

Memorandum

Financial Services Department



Date: February 26, 2009
To: Mayor and Council
Through: Charlie Meyer, City Manager (350-8884)
From: Jerry Hart, Financial Services Manager (350-8505)
Cecilia Robles, Deputy Financial Services Manager (350-8881)
Subject: Request for Additional Information

Per your request for additional information at the February 19, 2009 Special Financial Planning Session, included are the following attachments:

Attachment A (Page 1) – Peer City Budget Reduction Proposals and Program Cuts

Provides a compilation of valley wide budget reduction efforts and resulting or projected program cuts

Attachment B (Page 5) – Tempe Fund Balance/Net Assets Analyses

Provides detailed descriptions of the General Fund, Debt Service Fund and the Health Fund balances, and a comparison of the General Fund balance with neighboring cities

Attachment C (Page 9) – Debt Service Reserve and SRP in Lieu Revenue Analysis

Provides information regarding the potential impact to the Capital Improvements Program of the use of \$7.4 million in accumulated SRP in Lieu revenues for operating budget balancing efforts

Staff will be available at the March 3rd and March 5th Special Financial Planning Sessions to respond to any questions.

Attachment A

PEER CITY BUDGET REDUCTION PROPOSALS AND PROGRAM CUTS

Listed below is a compilation of the adopted and proposed FY08/09 and FY09/10 general fund budget reduction efforts and the resulting program cuts for peer cities in the Phoenix metro area. The City of Phoenix and the City of Mesa have finalized their budget reduction efforts for both FY08/09 and FY09/10. As such, information related to their budget reduction proposals and resulting program cuts was readily available.

The remaining peer cities have all implemented various budget reduction measures for the current fiscal year (FY08/09), however, these cities are all still in the process of discussing budget reduction proposals for FY09/10. As such, minimal information was available on the specifics of their FY09/10 budget reduction efforts and resulting program cuts.

Unless otherwise indicated, the budget reduction and program measures have been adopted. Tentative budget reduction proposals and program cuts are documented as “proposed”. The listing is as follows:

CITY OF CHANDLER
Status: Public meetings scheduled to discuss proposed FY09/10 cuts and possible alternatives
Overall Reductions <ul style="list-style-type: none">• Elimination of 71 positions (29 layoffs, 42 vacant/anticipated retirements) - (proposed)• Hiring freeze• Eliminate pay raises (proposed)• Incentivized retirements (proposed)• Delay/reduction in capital projects• Reduction in temporary and contract labor• Reduction in departmental base budgets (travel, materials, contracted services, supplies, etc.)
Program Reductions <ul style="list-style-type: none">• Reduce pool hours and aquatic programs (proposed)• Eliminate youth basketball, indoor soccer, lacrosse (proposed)• Reduce library programs (proposed)• Reduce city events (proposed)• Reduce bus service (proposed)

TOWN OF GILBERT
Status: Public meetings scheduled to discuss proposed FY09/10 cuts and possible alternatives
Overall Reductions <ul style="list-style-type: none"> • Elimination of 27 positions (22 layoffs, 5 vacant positions) • Hiring freeze • Eliminate pay raises (proposed)
Program Reductions <ul style="list-style-type: none"> • Specific program reductions have not been identified

CITY OF GLENDALE
Status: Discussion of proposed FY09/10 cuts on-going
Overall Reductions <ul style="list-style-type: none"> • Elimination of non-essential contract positions • Voluntary furloughs • Incentived retirements • Hiring freeze • Delay/reduction in capital projects • Reduction and/or delay in capital equipment purchases (vehicles and computers) • Reduction in departmental base budgets (travel, materials, contracted services, supplies, etc.)
Program Reductions <ul style="list-style-type: none"> • Specific program reductions have not been identified

CITY OF MESA
Status: Budget reductions were adopted in the Spring 2008 and December of 2008
Overall Reductions <ul style="list-style-type: none"> • Elimination of positions (105 in FY08/09, 343 proposed from Jan 09 – June 10) • Incentivized retirements • Hiring freeze • 2% reduction in pay • No cost of living adjustment • No market survey adjustment • Suspension of merit increases • Delayed capital projects • Reduction and/or delay in capital equipment purchases (vehicles and computers) • Reduction in Police overtime • Reduction in departmental base budgets (travel, materials, contracted services, supplies, etc.)

Program Reductions

- Reduction in recreational/aquatic programs from 5,607 to 4,650
- Reduction in number of pools open during summer, shorter summer season
- Reduction in summer recreation program sites and After School Sports program sites
- Reduction in library hours, closed Sundays
- Reduction in library materials by 50%
- Reduction in human service programs
- Reduction in museum hours and number of exhibits
- Reduction in cultural educational programming
- Reduction in bus service

CITY OF PHOENIX

Status: Budget reductions were adopted in March 2008 and February 2009

Overall Reductions

- Elimination of positions (432 in FY08/09, 924 from March 09 – June 10)
- Health Care Premium Holiday – one month payment skip
- Voluntary furloughs
- Incentived retirements
- Hiring freeze
- Elimination of wage increase in FY09/10 - executive and middle managers
- Delay/elimination of capital projects
- Reduction and/or delay in capital equipment purchases (vehicles and computers)
- Reduction in departmental base budgets (travel, materials, contracted services, supplies, etc.)
- Reduction in Fire overtime

Program Reductions

- Suspend the Safe Schools program and other school based human services programs
- Suspend the Summer Youth Work Experience and Student Work Study programs
- Reduction in summer Afterschool Center programs (32 to 16)
- Suspend 20 Afterschool Centers (after school programs)
- Reduction in summer recreation program sites and After School Sports program sites
- Suspend services at two senior centers
- Reduction in case management services at all senior centers
- Closure of the Central Phoenix Family Service Center (case management, emergency financial assistance, etc.)
- Reduction in Aquatic programs
- Reduction in number of pools open during summer, shorter summer season
- Reduction in hours of operation at recreation centers
- Reduction in special library programs
- Reduction in library hours

City of Phoenix – Program Reductions (continued)

- Suspension of the neighborhood Fight Back Program
- Reduction in grants to arts organizations
- Reduction in level of parks maintenance
- Suspend Phoenix Urban Forestry program
- Reduction in museum hours and programs
- Reduction in city softball leagues
- Reduction in the level of street landscape maintenance
- Reduction in level of custodial services
- Reduction in bus service

CITY OF PEORIA

Status: Discussion of proposed FY09/10 cuts on-going

Overall Reductions

- Elimination of 30 positions (vacant and contractual)
- Hiring freeze
- Reduction in overtime
- Delay/reduction in capital projects (proposed)
- Reduction and/or delay in capital equipment purchases (vehicles and computers)
- Reduction in departmental base budgets (travel, materials, contracted services, supplies, etc.)

Program Reductions

- Specific program reductions have not been identified

CITY OF SCOTTSDALE

Status: Discussion of proposed FY09/10 cuts on-going

Overall Reductions

- Elimination of 49 vacant positions and contract workers
- Reduction in Police and Fire specialty pay
- Reduction in compensation/benefits (proposed)
- Incentivized retirements (proposed)
- Delay/reduction in capital projects
- Reduction in temporary and contract labor
- Reduction in departmental base budgets (travel, materials, contracted services, supplies, etc.)

Program Reductions

- Specific program reductions have not been identified

Tempe Fund Balance/Net Assets Analysis

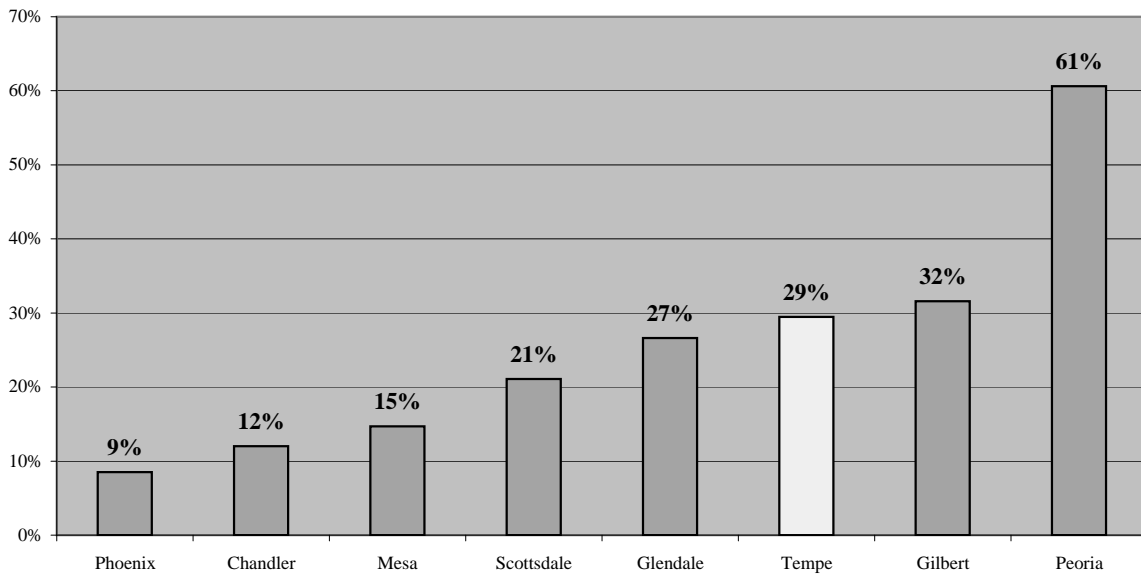
General Fund Unreserved, Designated: Self Insurance Purposes	<u>Balance as of</u> <u>6/30/08</u>	<u>Description/Source</u>	<u>Benefits of Retaining</u>	<u>Ramifications of Use</u>
	8,841,391	Designated for payment of material, unanticipated liability, property, and related claims against the City	Preserves the "rainy day" and unreserved, undesignated fund balance reserves by providing a funding source for large, unanticipated claims	In the event of a large claim or multiple significant claims, the City would need to find another source of payment
Rio Salado	4,192,390	Designated for future operation and maintenance costs related to the Rio Salado Town Lake project	Provides funding to offset the annual operation and maintenance costs of the Rio Salado Town Lake project	Operating costs would have to be provided from General Fund revenues and/or lake operation significantly curtailed.
Arbitrage Rebate	500,000	Designated for the payment of arbitrage rebate liability to Internal Revenue Service	Provides funding source to make potential rebate payment liability resulting from IRS compliance review	Rebate payments would have to be paid from another source
Marketplace contribution	143,979	Designated to the repayment of Housing and Urban Development Section 108 loan	Provides funding source to repay the HUD loan utilized for brownfield remediation of Marketplace development	An alternative source of funding would have to be identified for the repayment of the HUD Section 108 loan
Rainy Day	8,000,000	Designated for unforeseen events	Available for use in times of economic and financial distress	One-time source of funds
Capital Projects	9,117,213	Designated for future capital projects	Provides 'pay-as-you-go" funding for capital projects	Serves as only source for certain 'pay-as-you-go capital projects in the CIP that cannot be funded with bonds. Approximately \$3.9 million of projects in current CIP would need another fund source or go unfunded.

<u>Balance as of</u> <u>6/30/08</u>	<u>Description/Source</u>	<u>Benefits of Retaining</u>	<u>Ramifications of Use</u>
General Fund (continued)			
Compensated absences	Designated for future payment of compensated absences	None	One-time source of funds
Retiree Healthcare (OPEB)	Designated for future payment of retiree health care	Available to pay for OPEB advance funding costs	One-time source of funds
<u>Unreserved, Undesignated:</u>	Accumulated excess revenues over expenditures maintained by policy at 25% of year-end revenues.	Source of fiscal stability in light of volatility of sales taxes and state-shared revenues	Would signal financial distress to outside parties, including bond rating agencies
General Fund Total			
	92,432,479		
General Obligation Debt Service Fund			
<u>Reserved:</u>			
Secondary Property Taxes	City secondary property taxes	Provides funding source for the repayment of debt	Can only be used for debt service payment per State Law
SRP In-Lieu Payments	Accrued payments from Salt River project in-lieu of property taxes	Funds are not restricted . Provides funding source for repayment of debt.	These funds 'buy-down' the secondary property tax rate that would be required to comply with the minimum debt service reserve policy of 8%
General Obligation Debt Service Fund Total			
	23,858,992		
Health Fund			
Total net assets	Designated for the payment of health insurance claims	Preserves the "rainy day" and unreserved fund balance reserves by providing a funding source for large, unanticipated health claims	In the event of a large claim or multiple significant claims, the City would need to find another source of payment
Health Fund Total			
	4,140,832		

General Fund Unreserved Undesignated Fund Balances, including amounts for Economic Stabilization (as of 6/30/08)

	General Fund Balance: Unreserved, Undesignated	Designated for Economic Stabilization	Combined Total	Percent of Revenues
Phoenix	92,027,000		92,027,000	9%
Chandler	2,789,422	27,666,350	30,455,772	12%
Mesa	50,283,211		50,283,211	15%
Scottsdale	29,387,000	28,131,000	57,518,000	21%
Glendale	44,457,000		44,457,000	27%
Tempe	44,611,435	8,000,000	52,611,435	29%
Gilbert	23,975,273	14,400,000	38,375,273	32%
Peoria	33,901,900	32,400,000	66,301,900	61%
Average (excluding Tempe)				25%
Median (excluding Tempe)				21%

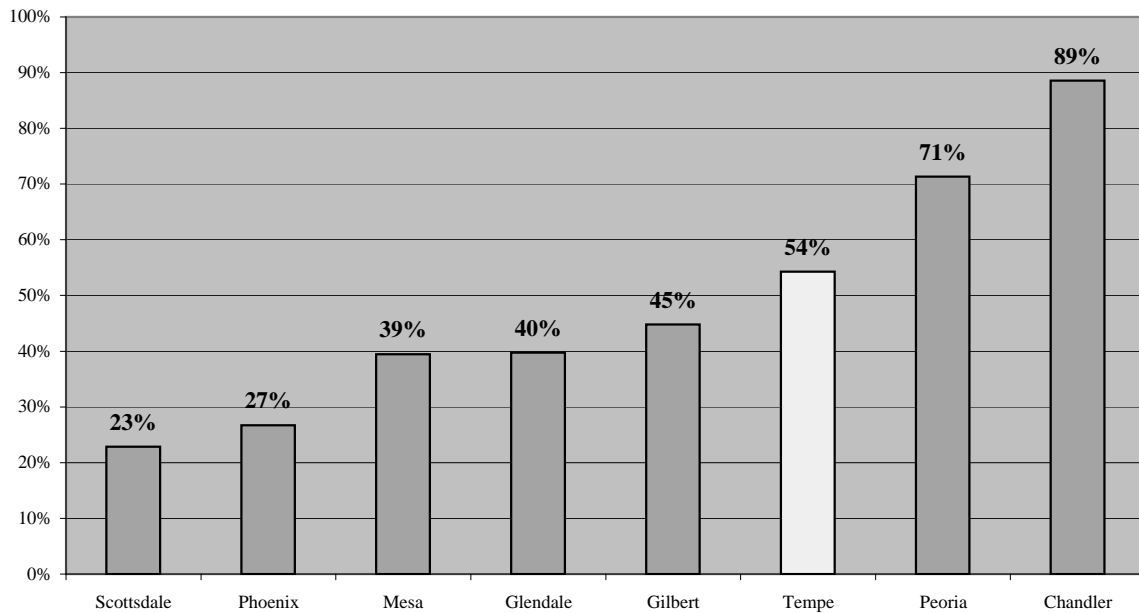
**General Fund Balance as a Percent of Revenues:
includes amounts designated for Economic Stabilization (as of 6/30/08)**



General Fund Unreserved Fund Balances (as of 6/30/08)

City	General Fund Unreserved Balance	General Fund Revenues	Percent of Revenues
Scottsdale	61,379,000	272,539,000	23%
Phoenix	205,286,000	1,081,573,000	27%
Mesa	50,283,211	342,330,230	39%
Glendale	57,117,000	166,963,000	40%
Gilbert	38,375,273	121,478,743	45%
Tempe	92,432,479	178,445,742	54%
Peoria	77,741,727	109,388,443	71%
Chandler	196,093,067	253,317,241	89%
Average (excluding Tempe)			48%
Median (excluding Tempe)			40%

General Fund Unreserved Balance as a Percent of Revenues (as of 6/30/08)



Attachment C

DEBT SERVICE RESERVE AND SRP IN-LIEU REVENUE ANALYSIS

The purpose of this analysis is to provide information regarding the potential impact to the Capital Improvements Program of the use of \$7.4 million of accumulated SRP In-Lieu revenues for inclusion in the City's current operating budget balancing efforts.

The analysis assumes the following:

1. Continued funding of the existing G.O. bond funded Capital Improvements Program (CIP).
 2. All future annual SRP In-Lieu payments will be redirected to the General Fund rather than to the Debt Service Reserve Fund beginning fiscal year (FY) 2009-10.
 3. Preliminary estimates of secondary assessed valuation growth rates of 4.2% in FY 09/10; -5% in FY 10/11; -5% in FY 11/12; and 5% thereafter.
- Under the above assumptions the City's current debt service reserve coverage ratio minimum is projected to be 5.5%.
 - Utilization of \$7.4 million of SRP In-Lieu revenue in fiscal year 2009-10 for operating budget balancing efforts is projected to result in a minimum debt service reserve coverage ratio of 2.54%

Estimated CIP Impacts

- To remain in compliance with the City's current debt service reserve coverage ratio policy of 8% of total general governmental debt **without** use of \$7.4 million of SRP In-Lieu revenue in fiscal year 2009-10 for budget balancing purposes, would require the indefinite suspension of a minimum of \$10 million of G.O. bond funded CIP projects.
- To remain in compliance with the City's current debt service reserve coverage ratio policy **with** the use of \$7.4 million of SRP In-Lieu revenue in fiscal year 2009-10 for budget balancing purposes, would require the indefinite suspension of a minimum of \$23 million of G.O. bond funded CIP projects.
- To remain in compliance with the City's current debt service reserve coverage ratio policy **without** use of \$7.4 million of SRP In-Lieu revenue in fiscal year 2009-10 for budget balancing purposes, and without any project suspension, would require an estimated property tax rate of \$1.44.
- To remain in compliance with the City's current debt service reserve coverage ratio policy **with** the use of \$7.4 million of SRP In-Lieu revenue in fiscal year 2009-10 for budget balancing purposes, and without any project suspension, would require an estimated property tax rate of \$1.48.