



City of Phoenix

To: Mayor and City Council

Date: April 9, 2020

From: Ed Zuercher
City Manager

A handwritten signature in black ink, appearing to be 'EZ' followed by a long horizontal stroke.

Subject: 2020-21 TRIAL BUDGET

The speed of the current economic downturn caused by the COVID-19 public health crisis is unprecedented.

In just three weeks, we moved from a Trial Budget with a projected \$28 million General Fund budget surplus for 2020-21 to the new Trial Budget with a \$26 million deficit, after accounting for spending reductions and a hiring freeze implemented on March 19.

Our response to this economic situation is based on the following principles:

1. Work through a deliberate process based on facts, not fear; IN ORDER TO
2. Identify a balanced 2020-21 budget that gives the City Council flexibility if the economy does better, or worse, than projected; AND
3. Prepare a plan for phased cuts, if necessary, that can be evaluated on a monthly basis beginning in July 2020.

The following City Council report outlines a balanced budget for 2020-21. It proposes responsible actions that do not cut services or city employees. Instead it uses some available resources like land sales; eliminates some planned increases to the contingency (rainy-day) fund and pension stabilization funds; and reduces planned spending on vehicles and hiring (referred to as "vacancy savings").

It also makes \$1 million available for Council priorities that had been adopted or expressed earlier this year. Allocation is at the City Council's discretion; one idea for discussion is suggested in attachment C.

While working on the 2020-21 budget adoption process, we will also prepare a plan for future options the City Council can evaluate after the budget year begins on July 1. City departments will prioritize reductions up to 25% of their budgets for evaluation by the City Council. This is a preparation, not an action. We will know how much, if any, of these reductions will be needed as we learn more about our sales tax revenues in May and June. By then, we can better assess how the Federal CARES act funding might help our General Fund budget. We do know CARES funding will provide for a strong response to our COVID-related expenses and needs in the community.

Based on Council feedback, a Proposed Budget will be presented for review on May 5, with a Council action scheduled on May 19.

I want to thank our employees for continuing to provide critical services during the pandemic. And I want to thank the Council for its diligent leadership during this unprecedented time.



2020-21 City Manager's Revised Trial Budget

In recent weeks the COVID-19 virus has exacerbated the economic downturn across the entire globe. As a result we are expecting local tax revenues to decline from current levels. Action is needed to balance the City General Fund (GF) budget for next fiscal year (2020-21). This report provides City Council with a revised Trial Budget that does not reduce direct services to the public or City employees.

THIS ITEM IS FOR DISCUSSION AND POSSIBLE ACTION.

On March 3, 2020, the Budget and Research Department presented a five-year GF forecast to the City Council. At the time the economy was strong and city and state sales tax revenues were approximately 6% higher than the previous fiscal year. For the upcoming fiscal year, GF resources were projected to be \$1.466 billion (**Line A - Attachment A**). This represented an increase of approximately \$42 million over current year projected resources. The 2020-21 GF Trial Budget expenditures were projected to be \$1.438 billion (**Line B - Attachment A**). The report projected a surplus of approximately \$28 million (**Line C - Attachment A**). That is, after accounting for the estimated GF revenues and estimated GF expenditures, we estimated that approximately \$28 million would be available to address critical issues.

However like the rest of the country over the last three weeks, Phoenix is beginning to feel the effects of the economic downturn. The current economic situation is unlike anything that we have seen before because it is being exacerbated by the COVID-19 pandemic. As of April 6 the pandemic has necessitated over 38 states and countless cities to issue Shelter-In-Place and Stay-At-Home orders. As of March 28, over 10,000,000 Americans and 89,000 Arizonans have applied for unemployment benefits. Across the county, analysts are estimating that the number of failed businesses and lost jobs could easily and quickly surpass the Great Recession.

Over 30% of the city's revenue comes from sales taxes related to retail sales and tourism and entertainment. As a result of COVID-19 and its impact on the local economy, we now anticipate that our financial situation has drastically changed from what was presented on March 3. On April 2, staff presented four different scenarios that may result over the coming months. Those scenarios were based on data from the

Great Recession, local and national economists and information from other municipalities. The four scenarios project potential deficits of \$26 million to \$128 million depending on the severity and length of the downturn. Much of what we know at this point is based on prior experience and anecdotal information from the Great Recession as there is a two-month lag in sales tax activity and reporting. For the purposes of adopting a balanced budget for FY 2020-21, we are working from the scenario in which the downturn and decline in sales tax lasts through July 2020. Under this scenario, between now and the end of next fiscal year, our projected resources will be approximately \$69 million less (**Line D - Attachment A**) than we projected on March 3, 2020. To help offset the loss in revenue we are working with departments to reduce spending in the current year by \$15 million (**Line E - Attachment A**). As a result, total resources for next fiscal year are now projected at \$1.412 billion (**Line F - Attachment A**) which is approximately \$54 million less than originally anticipated in the March 3 status report. Instead of a surplus of \$28 million we are now projecting a deficit of \$26 million (**Line G - Attachment A**).

By law, the City cannot operate at a deficit. Due to economic stress in the community, there is likely no support for raising taxes. Therefore the city has no choice but to cut expenditures. As presented, the Revised Trial Budget attempts to preserve existing City services by cautiously and strategically recommending reductions that minimize the impact on service delivery. Each reduction is reflected on **Attachment A (Lines H through M)** and **Attachment B**. The proposed reductions total \$27 million which is \$1 million more than the \$26 million target (**Line N - Attachment A**). The extra \$1 million was identified to provide City Council with some resources to address items previously voted on or to address other critical issues. **Attachment A** reflects the extra \$1 million allocated between Fire Emergency Dispatch staffing and the Office of Accountability and Transparency (OAT). **Attachment C** provides detailed information on the proposed additions to Fire 911 and OAT. Any other previously voted on item such as the International Strategy would remain approved but unfunded at this time. The Council can revisit these funding decisions should revenues improve during the upcoming fiscal year.

Next Steps in the 2020-21 Budget Adoption Process

To ensure that we remain on track to meet the deadlines for legal adoption, we ask that City Council approve the following items by April 21, 2020:

1. \$27 million of GF reductions (**Attachment B**)
2. \$600,000 for Fire Emergency Dispatch staffing
3. \$400,000 for initial OAT staffing

The City Manager's Proposed Budget will be presented to City Council on May 5, 2020 and Council action on the budget is scheduled for May 19, 2020. The remaining key

dates in this year's budget process are as follows:

<u>Date</u>	<u>Event</u>
May 5, 2020	City Manager's Proposed Budget
May 19, 2020	Council Budget Decision
June 3, 2020	2020-21 Tentative Budget Ordinance Adoption
June 17, 2020	2020-21 Funding Plan and Final Budget Ordinance Adoption
July 1, 2020	2020-21 Property Tax Levy Ordinance Adoption

Responding to COVID-19 and The Coronavirus Aid, Relief and Economic Security Act (C.A.R.E.S.)

The C.A.R.E.S. Act provides many types of funding for which local governments can apply for funding to offset COVID-19 related expenses. The Finance Department has provided guidance on tracking expenditures related to the Coronavirus Relief Fund so that we may seek reimbursement. The Coronavirus Relief Fund is intended to cover only those costs that are necessary expenditures incurred due to the public health emergency with respect to COVID-19 and that were not accounted for in the budget. There are other types of funding that are intended to supplement existing grants, such as CDBG or LIHEAP, and some that can be used to pay for a variety of services including operating costs for specific activities. Some funds have already been awarded using standing formulas and others are in the process or will need to be applied for. We are setting up a process to ensure that we have a full accounting of all of the C.A.R.E.S. related funding that the City has received, is eligible for, and has applied for. Our intent is to provide the City Council with regular updates on all COVID-19 and C.A.R.E.S. Act related activities and funding.

Future Actions That May Be Required

Staff has modeled four different economic scenarios. For budget adoption we are only asking City Council to address the first scenario which shows a manageable \$26 million dollar deficit. The next three scenarios show the deficit growing to as high as \$128 million. Because we will not have actual sales tax revenue for March until Mid-May we want to take a measured approach before we make further budget reductions. We have asked all GF departments to prepare possible cuts of up to 25% for Management and City Council review should the economy make this necessary. These reductions are due to Budget and Research by April 24. Budget and Research staff will analyze and evaluate each submittal and develop a potential list of reductions for City Council and community input no later than the first week of June. At that point the list of proposed reductions could be taken out to the community for input prior to City Council action. In mid-July, Budget and Research staff will have March, April and May revenue data which will allow us to update our financial status based on real data rather than anecdotal information. Following community input and using the updated

status provided by Budget and Research, City Council could take action on the list of proposed reductions in late July or early August.

We recognize this process will be difficult and challenging as the full economic impact of the COVID-19 crisis on the City's budget is uncertain at this point. The city has a history in times of economic downturn of responding swiftly and responsibly. The process laid out in this report is critically important so we can achieve our fiscal responsibility of adopting a balanced budget next fiscal year as required by State Statute and City Charter, while at the same time limiting the negative impact as much as possible to the programs and services we deliver to the residents of Phoenix.

ATTACHMENTS

- [Attachment A](#) - GF Revised Trial Budget Summary
- [Attachment B](#) - Proposed GF Budget Reductions
- [Attachment C](#) - Proposed GF Budget Additions
- [Attachment D](#) - Budget Adoption & Budget Reduction Calendar

Responsible Department

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

ATTACHMENT A - REVISED TRIAL BUDGET SUMMARY

- Based on Scenario 1 Presented on April 2, 2020
- Assumes -6.3% to -12.3% Change in Various GF Revenues
- Assumes Downturn Ends in July 2020
- Balances Anticipated Shortfall Without Impacting Service
- Provides \$1 Million for Minimal Ongoing Service Additions

2020-21 Revised Trial Budget

Total Resources (March 3, 2020)	1,466,000,000	(A)
Total Expenditures (March 3, 2020)	1,438,000,000	(B)
Original Status (March 3, 2020)	28,000,000	(C)
Adjustments to GF Resources (Sales Tax, User Fees, State Shared Revenue):		
Projected Impact to GF Revenues (Sales Tax, User Fees, State Shared Revenue)	(69,000,000)	(D)
Increase to FY 20-21 Beginning Balance due to FY 19-20 Savings	15,000,000	(E)
Revised Total Resources	1,412,000,000	(F)
Revised Status (April 2, 2020)	(26,000,000)	(G)
Recommended Trial Budget Balancing Actions:		
Proposed Trial Budget Changes		
Increase Vacancy Savings in FY 20-21 Resulting From Hiring Freeze	(13,000,000)	(H)
Increase GF Revenues by Transferring Proceeds From Surplus Land Sales	(6,800,000)	(I)
Eliminate Proposed Increase to GF Contingency / Rainy-Day Fund	(4,000,000)	(J)
Reduce GF Vehicle Replacements for Non-Public Safety Vehicles	(2,200,000)	(K)
Defer Planned Transfer Into the Public Safety Pension Stabilization Fund	(1,000,000)	(L)
Total of Recommended Changes to Original Trial Budget	(27,000,000)	(M)
Subtotal (Revised Status Compared to Proposed Changes)	1,000,000	(N)
Proposed Additions		
Add 8 Staff for the Fire Emergency 911 System	600,000	(O)
Office of Accountability and Transparency (OAT)	400,000	(P)
Total of Proposed Additions	1,000,000	(Q)
Updated Balance	-	(R)

ATTACHMENT B

2020-21

**PROPOSED PHASE 1 REDUCTIONS
GENERAL FUND**

Inventory of Programs

<https://www.phoenix.gov/budgetsite/budget-books/2019-20CitywideInventoryOfPrograms.pdf>

Item	2020-21
1. Increase estimated vacancy savings resulting from a hiring freeze of vacant civilian positions.	(\$13,000,000) -
2. Transfer proceeds from real estate transactions into the General Fund. This would extend the Phoenix Parks and Preserves Initiative (PPPI) reimbursement plan.	(6,800,000) -
3. Eliminate the proposed \$4 million increase to the Contingency (Rainy-Day) Fund for FY 2020.21. The Contingency Fund would remain funded at \$55.4 million.	(4,000,000) -
4. Reduce the General Fund replacement budget for non-public safety vehicles from \$5 million to \$2.8 million.	(2,200,000) -
5. Eliminate a planned transfer of \$1 million into the Public Safety Pension Stabilization Fund.	(1,000,000) -
<u>TOTAL PROPOSED PHASE 1 GENERAL FUND REDUCTIONS</u>	(\$27,000,000) -

ATTACHMENT C

2020-21

PROPOSED SUPPLEMENTALS
GENERAL FUND

Inventory of Programs

<https://www.phoenix.gov/budgetsite/budget-books/2019-20CitywideInventoryOfPrograms.pdf>

Department/Program

2020-21
Ongoing

City Manager's Office

Program: Administration

- | | | |
|----|--|------------------|
| 1. | Add an Executive Director, an Administrative Assistant I, and outside legal services to establish a Community Review Board and an Office of Accountability & Transparency as approved by City Council on February 25, 2020. Other positions can be requested in the future when the budget situation improves. | \$400,000
2.0 |
|----|--|------------------|

Fire

Program: Fire Emergency Medical Services and Hazardous Incident Response

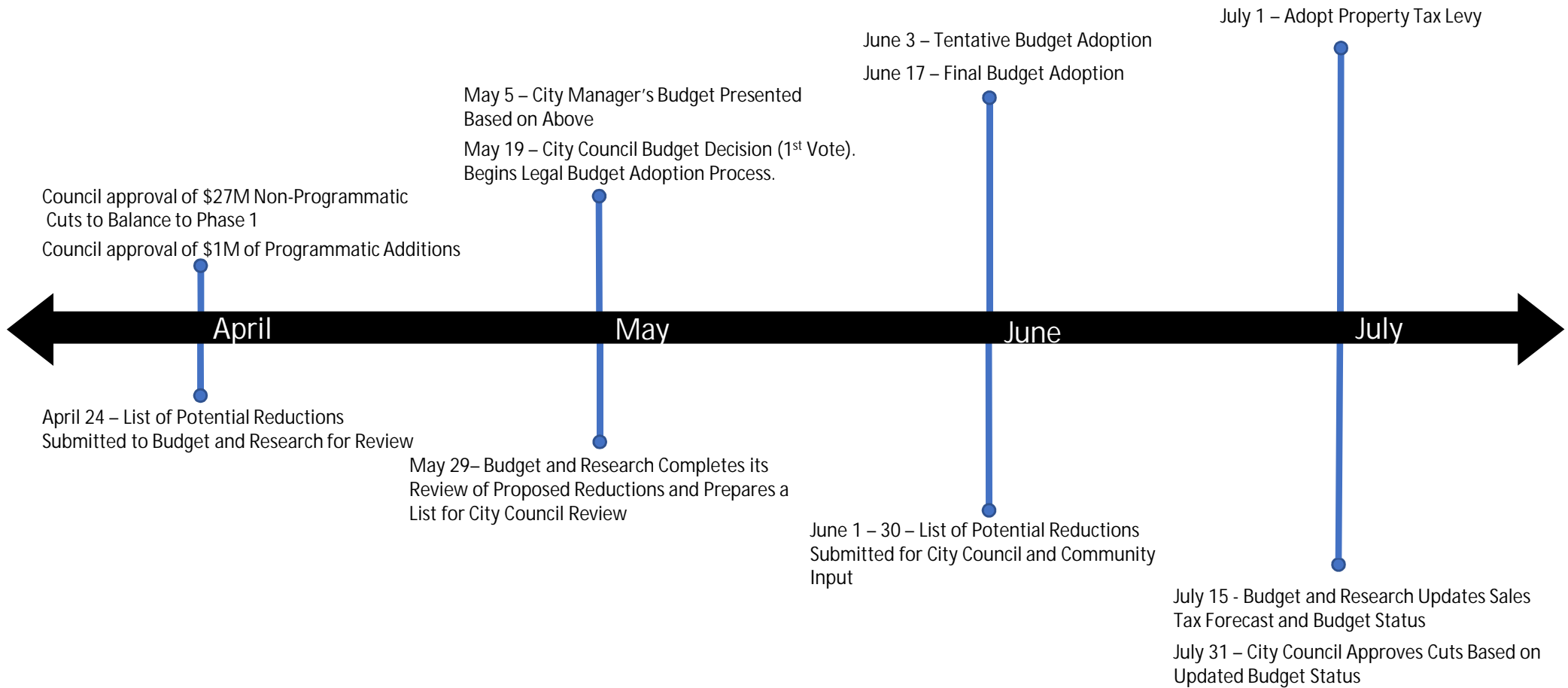
- | | | |
|----|--|----------------|
| 2. | Add funding for 8 new positions consisting of one Fire Communications Supervisor, two Fire Emergency Dispatcher * Lead, and five Fire Emergency Dispatchers for the Phoenix Fire Regional Dispatch Center (PFDRDC) which provides 9-1-1 fire and medical emergency call-taking and dispatching services for the City of Phoenix and 26 other jurisdictions. The cost for these new positions will be shared beginning in 2021-22 between the City of Phoenix (50%) and the 26 partner jurisdictions (50%). | 600,000
8.0 |
|----|--|----------------|

TOTAL PROPOSED GENERAL FUND ADDITIONS

\$1,000,000
10.0

Attachment D

2020-21 LEGAL BUDGET ADOPTION PROCESS



2020-21 BUDGET REDUCTION SCHEDULE