

# Proposed 2006-07 Annual Budget



## **TO THE HONORABLE MAYOR AND CITY COUNCIL:**

This letter transmits our recommended balanced budget for the upcoming 2006-07 fiscal year. Unlike the \$117 million in cuts we've had to endure over the past four years, this budget recommends that all current city services be continued next year. In addition, in putting together this proposed budget, the General Fund had a very small – only \$2.4 million – balance remaining to fund improvements to community services. We recommend that these funds be used to leverage available grant funds and add 111 police patrol officers. In addition, we have used available public safety franchise fee revenues to provide for 24 additional police communications operators.

We also have combined these earmarked public safety funds with funds already set aside to provide for the opening of new capital facilities to operate four new fire stations and a new driver training facility.

This is a significant increase in our investment in public safety. These improvements are explained in much more detail in this budget along with our other recommendations for the upcoming year.

I appreciate the City Council, the community and city staff working together to balance our budget each year. I also appreciate the hundreds of residents who take time each year to attend a budget hearing or send comments by e-mail and voice mail. Only with all of us working together are we able to identify the community's highest priorities for our limited budget dollars. We regret that we are not yet financially able to begin adding back some of the services we've had to reduce the last few years. Among our highest priorities to restore in the future are swimming pool hours, library and community service hours; library material acquisitions; parks maintenance; and arts grants. Also, we would like to begin, once again, expanding the number of after-school recreation sites available throughout the city. While no sites were reduced over the past four years, we have been unable to provide new sites where they are needed.

## **GENERAL FUND RESOURCES AVAILABLE NEXT YEAR**

Our revenue growth for next year is expected to remain positive but must be adjusted downward for the estimated impact of the 2005 census. Our "before census" revenue growth for next year is estimated to be 11 percent. This increase is largely due to the significantly increased state income taxes to be shared with Arizona cities and towns next year. Also, local and state sales taxes are expected to continue to show growth although at somewhat reduced rates.

But, after adjusting for the estimated \$19.1 million estimated General Fund impact of the census, our growth rate will be reduced to 8.8 percent.

On the expenditure side, our costs are expected to grow at nearly the same rate. Cost increases include employee compensation including pension costs; continued fuel and utility cost increases; \$8.1 million in costs to open facilities recently constructed with 2001 bonds, parks and preserve initiative funds and impact fees; and replacing expiring grants. Also, in this recommended budget, we have included funding to increase the contingency fund from 2.6 to 2.7 percent of operating expenditures. We also have included a return to more normal levels of equipment replacement, especially vehicles. We have restored \$1 million in General Fund support to the transit system and to the street maintenance program.

As I mentioned earlier, the General Fund costs to open newly constructed capital facilities is \$8.1 million. While these new facilities bring new costs to the General Fund, the community will enjoy new fire stations, a new community and senior center, a new regional library, a new neighborhood police station and 17 new or improved parks facilities. In addition, franchise fees earmarked for public safety will be used to fund a new fire station and a new public safety driver training facility. With these two funding sources, a total of four new fire stations will open next year.

As I stated earlier in this letter, the net effect is that we have a small balance of only \$2.4 million remaining in the General Fund. We recommend this be used to leverage \$8.3 million in Universal Hiring grant funds and add 111 police patrol officers.





**Risks to the Proposed General Fund Budget**

Two significant risks to this proposed budget have been identified. First, we are still relying on preliminary census information. Based on this preliminary information, in this proposed budget we have assumed a \$19.1 million loss in state-shared revenues. Final census figures could result in a greater loss.

Next, during the course of this legislative session, several bills were introduced that would affect state-shared revenues. We continue to monitor these bills carefully as the legislative session comes to a close.

**RECOMMENDATIONS FOR THE POLICE DEPARTMENT**

The recommended budget adds 116 new police officer positions. Five of these are paid for with Aviation funds and will be stationed at the airport to provide a needed increase in airport security. The remaining 111 new police officers are recommended to provide a much-needed increase to citywide patrol strength. As mentioned earlier in this transmittal, \$2.4 million in available General Funds are recommended to leverage an existing Universal Hiring grant that will provide 75 percent of the funding for these new positions. After analyzing current academy capacity, current attrition rates, the lead time necessary to acquire equipment and fund availability, these 111 positions can be filled over the next three years. The recommended budget includes the necessary support staff to open and operate the Sunnyslope Neighborhood Police Station. Funding will come from already allocated new capital facility operations and maintenance costs.

Finally, we recommend that 24 communications operators be added to keep up with the growth in 911 calls. The communications operators are proposed to be funded with franchise fees earmarked for public safety.

In total, we recommend the police budget be increased by \$3.3 million and that 144 positions be added.

**RECOMMENDATIONS FOR THE FIRE DEPARTMENT**

The recommended budget includes funds to open and operate four new fire stations and a new public safety driver training facility. Funding for these new facilities will come from a combination of franchise fees earmarked for public safety and the funds allocated early in the budget process to open and maintain new capital facilities. Public safety franchise funds also are recommended to retain five temporary training captains. These captains will help to provide for the department's training needs over the next several years as experienced personnel retire and new station construction continues. Finally, additional resources for the Annual Facilities Program are recommended. These would be funded with permit fees.

In total, we recommend the fire budget be increased by \$3.7 million and that 83 positions be added.

**NEW FACILITY OPERATING COSTS – GENERAL FUNDS**

As mentioned earlier in this transmittal, the costs required to open and operate new capital facilities are a contributing factor to next year's tight General Fund budget. However, with these costs come a wide variety of new facilities for the community to enjoy. Included are the new Pecos Community Center and the new Cesar Chavez Library. Also recommended is funding to open and operate 17 new or improved parks facilities including newly constructed soccer fields, a new community learning center, a new gymnasium and new amenities at Rio Salado.

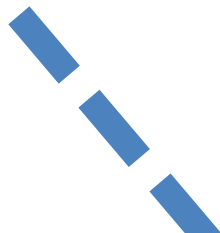
**RECOMMENDATIONS FOR THE ENTERPRISE FUNDS AND FOR OTHER RESTRICTED FUNDS**

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 earlier in this transmittal. Our enterprise funds include Aviation, Water, Wastewater, Solid Waste, Phoenix Convention Center and Golf funds. These funds, with the exception of the Convention Center, are funded with user fees. No tax funds are used. The Phoenix Convention Center uses a combination of rental fees paid by those using the facility, the parking fees associated with convention center garages and certain earmarked sales tax categories. These funds can only be used for costs associated with delivering enterprise fund services. The recommended budget includes several items for the Aviation, Phoenix Convention Center, Solid Waste and Water funds.

The restricted funds category includes federal and state grants, gas taxes, debt service, Development Services and voter-approved Transit 2000 funds. These funds can only be used in accordance with grant and other statutory rules. We have recommended a few items for the Transit 2000 and Development Services funds.

**Transit 2000 Funds**

We recommend that available Transit 2000 funds be used to restore weekday service from 10:30 a.m. to midnight on 12 of the 16 routes reduced last year. We also recommend that the Central Station once again be open on Saturdays and with extended hours. In addition, we recommend various route improvements and new neighborhood circulator service. We've also recommended additional RAPID trips to meet demand and reduce overcrowding. Finally, we recommend funding to improve the maintenance of bus stops and other transit facilities.



### **Development Service Funds**

Recommendations for the Development Services Fund include the addition of critical administrative support. Over the past few years, Development Services service delivery staff has increased by 50 percent. Administrative staff support has not kept pace.

### **Aviation Funds**

The Aviation Fund is expected to see modest revenue growth next year as landing weights and passenger levels continue to grow. Over the next several years, while we expect to see airport revenues continue to grow, the fund will be strained by the need to meet critical capital needs combined with continued pressure from the airlines to keep rates as low as possible.

Therefore, we recommend only a few additions to the airport budget. Staffing and maintenance costs for the newly installed in-line explosive detection system are recommended. This new system will greatly reduce customer wait times at the airport. Support and maintenance for several technology improvements also are recommended. And, as mentioned earlier, we recommend the airport pay for five police officers that will be assigned to airport security.

### **Phoenix Convention Center Funds**

As described in an earlier section, the convention center is financed with a combination of rental fees and earmarked sales taxes, most notably contracting sales taxes. This year, the convention center is enjoying a boom in contracting sales tax revenues. Next year, slower growth is expected as current construction levels begin to slow. On the expenditure side, next year the Convention Center Fund will begin to experience the first of the operating costs and increased debt service costs for the new expanded facility. We recommend the specialized customer service training program for convention

center staff begin next year. We've also included increased facility coordination and warehouse staff as well as increased funding for advertising.

### **Water Funds**

Our growth in water revenue comes from the annual growth in the number of accounts combined with annual water rate increases of 5-10 percent. This growth is then slightly offset by decreased water consumption per account. The water system faces critical capital needs to replace aging water infrastructure in older parts of the city and to deal with the infrastructure needs of the growing population in newer parts of Phoenix. Over the years, water capital costs also have increased due to the use of more environmentally sensitive treatment processes. We also continue to monitor the impact of electricity costs on the Water Fund.

Our recommendations for the Water Fund include improved technology management and administrative oversight for the highly complex Lake Pleasant Treatment contract.

### **Solid Waste Funds**

Solid waste revenues for next year are expected to grow by only about 2 percent to reflect the increase in the number of Phoenix households combined with estimated landfill tipping fees. Of greatest concern in the financial outlook for the Solid Waste Fund is the price of fuel. In this recommended budget we have only included increased landfill security.

### **Other Recommended Budget Adjustments**

For many years, our budget process has included the opportunity for city departments to look for efficiencies that could be reallocated to community service improvements or needed administrative support. For many departments, with the budget cuts of the last four years, this

is the only opportunity to gain needed administrative help. We have continued this process this year and recommend several administrative reallocations throughout the budget. Included is increased support for e-commerce projects, increased investment management that will produce better investment returns in the future, staff for the Hope VI Community Training and Education Center, improved service to those requesting general plan amendments and other zoning services, and improved follow-up on vehicle warranties that will reduce repair costs.

Also recommended are several administrative positions in our central service departments. These self-funded positions will help offset some of the significant administrative cuts these departments have endured over the past few years.

### **CONCLUSION**

Over the past four years, Phoenix has faced some serious budget challenges and responded with cuts of \$117 million. We regret that these cuts resulted in the loss of some important services to the community. I look forward to working with the Mayor and City Council, our employees and the community over the next few years to restore these services as the local economy continues to grow.

I want to thank all city employees for their dedication to the Phoenix community. Everyday, they deliver the best in services.

Sincerely,



Frank Fairbanks  
City Manager  
May 2, 2006

