



# Agenda

## City Council Policy Session

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Tuesday, September 27, 2022

2:30 PM

phoenix.gov

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### **OPTIONS TO ACCESS THIS MEETING**

#### **Virtual Request to speak at a meeting:**

- **Register online** by visiting the City Council Meetings page on phoenix.gov **at least 2 hours prior to the start of this meeting**. Then, click on this link at the time of the meeting and join the Webex to speak: <https://phoenixcitycouncil.webex.com/phoenixcitycouncil/onstage/g.php?MTID=ef229b17ff5227fcffd0e1b66560d6f81>

- **Register via telephone** at 602-262-6001 **at least 2 hours prior to the start of this meeting**, noting the item number. Then, use the Call-in phone number and Meeting ID listed below at the time of the meeting to call-in and speak.

#### **In-Person Requests to speak at a meeting:**

- Register in person at a kiosk located at the City Council Chambers, 200 W. Jefferson St., Phoenix, Arizona, 85003. Arrive **1 hour prior to the start of this meeting**. Depending on seating availability, residents will attend and speak from the Upper Chambers, Lower Chambers or City Hall location.

- Individuals should arrive early, 1 hour prior to the start of the meeting to submit an in-person request to speak before the item is called. After the item is called, requests to speak for that item will not be accepted.

#### **At the time of the meeting:**

- **Watch** the meeting live streamed on phoenix.gov or Phoenix Channel 11 on Cox Cable, or using the Webex link provided above.

- **Call-in** to listen to the meeting. Dial 602-666-0783 and Enter Meeting ID 2550 849 8837# (for English) or 2555 746 2173# (for Spanish). Press # again when prompted for attendee ID.

- **Watch** the meeting in-person from the Upper Chambers, Lower Chambers or City Hall depending on seating availability.

**Para nuestros residentes de habla hispana:**

- **Para registrarse para hablar en español**, llame al 602-262-6001 **al menos 2 horas antes del inicio de esta reunión** e indique el número del tema. El día de la reunión, llame al 602-666-0783 e ingrese el número de identificación de la reunión 2555 746 2173#. El intérprete le indicará cuando sea su turno de hablar.

- **Para solamente escuchar la reunión en español**, llame a este mismo número el día de la reunión (602-666-0783; ingrese el número de identificación de la reunión 2555 746 2173#). Se proporciona interpretación simultánea para nuestros residentes durante todas las reuniones.

- **Para asistir a la reunión en persona**, vaya a las Cámaras del Concejo Municipal de Phoenix ubicadas en 200 W. Jefferson Street, Phoenix, AZ 85003. Llegue 1 hora antes del comienzo de la reunión. Si desea hablar, regístrese electrónicamente en uno de los quioscos, antes de que comience el tema. Una vez que se comience a discutir el tema, no se aceptarán nuevas solicitudes para hablar. Dependiendo de cuantos asientos haya disponibles, usted podría ser sentado en la parte superior de las cámaras, en el piso de abajo de las cámaras, o en el edificio municipal.

**CALL TO ORDER****COUNCIL INFORMATION AND FOLLOW-UP REQUESTS**

This item is scheduled to give City Council members an opportunity to publicly request information or follow up on issues of interest to the community. If the information is available, staff will immediately provide it to the City Council member. No decisions will be made or action taken.

**CONSENT ACTION**

This item is scheduled to allow the City Council to act on the Mayor's recommendations on the Consent Agenda. There was no Consent Agenda for this meeting.

**CALL FOR AN EXECUTIVE SESSION**

A vote may be held to call an Executive Session for a future date.

**REPORTS AND BUDGET UPDATES BY THE CITY MANAGER**

This item is scheduled to allow the City Manager to provide brief informational reports on topics of interest to the City Council. The City Council may discuss these reports but no action will be taken.

**DISCUSSION AND POSSIBLE ACTION (ITEM 1)****1      2021-22 Year-End General Fund Budget Results and  
2023-24 Budget Calendar**

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This report provides an overview of the 2021-22 General Fund (GF) budget results. Overall, actual resources of \$1,694.7 million exceeded estimates by \$31.7 million representing a variance of 1.9 percent. Total actual expenditures of \$1,470.3 million were \$7.3 million under the estimate representing a variance of only 0.5 percent. As a result, the GF ending balance of \$224.4 million was approximately \$39 million higher than estimated. This report also requests adoption of the 2023-24 budget calendar.

**THIS ITEM IS FOR DISCUSSION AND POSSIBLE ACTION.**

**Responsible Department**

This item is submitted by City Manager Jeffrey Barton and the Budget and Research Department.

**ADJOURN**



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## 2021-22 Year-End General Fund Budget Results and 2023-24 Budget Calendar

This report provides an overview of the 2021-22 General Fund (GF) budget results. Overall, actual resources of \$1,694.7 million exceeded estimates by \$31.7 million representing a variance of 1.9 percent. Total actual expenditures of \$1,470.3 million were \$7.3 million under the estimate representing a variance of only 0.5 percent. As a result, the GF ending balance of \$224.4 million was approximately \$39 million higher than estimated. This report also requests adoption of the 2023-24 budget calendar.

### **THIS ITEM IS FOR DISCUSSION AND POSSIBLE ACTION.**

#### **Summary**

The GF ending balance of \$224.4 million exceeded the estimate of \$185.4 million by \$39.0 million, primarily due to higher than anticipated revenue collections discussed further in this report. The fund balance carries forward to the current fiscal year and will be factored into the development of the 2023-24 GF Budget Status.

Two components make up the GF ending balance: resources and expenditures. GF 2021-22 actual resources were \$1,694.7 million and exceeded the estimate of \$1,663.0 million by \$31.7 million, or a variance of 1.9 percent. Higher than anticipated revenue collections contributed to the GF ending balance. GF revenues were \$1,495.7 million, representing a variance to the revised revenue estimate of \$45.8 million. The increased revenue collections were partially offset by increased transfers, primarily to City trust funds including the Worker's Compensation Trust and the Self-Insurance Reserve Trust. These trust funds are statutorily and actuarially required to be adequately funded and additional resources are needed due to increases in the cost of insurance and required reserve amounts. It is anticipated increased funding requirements for these trust accounts will continue for the near future. GF expenditures ended the fiscal year at \$1,470.3 million, and \$7.3 million less than the revised estimate of \$1,477.6 million. The GF expenditure variance is primarily due to more than estimated vacancy savings. City departments are having a very difficult time recruiting and retaining employees due to the competitive labor market. **Attachment A** provides graphical illustrations of the GF budget results and **Attachment B** provides a department by department comparison of GF expenditure actuals to the revised estimate.

Over the coming months staff will develop revised resource and expenditure forecasts to prepare a 2023-24 GF Budget Status and Five-Year Forecast scheduled to be presented to the City Council on Feb. 21, 2023.

## **2021-22 General Fund Results**

### **Resources**

Total resources include:

- Beginning fund balance;
- Annual revenue;
- Recoveries of prior year encumbrances that were not spent; and
- Interfund transfers to/from other City funds.

As mentioned above, GF resources were \$1,694.7 million for the 2021-22 fiscal year and include a beginning balance of \$283.0 million, revenues of \$1,495.7 million, recoveries of \$3.8 million, and net transfers out of \$87.8 million. Total GF resources exceeded estimates by \$31.7 million representing a variance of only 1.9 percent. The reason for the variance was higher than anticipated revenue collections primarily in city and state sales taxes, offset by lower than anticipated net transfers.

Revenue forecasting over the past two years has been extremely difficult in part due to the COVID-19 pandemic and more recently increased economic uncertainty. Several factors have influenced revenue collections and are uncharacteristic compared to past economic cycles. This includes the infusion of one-time funds from the federal government via the Coronavirus Aid, Relief, and Economic Security (CARES) and the American Rescue Plan (ARPA) acts into state and local economies. This is remarkable, unprecedented and has certainly influenced economic conditions. Additionally, high inflation has positively impacted sales tax collections. However, this positive trend should not be expected to continue as consumer purchasing power is diminished by the higher cost of goods and services which are not taxable. The recent geopolitical crisis in Europe, market volatility and concerns of recession by economic professionals have all contributed to uncertainty about the direction of the economy. Budget and Research staff worked diligently over the past two years since the pandemic started, to analyze revenue data and economic indicators, utilize our econometric model developed in partnership with the University of Arizona's Economic and Business Research Center for sales taxes, and listen to our trusted economic sources to project revenues. It is for these reasons staff has taken a cautious approach to estimating revenue and will continue to do so in order to ensure revenues

are not projected too aggressively in an uncertain economy. The 2021-22 Year End GF revenue report is available online at [phoenix.gov/budget](http://phoenix.gov/budget) and provides further details on revenue collections by category.

### **Expenditures**

Total GF expenditures were estimated at \$1,477.6 million, and actual expenditures were \$1,470.3 million, or \$7.3 million (0.5 percent) less than estimated. The variance is due to savings in department operating expenditures of \$6.3 million (**Attachment B**) and GF capital pay-as-you-go savings of \$1.0 million. As indicted above, savings in operating expenditures were primarily the result of City departments achieving more salary savings than expected. Staff built into the expenditure forecasts additional salary savings based on recent data trends, however the number of vacancies grew more than anticipated.

Budget and Research staff are underway with the annual salary and benefits projection review process and will soon start on the technical expenditure review process, which is a tried and true method of working with all City departments to evaluate spending at the line item level. This deep dive into department budgets will enable us to identify savings and establish realistic estimates necessary to continue existing programs and services. The process runs through November and is followed by the central review process, which involves estimating costs for various commodities such as fuel and electricity and personnel services line items, particularly pension. These processes are critical steps in development of the GF Budget Status.

### **Looking Ahead**

The 2021-22 GF ending fund balance variance of \$39.0 million is in "reserve" until the budget status for 2023-24 is developed over the next several months. The higher than anticipated ending fund balance is good news and will be beneficial as we move forward. However, the City faces many fiscal challenges in the years ahead which will require strategic decision making to optimize resources. These challenges include:

- Need to offer competitive and fair compensation packages to City employees;
- Rising employee benefit costs, particularly for Public Safety pension and health care;
- Additional resources to adequately fund City trust accounts;
- Deferred maintenance and aging infrastructure such as vehicles, equipment, and City facilities;
- Increases in expenses for replacing and protecting City information technology assets;
- Demand for additional or expanded GF services;

- Potential budgetary impacts from the Department of Justice investigation of the Police Department;
- Challenges estimating revenue collections in the current economic climate;
- Reductions to state shared revenues due to the decrease in Phoenix's relative population; and
- Potential reduction in state and federal funding or new unfunded state or federal mandates, including environmental requirements and attempts by the legislature to reduce taxes.

The items above add significant pressure and uncertainty to the GF operating budget and creates challenges estimating City revenues and expenditures. Staff will be working over the next few months to study data trends, gather updated economic information, and complete our necessary budget development steps in order to construct the GF 2023-24 Budget Status and Five-Year Forecast.

It is important to mention Phoenix's relative population share used to calculate state shared revenues has decreased again this year. Staff has estimated the negative impact to GF revenue could range from \$6 million to \$7 million per year. Pension costs will also continue for the foreseeable future based on information we received from the Public Safety Personnel Retirement System (PSPRS) actuary. Updated pension rates from the June 30, 2022 actuarial valuation will be provided to the City in December and will be used to develop the GF 2023-24 Budget Status and Five-Year Forecast. **Attachment C** includes historical and forecasted GF public safety pension costs based on the most recent estimates from the PSPRS actuary.

### **2023-24 Budget Calendar**

The City Charter and Code include legal deadlines and actions that must be followed in adopting the budget. In cases where the deadlines conflict, the City meets the earlier of the two dates or a date designated by the City Council. Adoption of the budget calendar ensures compliance with the City Charter and Code, and also allows staff to properly plan the budget development process and all legally required advertising. Staff requests City Council approval of the 2023-24 budget calendar reflected in **Attachment D**.

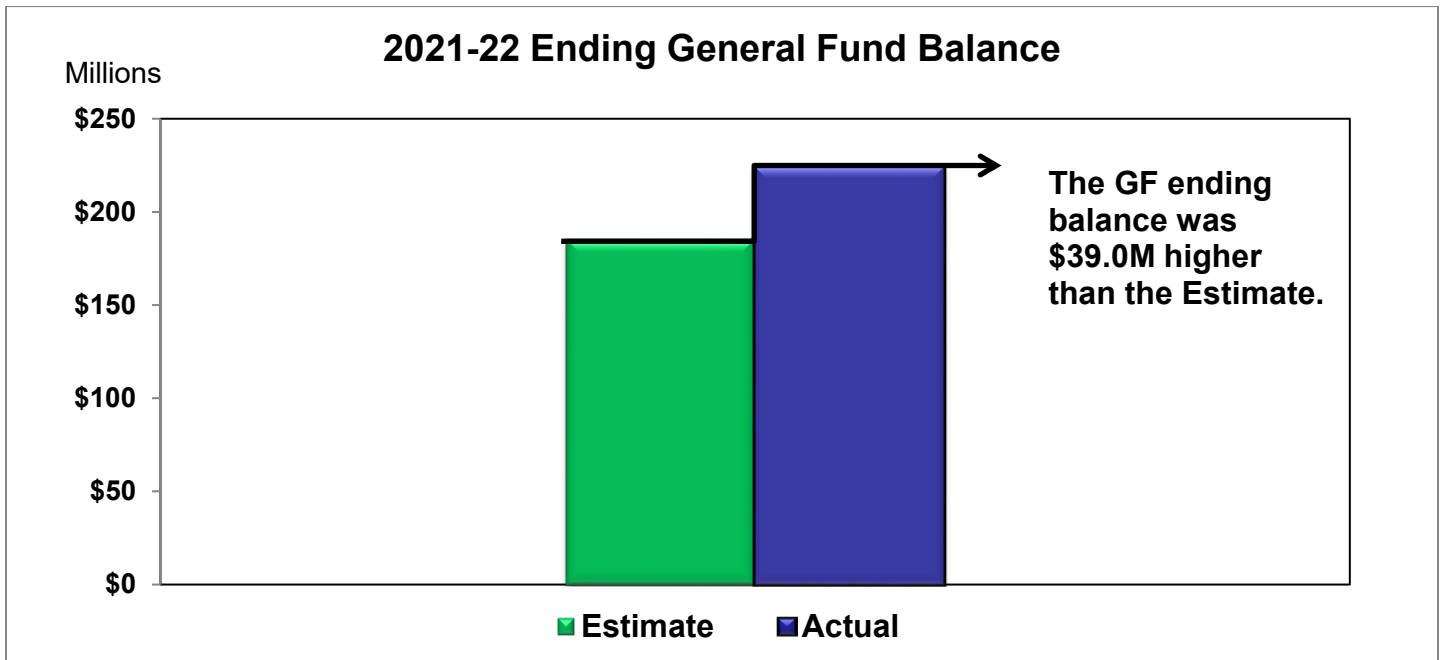
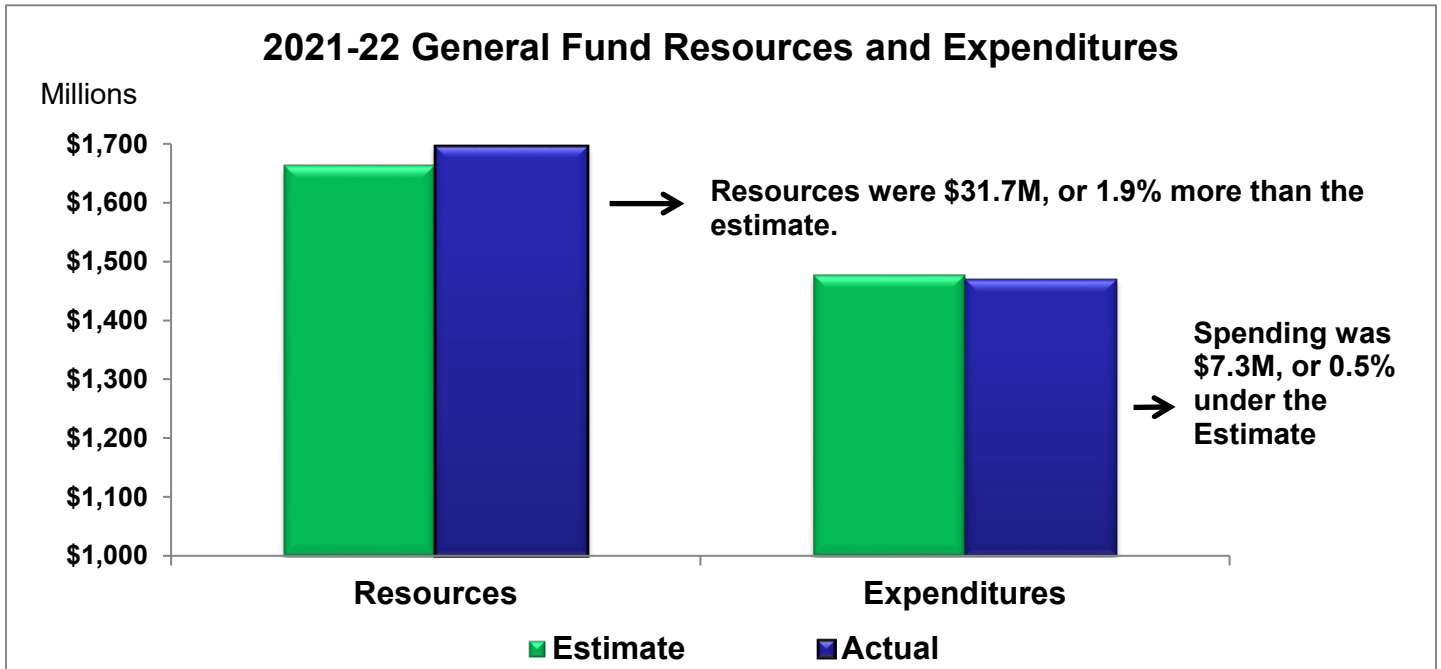
### **Responsible Department**

This item is submitted by City Manager Jeffrey Barton and the Budget and Research Department.

# ATTACHMENT A

Total 2021-22 General Fund (GF) resources were \$1,694.7 million and \$31.7 million more than estimated representing a variance of 1.9%. GF spending was \$1,470.3 million and \$7.3 million under the estimate representing a variance of -0.5%. As a result, the year-end fund balance was \$224.4 million and \$39.0 million more than estimated.

	Actual	Estimate	Variance Amount	Variance Percent
GF Resources	1,694.7	1,663.0	31.7	1.9%
GF Revenues	1,495.7	1,449.9	45.8	3.2%
GF Expenditures	1,470.3	1,477.6	-7.3	-0.5%
<b>GF Fund Balance</b>	<b>224.4</b>	<b>185.4</b>	<b>39.0</b>	<b>21.1%</b>



## ATTACHMENT B

### 2021-22 COMPARISON OF GENERAL FUND OPERATING EXPENDITURES REVISED ESTIMATE TO PRE-AUDIT ACTUALS (In Thousands of Dollars)

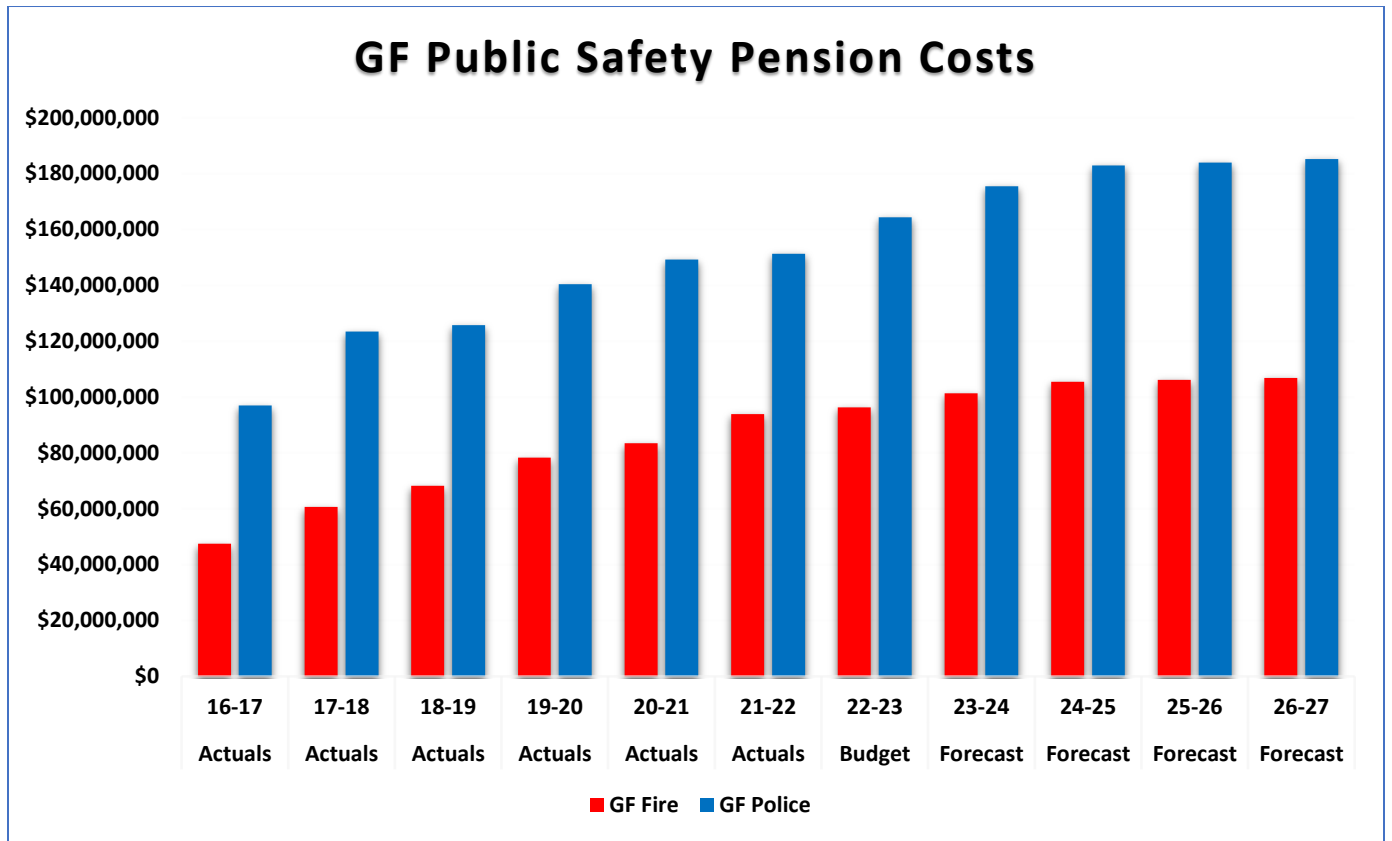
Program	Estimate	Pre-Audit Actuals	Variance	
			Amount	Percentage
<b>General Government</b>				
Mayor	\$ 2,447	\$ 2,200	\$ (247)	-10.1%
City Council	6,175	4,782	(1,393)	-22.6%
City Manager	8,087	6,143	(1,944)	-24.0%
Government Relations	1,256	1,288	32	2.5%
Communications Office	3,430	3,360	(70)	-2.0%
City Auditor	2,953	2,743	(210)	-7.1%
Equal Opportunity	2,898	2,789	(109)	-3.8%
Human Resources	23,787	20,630	(3,157)	-13.3%
Phoenix Employment Relations Board	117	104	(13)	-11.1%
Regional Wireless Cooperative	-	-	-	-
Retirement Systems	-	39	39	100.0%
Law	7,758	8,104	346	4.5%
Information Technology	62,776	63,048	272	0.4%
City Clerk and Elections	5,407	4,331	(1,076)	-19.9%
Finance	23,384	21,798	(1,586)	-6.8%
Budget and Research	4,272	4,008	(264)	-6.2%
<b>Total General Government</b>	<b>\$ 154,747</b>	<b>\$ 145,368</b>	<b>\$ (9,379)</b>	<b>-6.1%</b>
<b>Public Safety</b>				
Police	\$ 610,728	\$ 610,288	\$ (440)	-0.1%
Fire	387,810	382,352	(5,458)	-1.4%
Emergency Management	8	8	-	0.0%
<b>Total Public Safety</b>	<b>\$ 998,546</b>	<b>\$ 992,648</b>	<b>\$ (5,898)</b>	<b>-0.6%</b>
<b>Criminal Justice</b>				
Municipal Court	\$ 33,350	\$ 32,433	\$ (917)	-2.7%
City Prosecutor	16,868	16,539	(329)	-2.0%
Public Defender	7,470	7,575	105	1.4%
<b>Total Criminal Justice</b>	<b>\$ 57,688</b>	<b>\$ 56,547</b>	<b>\$ (1,141)</b>	<b>-2.0%</b>
<b>Transportation</b>				
Street Transportation	\$ 22,994	\$ 22,399	\$ (595)	-2.6%
Aviation	-	-	-	-
Public Transit	1,642	767	(875)	-53.3%
<b>Total Transportation</b>	<b>\$ 24,636</b>	<b>\$ 23,166</b>	<b>\$ (1,470)</b>	<b>-6.0%</b>

**ATTACHMENT B**  
**2021-22 COMPARISON OF GENERAL FUND OPERATING EXPENDITURES**  
**REVISED ESTIMATE TO PRE-AUDIT ACTUALS**  
(In Thousands of Dollars)

Program	Estimate	Pre-Audit Actuals	Variance		
			Amount	Percentage	
<b>Community Development</b>					
Planning and Development Services	\$ 4,827	\$ 4,414	\$ (413)	-8.6%	
Housing	1,576	1,578	2	0.2%	
Community and Economic Development	8,341	7,680	(661)	-7.9%	
Neighborhood Services	15,408	14,554	(854)	-5.5%	
<b>Total Community Development</b>	<b>\$ 30,151</b>	<b>\$ 28,225</b>	<b>\$ (1,926)</b>	<b>-6.4%</b>	
<b>Community Enrichment</b>					
Parks and Recreation	\$ 105,591	\$ 103,306	\$ (2,285)	-2.2%	
Library	43,154	41,683	(1,471)	-3.4%	
Phoenix Convention Center	3,082	2,445	(637)	-20.7%	
Human Services	22,648	21,708	(940)	-4.2%	
Office of Arts and Culture	4,680	4,489	(191)	-4.1%	
<b>Total Community Enrichment</b>	<b>\$ 179,155</b>	<b>\$ 173,631</b>	<b>\$ (5,524)</b>	<b>-3.1%</b>	
<b>Environmental Services</b>					
Water Services	\$ -	\$ -	\$ -	-	
Solid Waste Management	-	-	-	-	
Public Works	25,747	24,930	(817)	-3.2%	
Environmental Programs	1,272	1,112	(160)	-12.6%	
Office of Sustainability	494	465	(29)	-5.9%	
<b>Total Environmental Services</b>	<b>\$ 27,512</b>	<b>\$ 26,508</b>	<b>\$ (1,004)</b>	<b>-3.6%</b>	
<b>Non-Departmental Operating</b>					
Contingencies	\$ -	\$ -	\$ -	-	
Unassigned Vacancy Savings	(20,000)	-	20,000	-100.0%	
<b>Total Non-Departmental Operating</b>	<b>\$ (20,000)</b>	<b>\$ -</b>	<b>\$ 20,000</b>	<b>-100.0%</b>	
<b>GRAND TOTAL</b>	<b>\$ 1,452,435</b>	<b>\$ 1,446,093</b>	<b>\$ (6,343)</b>	<b>-0.4%</b>	

## ATTACHMENT C

The below chart illustrates the rise in General Fund (GF) costs for public safety pension. The forecast for fiscal years 2023-24 through 2026-27 is based on information from the Public Safety Personnel Retirement System (PSPRS) Actuary based on the valuation dated June 30, 2021, and included in the most recent GF Five-Year Forecast presented to City Council on February 22, 2022. Projected amounts account for changes made by the PSPRS Board to lower the payroll growth assumption from 3.5% to 2.0% by a factor of 0.5% each fiscal year, which causes upward pressure on employer contribution rates. Actual amounts may differ from the forecast. The forecast will be updated based on the June 30, 2022 valuation to be issued in December 2022 and will be included in the 2023-24 GF Budget Status and Five-Year Forecast scheduled to be presented to City Council on February 21, 2023.



# ATTACHMENT D

## 2023-24 BUDGET ADOPTION CALENDAR

<b>Date</b>	<b>Budget Items</b>
November 2022	FundPHX (available to the public)
February 2, 2023	2023-24 Inventory of Programs
February 21, 2023	Preliminary 2023-24 Budget Status and 5-Year General Fund Forecast
March 21, 2023	City Manager's Trial Budget and Preliminary CIP
April 2023	Community Budget Hearings (tentative)
May 2, 2023	City Manager's Proposed Budget
May 16, 2023	Council Budget Decision
May 31, 2023	2023-24 Tentative Budget Ordinance Adoption
June 14, 2023	2023-24 Funding Plan and Final Budget Ordinance Adoption
July 3, 2023	2023-24 Property Tax Levy Ordinance Adoption