[Attachment A- Five-Year General Fund Forecast](#)

[Attachment B- Forecast Assumption](#)

[Attachment C- Background, Methodology and Assumptions for Stress Testing](#)

[Attachment D- Stress Testing for Moderate Recession Scenario](#)

[Attachment E- Stress Testing for Severe Recession Scenario](#)

[Attachment F- Locations for 2020-21 Community Budget Hearings](#)



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

	2019-20	2020-21	2021-22	For Planning Purposes Only		
	Adopted	Preliminary		2022-23	2023-24	2024-25
	Budget	Budget Estimate	Forecast	Forecast	Forecast	Forecast
<b>Resources</b>						
Local Taxes	\$506	\$533	\$551 - \$559	\$571 - \$588	\$588 - \$615	\$609 - \$647
State Shared Revenues	463	496	509 - 516	529 - 545	547 - 572	569 - 605
Primary Property Tax	171	180	189 - 192	197 - 202	202 - 212	209 - 222
User Fees and Other	133	141	143 - 145	145 - 150	148 - 155	150 - 160
Other (Carryover Balance, Transfers, Recoveries)	73	61	17	20	25	40
Unused Contingency from Prior Year	48	55	59	63	67	71
<b>Total Resources</b>	<b>\$1,394</b>	<b>\$1,466</b>	<b>\$1,468 - \$1,488</b>	<b>\$1,525 - \$1,568</b>	<b>\$1,577 - \$1,646</b>	<b>\$1,648 - \$1,745</b>
<b>Expenditures</b>						
Operating Expenditures	\$985	\$1,012	\$1,047 - \$1,041	\$1,071 - \$1,064	\$1,123 - \$1,115	\$1,172 - \$1,163
Civilian Pension	89	92	93	95	98	100
Sworn Public Safety Pension	223	236	244	255	265	275
Contingency	55	59	63	67	71	75
Set-Asides	3	-	-	-	-	-
Pay-As-You-Go Capital (Includes Technology Plan)	19	19	19	18	18	18
Minimum Vehicles	20	20	20	20	20	20
<b>Total Expenditures</b>	<b>\$1,394</b>	<b>\$1,438</b>	<b>\$1,486 - \$1,480</b>	<b>\$1,526 - \$1,519</b>	<b>\$1,595 - \$1,587</b>	<b>\$1,660 - \$1,651</b>
<b>PROJECTED (DEFICIT)/SURPLUS:</b>	<b>\$ -</b>	<b>\$28</b>	<b>\$(18) - \$8</b>	<b>\$(1) - \$49</b>	<b>\$(18) - \$59</b>	<b>\$(12) - \$94</b>

**Key Resource Forecast Assumptions:**

- \* The forecast assumes modest revenue growth with no recession, no fee increases or decreases and no new revenue sources.
- \* No changes to current revenue base as provided in state and city laws or to state shared revenue formulas.
- \* Relative population share used in calculating state shared revenues in 2020-21 was based on the 2018 Census Bureau Population Estimate. It was projected to remain flat throughout the forecast period. The actual share will change annually based on Census Bureau Population Estimates and the 2021-22 share will be impacted by the 2020 Decennial Census.

**Other Forecast Notes:**

- \* Ranges provided for revenues and operating expenditures. Upper & lower ends of ranges increase slightly in later years of forecast reflecting additional economic uncertainty in the later years.
- \* Ranges include pessimistic and optimistic scenario within assumptions provided by the primary sources of economic information mentioned in this report.
- \* When a baseline deficit or surplus is projected, the next year's operating expenses are assumed to be decreased or increased by the baseline deficit/surplus amount prior to applying the assumed annual projected growth rate, as the City is required by Charter to balance the budget each year.

**Key Expenditure Forecast Assumptions:**

- \* The contingency fund increases annually \$4M through the forecast period.
- \* Includes no additional future funding for program enhancements, unfunded mandates, expiring grants, etc.
- \* 2020-21 employee costs based on projections under the current Council-adopted pay plan ordinance and employee contracts. No assumptions have been made concerning future labor contract negotiations. Pension costs based on required and projected contribution rates provided by the respective pension system actuaries.
- \* Non-personnel related expenditures for 2021-22 and beyond assumes expenditure growth is in line with recent historical averages.

## ATTACHMENT B

### Forecast Assumptions

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

The list below includes the primary sources of information:

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

### Economic Outlook

The consensus from these trusted sources is Arizona and the Phoenix Metro area are on pace to post another year of solid growth. Despite political and policy uncertainties, they predict the state's economy will continue to expand albeit at a slower pace. 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 broken the record and become the longest one in U.S. history since the global financial crisis. With sustained job gains, low unemployment rate, and high consumer confidence, the concerns of recession are easing. However, there are still some notable risks (trade disputes, an inverted yield curve, slow growth in China and Europe, and the coronavirus outbreak) that may end the U.S. economic expansion at some point within the forecast range.

At the national level, the National Blue Chip of Economic Indicators forecast GDP growth of 1.9% in 2020, which indicates a relative slow (2.3% in 2019) but steady growth path through next year (Blue Chip Economic Indicators, Vol. 45, No. 1 January 2020). Driving the slowdown are weakening global growth, softening consumer spending, tariff and trade uncertainty, and approaching capacity constraints.

Arizona remains among the leading growth states and the growth is expected to continue in 2020. State job growth hit 2.5% over-the-year in the third quarter of 2019, which comfortably outpaced the nation at 1.5%. Arizona is a leader in diverse industrials ranging from construction to manufacturing to health care and professional services. Although economic performance in Arizona is forecast to

decelerate, the pace of state gains is projected to far exceed the national average (Economic Outlook, 2019 4th Quarter Report).

The State's FAC indicated in January 2020 that Arizona ranks 3rd in economic momentum among the nation, which is up from 4th last year. The rankings for major economic factors are listed below:

	AZ Rate	AZ Rank
Change in Personal Income	5.4%	7
Change in Population	1.7%	3
Change in Employment	2.4%	7

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

- Personal income for the Phoenix Metro area is projected to grow an average of 5.9% for the forecast and range from 5.8% to 6.0% (U of A Economic Research Center).
- Growth in population is expected to continue, but at lower rates than historical growth. Phoenix Metro population is projected to grow 1.8% in 2020, flat from 1.8% in 2019 (U of A Economic Research Center).
- Non-farm employment in metro Phoenix is estimated to grow 2.5% in 2020, a decrease from 3.1% in 2019 (U of A Economic Research Center).
- Arizona unemployment is estimated to fall to 4.5% in 2020, compared to 4.9% in 2019 (U of A Economic Research Center).
- The near term outlook for real estate in Greater Phoenix remains optimistic. Single-family residential permits are projected to increase by 4% in 2020. Multi-family permits are projected to be flat in 2020 and Greater Phoenix industrial construction is forecast to have significant speculative building activity in 2020 (ASU W.P. Carey School of Business- Greater Phoenix Blue Chip Forecast/ Economic Forecasting Luncheon, November 2019).
- Inflation is expected to increase during the forecast period with the Consumer Price Index-All Urban Consumers (CPI-U) rising by 2.1% in FY 2020-21. (U of A Economic Research Center). In the past 50 years, CPI-U has ranged from negative 0.4% in 2009, to a high of 13.5% in 1980 (U.S. Department of Labor Bureau of Labor Statistics).

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

Revenue assumptions beyond the broader economic considerations are described below:

- No further period of recession with modest revenue growth for the forecast horizon.
- Annual revenue growth rates range from 3.8% to 5.3% during the forecast period.
- No impact to current revenue tax base, as provided in applicable state statutes and City ordinances.
- No future impact to state shared revenue formulas or legislation or action that could impact city revenue sources.

- Phoenix's relative population share, which impacts state shared revenue collections, was projected to remain flat throughout the forecast period. The actual share will change annually based on Census Bureau Population Estimates and the 2021-22 share will be impacted by the 2020 Decennial Census.
- No future fee increases or decreases and no new sources of revenue.
- Potential increases to revenue resulting from economic development efforts are not included in the forecast.
- Ranges provided for revenues: upper and lower ends of ranges increase slightly in later years of the forecast reflecting additional economic uncertainty.

**Expenditure Assumptions-** Assumptions regarding forecasted expenditures are described below:

- Annual operating expenditure growth rates, except for pension, are based on the historical growth rate and the estimated average of CPIs through the forecast period.
- Pension costs are based on historical actuals and information provided by the COPERS and PSPRS actuaries. The forecast does not attempt to predict future pension liabilities, assets or other plan assumptions, but rather to account for the currently anticipated costs of pension system.
- The forecast does not include the impact of additional potential reform measures for COPERS or PSPRS or the impact of pending litigation or proposed legislation.
- The forecast includes no additional future funding for program enhancements, unfunded mandates, expiring grants, etc.
- Pay-as-you-go capital costs are based on the preliminary estimates in the five-year Capital Improvement Program.
- The forecast includes projected debt service for the mandated Regional Wireless Cooperative radio replacements, the replacements of the city phone and badging systems, and associated technology infrastructure.
- The contingency fund increases annually \$4M through the forecast period.
- The 2020-21 total compensation costs are based on projections under the current Council-adopted pay plan ordinance and existing employee contracts.
- No other financial impact from changes to labor unit contracts resulting from future negotiations is assumed.
- In forecast years with a projected baseline deficit or surplus, the next year's operating expenses are assumed to decrease or increase by the baseline deficit/surplus amount prior to applying the assumed annual growth projection, as the City is required by Charter to balance the budget each year.
- Ranges provided for operating expenditures: upper and lower ends of ranges increase slightly in later years of the forecast reflecting additional economic uncertainty.

**Other Items that Could Impact the Base Budget or the Five-Year Forecast-** The costs below are items and needs that do not currently have a funding source or will likely require additional funding and therefore could have an adverse impact on the five-year forecast as it's currently presented. These costs may need to be ultimately borne, in part or in whole, by the General Fund if no other funding source is identified by the time these costs are imminent. Under the direction of the Mayor and City Council, staff has been exploring the potential for a bond program that could address critical public

safety systems and other city infrastructure. Staff plans to discuss a potential bond election timeline at a future City Council meeting.

- The forecast reflects the continued funding of approximately \$13 million per year that is earmarked to address aging City infrastructure and critical equipment. Examples of these projects include replacing fire life safety systems in City facilities and water intrusion and electrical projects at police headquarters. Also under the direction of the City Manager, staff continues to identify critical needs in all City facilities. This will require the work of several external firms that specialize in facility assessments. Staff has also taken active steps to enhance facility maintenance oversight by centralizing general fund facility maintenance funding and creating a facilities review committee. It is expected that this change will significantly enhance the prioritization of GF facility projects.
- General Fund vehicle funding has been maintained at \$20 million throughout the forecast period of which \$15 million or 75% is earmarked for public safety. While the forecast shows increased funding for vehicle replacements, the citywide need is much greater than the funding that is available. In the Fire Department additional funding is needed to replace apparatus equipment including pumpers, ambulances and ladders, which were originally purchased with voter approved General Obligation Bond funds. Of the 88 fire pumper trucks in the fleet, over half will be due for replacement in the next five years. With limited funding available, a lease/purchase program was approved by Council to authorize the purchase of 15 fire pumper trucks at a cost of \$1.2 million per year starting in FY 2014-15, and these costs have been included in the forecast. Additionally, over 1,500 other GF city vehicles will come due for replacement throughout the forecast period. We continue to work with Public Works and Finance to develop a funding strategy that could address this need.
- The Police Department has an aerial fleet that consist of six helicopters and several fixed wing aircraft. Five of the helicopters are used to support daily patrol operations and one is used for mountain rescue. All of the helicopters and fixed wing aircraft are over ten years old and require a significant amount of annual maintenance to keep them operational and safe according to FAA standards. Given the age, maintenance and number of hours the aerial fleet is used annually it is likely that the entire fleet will need to be replaced in the near future. Funding for a replacement helicopter has been reserved in the current year. The cost to replace the entire aerial fleet is currently estimated between \$42 - \$48 million.

## ATTACHMENT C

### Stress Testing for General Fund

**Background** – “The business cycle is at a critical juncture. Recession risks in the U.S. are as high as they have been since the record-long economic expansion began more than a decade ago. Recessions and their place in the business cycle are an accepted fact of life in any organization, especially government. Therefore, preparing for recessions is an equally inescapable concept, with potentially devastating consequences for those who treat it as an afterthought.” (Moody’s Analytics, 2019). Stress testing was done for the General Fund to help the City better prepare for the next recession.

**Methodology/Assumptions**- "Stress test" in financial terminology, is an analysis or simulation designed to determine the ability of a given entity to deal with an economic crisis. Instead of doing a financial projection on a "best estimate" basis, a company or its regulators may do stress testing to estimate how robust an entity performs in certain negative circumstances, a form of scenario analysis. There are two scenarios for this stress testing: moderate and severe recession scenarios.

**Attachment D** shows a hypothetical moderate recession that is estimated to start in 2021-22. This scenario assumes that General Fund revenue, except state-shared income tax, will decline by 1% for two consecutive years. According to Moody’s Analytics, a recession typically affects budgets for at least two years. Although a moderate recession may impact revenue by more than 1%, the model is simulated with a 1% decrease. State-shared income tax distributed to cities and towns is based on the collections from 2 years prior, so the state-shared income tax decrease due to a moderate recession will not affect the revenue until 2023-24.

**Attachment E** shows a hypothetical severe recession that is estimated to start in 2021-22. This scenario assumes that General Fund revenue, except state-shared income tax, will decline by 3% for three consecutive years. The Great Recession lasted for about three years, so the severe scenario is estimated to affect the revenue for three consecutive years. Although a severe recession may hit the revenue by more than 3%, for simulation purpose, this stress test used a 3% decrease. Similar to the moderate scenario, the state-shared income tax decrease caused by the economic recession will not affect the revenue until 2023-24.

Assumptions for recoveries, fund transfers and expenditures remain the same as the model shown in **Attachment A**. However, the expenditures for the forecast period will be different due to the methodology applied in the model. When a deficit or surplus is projected, the next year’s operating expenses are assumed to be decreased or increased by the deficit/surplus amount prior to applying the assumed annual projected growth rate, as the City is required by Charter to balance the budget each year.



**ATTACHMENT D**  
**5-Year General Fund Forecast – Moderate Recession Scenario (\$Millions)**

	2019-20	2020-21	For Planning Purposes Only			
	Adopted Budget	Preliminary Budget Estimate	2021-22 Forecast	2022-23 Forecast	2023-24 Forecast	2024-25 Forecast
<b>Resources</b>						
Local Taxes	\$506	\$533	\$522 - \$530	\$517 - \$534	\$532 - \$558	\$550 - \$586
State Shared Revenues	463	496	494 - 501	500 - 516	505 - 529	512 - 545
Primary Property Tax	171	180	177 - 180	174 - 179	179 - 188	185 - 197
User Fees and Other	133	141	139 - 141	136 - 140	138 - 144	140 - 149
Other (Carryover Balance, Transfers, Recoveries)	73	61	17	20	25	40
Unused Contingency from Prior Year	48	55	59	63	67	71
<b>Total Resources</b>	<b>\$1,394</b>	<b>\$1,466</b>	<b>\$1,408 - \$1,428</b>	<b>\$1,410 - \$1,452</b>	<b>\$1,446 - \$1,511</b>	<b>\$1,498 - \$1,588</b>
<b>Expenditures</b>						
Operating Expenditures	\$985	\$1,012	\$1,047 - \$1,042	\$1,008 - \$1,002	\$1,005 - \$998	\$1,035 - \$1,027
Civilian Pension	89	92	93	95	98	100
Sworn Public Safety Pension	223	236	244	255	265	275
Contingency	55	59	63	67	71	75
Set-Asides	3	-	-	-	-	-
Pay-As-You-Go Capital (Includes Technology Plan)	19	19	19	18	18	18
Minimum Vehicles	20	20	20	20	20	20
<b>Total Expenditures</b>	<b>\$1,394</b>	<b>\$1,438</b>	<b>\$1,486 - \$1,481</b>	<b>\$1,463 - \$1,457</b>	<b>\$1,477 - \$1,470</b>	<b>\$1,523 - \$1,515</b>
<b>PROJECTED (DEFICIT)/SURPLUS:</b>	<b>\$ -</b>	<b>\$28</b>	<b>\$(78) - \$(53)</b>	<b>\$(53) - \$(5)</b>	<b>\$(31) - \$41</b>	<b>\$(25) - \$73</b>

**Key Resource Forecast Assumptions:**

- \* The forecast assumes moderate recession in 2021-22 and 2022-23, no fee increases or decreases and no new revenue sources.
- \* No changes to current revenue base as provided in state and city laws or to state shared revenue formulas.
- \* Relative population share used in calculating state shared revenues in 2020-21 was based on the 2018 Census Bureau Population Estimate. It was projected to remain flat throughout the forecast period. The actual share will change annually based on Census Bureau Population Estimates and the 2021-22 share will be impacted by the 2020 Decennial Census.

**Other Forecast Notes:**

- \* Ranges provided for revenues and operating expenditures. Upper & lower ends of ranges increase slightly in later years of forecast reflecting additional economic uncertainty in the later years.
- \* Ranges include pessimistic and optimistic scenario within assumptions provided by the primary sources of economic information mentioned in this report.
- \* When a baseline deficit or surplus is projected, the next year's operating expenses are assumed to be decreased or increased by the baseline deficit/surplus amount prior to applying the assumed annual projected growth rate, as the City is required by Charter to balance the budget each year.

**Key Expenditure Forecast Assumptions:**

- \* The contingency fund increases annually \$4M through the forecast period.
- \* Includes no additional future funding for program enhancements, unfunded mandates, expiring grants, etc.
- \* 2021-22 employee costs based on projections under the current Council-adopted pay plan ordinance and employee contracts. No assumptions have been made concerning future labor contract negotiations. Pension costs based on required and projected contribution rates provided by the respective pension system actuaries.
- \* Non-personnel related expenditures for 2021-22 and beyond assumes expenditure growth is in line with recent historical averages.



**ATTACHMENT E**  
**5-Year General Fund Forecast – Severe Recession Scenario (\$Millions)**

	2019-20	2020-21	2021-22	For Planning Purposes Only		
	Adopted	Preliminary		2022-23	2023-24	2024-25
	Budget	Budget Estimate	Forecast	Forecast	Forecast	Forecast
<b>Resources</b>						
Local Taxes	\$506	\$533	\$510 - \$519	\$494 - \$509	\$477 - \$500	\$493 - \$526
State Shared Revenues	463	496	489 - 496	489 - 505	471 - 494	471 - 502
Primary Property Tax	171	180	173 - 176	167 - 172	160 - 168	166 - 176
User Fees and Other	133	141	136 - 138	130 - 135	125 - 132	127 - 136
Other (Carryover Balance, Transfers, Recoveries)	73	61	17	20	25	40
Unused Contingency from Prior Year	48	55	59	63	67	71
<b>Total Resources</b>	<b>\$1,394</b>	<b>\$1,466</b>	<b>\$1,384 - \$1,405</b>	<b>\$1,363 - \$1,404</b>	<b>\$1,325 - \$1,386</b>	<b>\$1,368 - \$1,451</b>
<b>Expenditures</b>						
Operating Expenditures	\$985	\$1,012	\$1,047 - \$1,042	\$984 - \$978	\$956 - \$949	\$909 - \$902
Civilian Pension	89	92	93	95	98	100
Sworn Public Safety Pension	223	236	244	255	265	275
Contingency	55	59	63	67	71	75
Set-Asides	3	-	-	-	-	-
Pay-As-You-Go Capital (Includes Technology Plan)	19	19	19	18	18	18
Minimum Vehicles	20	20	20	20	20	20
<b>Total Expenditures</b>	<b>\$1,394</b>	<b>\$1,438</b>	<b>\$1,486 - \$1,481</b>	<b>\$1,439 - \$1,433</b>	<b>\$1,428 - \$1,421</b>	<b>\$1,397 - \$1,390</b>
<b>PROJECTED (DEFICIT)/SURPLUS:</b>	<b>\$ -</b>	<b>\$28</b>	<b>\$(102) - \$(76)</b>	<b>\$(76) - \$(29)</b>	<b>\$(103) - \$(35)</b>	<b>\$(29) - \$61</b>

**Key Resource Forecast Assumptions:**

- \* The forecast assumes severe recession from 2021-22 to 2023-24, no fee increases or decreases and no new revenue sources.
- \* No changes to current revenue base as provided in state and city laws or to state shared revenue formulas.
- \* Relative population share used in calculating state shared revenues in 2020-21 was based on the 2018 Census Bureau Population Estimate. It was projected to remain flat throughout the forecast period. The actual share will change annually based on Census Bureau Population Estimates and the 2021-22 share will be impacted by the 2020 Decennial Census.

**Other Forecast Notes:**

- \* Ranges provided for revenues and operating expenditures. Upper & lower ends of ranges increase slightly in later years of forecast reflecting additional economic uncertainty in the later years.
- \* Ranges include pessimistic and optimistic scenario within assumptions provided by the primary sources of economic information mentioned in this report.
- \* When a baseline deficit or surplus is projected, the next year's operating expenses are assumed to be decreased or increased by the baseline deficit/surplus amount prior to applying the assumed annual projected growth rate, as the City is required by Charter to balance the budget each year.

**Key Expenditure Forecast Assumptions:**

- \* The contingency fund increases annually \$4M through the forecast period.
- \* Includes no additional future funding for program enhancements, unfunded mandates, expiring grants, etc.
- \* 2020-21 employee costs based on projections under the current Council-adopted pay plan ordinance and employee contracts. No assumptions have been made concerning future labor contract negotiations. Pension costs based on required and projected contribution rates provided by the respective pension system actuaries.
- \* Non-personnel related expenditures for 2021-22 and beyond assumes expenditure growth is in line with recent historical averages.

**Attachment F**  
**City of Phoenix**  
**Locations for 2020-21 Community Budget Hearings**

<b>Date/Time</b>	<b>Council District(s)</b>	<b>Location Information</b>
Thursday, April 2, 2020 8:00 am	D6	<b>Pecos Community Center</b> 17010 S. 48th Street
Thursday, April 2, 2020 10:30 am	D6	<b>Devonshire Community Center</b> Auditorium 2802 E. Devonshire Avenue
Thursday, April 2, 2020 6:00 pm	D7/D8	<b>South Mountain Community Center</b> Century Room 212 E. Alta Vista Road
Thursday, April 2, 2020 6:00 pm	D5	<b>Pendergast Community Center</b> Multipurpose Room 10550 W. Mariposa Street
Monday, April 6, 2020 6:00 pm	D7	<b>Burton Barr Central Library</b> Pulliam Auditorium 1221 N. Central Avenue
Monday, April 6, 2020 6:00 pm	D1/D2	<b>Goelet A.C. Beuf Community Center</b> Multipurpose Room 3435 W. Pinnacle Peak Road
Monday, April 6, 2020 6:00 pm	D4	<b>Steele Indian School Park</b> Memorial Hall 300 E. Indian School Road
Tuesday, April 7, 2020 6:00 pm	D8	<b>Neighborhood Resource Center</b> 2405 E. Broadway Road
Tuesday, April 7, 2020 6:00 pm	D2/D3	<b>Paradise Valley Community Center</b> Multipurpose Room 17402 N. 40th Street
Wednesday, April 8, 2020 6:00 pm	D7/D8	<b>Cesar Chavez High School</b> Cafeteria 3921 W. Baseline Road
Wednesday, April 8, 2020 6:00 pm	D4	<b>Phoenix Children's Hospital</b> Conference Center Bldg., Rm 103-104 2632 N 20th St, Phoenix, AZ 85006
Thursday, April 9, 2020 8:30 am	D1/D5	<b>Helen Drake Senior Center</b> 7600 N. 27th Avenue
Monday, April 13, 2020 6:00 pm	D7	<b>Country Place Leadership Academy</b> Cafeteria 10207 W. Country Place Blvd
Monday, April 13, 2020 6:00 pm	D3	<b>North Mountain Visitor Center</b> 12950 N. 7th Street
Tuesday, April 14, 2020 6:00 pm	Citywide Spanish/ English	<b>Maryvale Community Center</b> Multipurpose Room 4420 N. 51st Avenue
Thursday, April 16, 2020 8:00 am	D3	<b>Shadow Mountain Senior Center</b> 3546 E. Sweetwater Avenue
Thursday, April 16, 2020 6:00 pm	Citywide Youth	<b>Metro Tech High School</b> Banquet Hall 1900 W. Thomas Road
Wednesday, April 22, 2020 6:00 pm	D4	<b>Encanto Park Clubhouse</b> Ballroom 2605 N. 15th Avenue
Wednesday, April 22, 2020 6:00 pm	D3/D5	<b>Sunnyslope Community Center</b> Multipurpose Room 802 E. Vogel Avenue