



Honorable Mayor and Council:

Similar to past fiscal years, the City of Glendale enters FY 2009 in a solid financial position despite the downturn in the economy that the country is experiencing. This position is a result of prudent management of city resources as well as wise strategic investments in the community over the last several years. As a result, the city's budget for the coming fiscal year continues to provide the resources to maintain essential city services while moving forward with strategies that ensure a positive, sustainable future.

The FY 2009 operating and capital budgets reflected in this document are balanced between revenues and expenditures. They are based on council's continued vision of 'one community' and the supporting strategic goals and key objectives. Council's specific strategic goals that were

affirmed at a November 2007 retreat are:

- One community with strong neighborhoods,
- One community focused on public safety for citizens and visitors,
- One community with quality economic development
- One community with a vibrant city center,
- One community with an active partnership with Luke Air Force Base,
- A city with high quality services for citizens, and
- A city that is fiscally sound.

The recommended budgets integrate these guiding principles for FY 2009 and include resources to address the identified goals, with public safety and redevelopment having a high priority.

The overall intent of the recommended budgets is to continue providing exceptional city services that support a high quality of life for the entire Glendale community. The recommended budgets also reflect continued investment in the community's infrastructure based on Council's prudent direction.

The current economic environment created challenges for us to address in the FY 2009 operating and capital budgets. The national economy has changed significantly since FY 2008 began. Across the country the housing market is in flux as a new equilibrium point between buyers and sellers is established, especially in the hard-hit Phoenix metropolitan area. Credit also has tightened, for consumers as well as for the business community. Business investment has slowed. These changes are reflected most prominently in the contraction of consumer spending.

Locally, however, Glendale has fared better than other valley cities as a result of strategic decisions to diversify the local economy. No longer is Glendale a bedroom community. As the development of the west area around the Loop 101 freeway demonstrates, Glendale continues to

lead the way locally, regionally, and nationally in terms of the quality, quantity, and diversity of economic development projects that ensure the city's ability to continue funding high quality city services for the community.

Through the third quarter of FY 2008, General Fund (GF) revenue has grown approximately 5% over FY 2007 revenue for the same period. That growth has been attributable primarily to development permits and related fees and state income tax revenue. City and state sales taxes, which comprise 49% of the FY 2008 revenue budget, have declined only 2% from the prior fiscal year despite the softening of consumer spending.

Given this background, the GF ongoing revenue budget for FY 2009 was established to be fiscally prudent and reasonable. For FY2009, we are expecting about \$185 million for the General Fund, which is about \$4.1M or 2.3% more than the \$180.9M expected for FY 2008. Revenue from development permits and related fees are expected to be strong in FY 2009 because of significant commercial, medical, and office development in three parts of the city – the west area around the Loop 101 freeway, the Thunderbird Road medical corridor, and the Bell Road corridor. Sales tax receipts are expected to grow modestly.

At the same time we are experiencing modest revenue growth, we are also experiencing an escalation in fixed operating costs and construction costs. The cost of fuel for city vehicles – from police patrol cars and fire engines to sanitation collection trucks – continues to rise. When we developed the FY 2009 budget, we believed the base budget funds for fuel (\$3.3 million) would be sufficient in FY 2009 as a result of increasing that allocation by \$1 million over the last two fiscal years. However, if the current elevated prices (\$3.50 or more per gallon at the retail pump) continue over the long term, then that resource could be strained.

Related to the rising cost of fuel are escalating prices for oil-based products such as tires for vehicles and asphalt for street repairs. The cost to purchase electricity also has risen over the past year, with additional increases expected over the next year or so given that fuel is the electric industry's largest single expense. Other fixed operating costs such as water for landscaping, retirement contributions, competitive pay for existing employees, and prisoner maintenance for those individuals arrested in Glendale and housed in Maricopa County's jail system, also continue to increase. This situation strains the existing operating budgets for departments throughout the city and consumes a large share of additional capacity that is available for supplemental budget requests.

These challenges are different than those faced when we developed the FY 2008 budget. I mentioned in my FY 2008 message that a new and significant operational issue Glendale faced in FY 2008 was our role as host for the 2008 Super Bowl and many of its affiliated events. I am pleased to report the city successfully met that challenge. In fact, in an example of creative partnerships, the city cooperatively worked with regional public safety authorities to create a central command that the National Football League declared as the new standard for future Super Bowl events. Overall, the city and its employees were widely recognized for the seamless service provided during the events leading up to and including the February 2008 Super Bowl game.



To address the different challenges we face in FY 2009, the city has undertaken a number of initiatives. First, a 4.5% reduction to the ongoing base budget for all GF departments, except police, fire, and homeland security, was implemented about halfway through FY 2008. As a result of this reduction, ongoing funds were reallocated to address a variety of critical needs for FY 2009, including the escalation of fixed costs.

Second, in September 2007 Glendale's voters approved the proposed increase to the sales tax dedicated to public safety from one-tenth of one cent (.1%) to one-half of one cent (.5%). Collection of the additional revenue from that rate adjustment began in November 2007. FY 2009 will represent the first full fiscal year of collections at the one-half of one cent (.5%) rate. These additional funds will help address the staffing issues identified in the Police and Fire Departments' needs assessments. They also will help address the rising operating costs associated with new public safety positions in areas such as vehicle repair, maintenance, and fuel, employer contributions for public safety retirement plans, and prisoner maintenance expenses.

Third, as we have done in the past several years, an annual review of the rates charged for water, sewer, sanitation collection, and landfill disposal services was completed. These annual reviews are done to ensure incoming revenues are sufficient to support operating and capital expenditures for those individual operations. Other fees, such as those charged for plan review and building inspections, are also periodically reviewed and adjusted as needed. As a result of these reviews, water, sewer, sanitation and landfill rates will be adjusted for FY 2009.

Finally, the capital budget development process included a reconsideration of the projects in the city's current capital plan (FY 2008-17) based on financial constraints and council's strategic goals and objectives. This reassessment resulted in a realignment of capital projects that is reflected in the plan for FY 2009-18.

It is not possible for the city to fund concurrently several large-scale projects that have significant operating budget impacts. Therefore, the first five years of the plan include only two large-scale projects with significant GF operating expenses, the construction of a new municipal court facility (FY 2009) and a new library in the west area of Glendale (FY 2009 and 2010). Consequently, implementation timetables were established that stagger other projects over time resulting in a number of projects being deferred to the later years of the plan while other projects with minimal GF operating impact were accelerated forward.

On the one hand, park projects in the first five years of the plan focus on rehabilitation of existing park facilities. New park and recreation facilities present operating and maintenance costs at a time when ongoing revenue streams will be needed for the new courthouse and the west area library. Therefore, new park and recreation facilities were deferred to the last five years of the plan.

On the other hand, \$28.9 million for economic development capital projects is included in the first five years of the plan, with \$13.7 million in FY 2009 alone. These funds are intended for the purchase of land for redevelopment, the upgrade and repair of older infrastructure, and new development infrastructure.

For the water and sewer capital program, growth-related projects comprise the majority of the capital projects reflected in the 10-year plan. Of the \$398.9 million, 10-year capital program for the water system, about 68% (\$272 million) is growth related. For the wastewater system, about 54% (\$137.9 million) of the \$254.9 million, 10-year capital program is growth related. Development impact fees are expected to address the costs of growth-related projects, with non-growth projects to be funded from water and wastewater sales revenue. Overall, the timing of various projects was realigned to lessen the impact of rising construction costs on the rate payers.

In developing the FY 2009 operating and capital budgets, public safety continued to have a high priority. The FY 2009 budget includes 52 new public safety positions, with 41 new positions for the Police Department and 11 new positions for the Fire Department. With these additions, City Council has added a total of 178 new positions to the Police and Fire Departments since June 2006. These new positions reflect the progress that has been made in implementing the needs assessments of both departments.

On the capital side, the FY 2009 budget provides resources for the ongoing upgrade of the police digital communication system to ensure peak performance for mission critical use. The FY 2009 capital budget also includes the purchase of handheld radios with encryption technology to replace those currently in use that were purchased in 2003.

The FY 2009 capital budget also consists of funds for a fire engine and ladder replacement program to maximize the safe use of front line engines. The replacement plan allows front line fire engines to be replaced every 7 years or 100,000 miles. Staffing for the new engine and ladder truck is expected to come forward in a future fiscal year supplemental budget request for the designated sales tax fund for the Fire Department.

The FY 2009 recommended operating budget includes pay and benefits adjustments for city staff to ensure we remain competitive in the recruitment and retention of the best qualified staff. Staff covered by the public safety labor agreements will receive base wage increases as spelled out in the Memorandum of Understanding for FY 2009 and FY 2010. Pay adjustments for other city staff continue to be based on a market survey of other Valley cities. Overall, City Council approved the addition of \$5 million (all funds), with \$3.6 million in the GF, to implement these important pay adjustments.

Approximately \$1.9 million (all funds) was added to the base budget to address cost increases for public safety and elected officials retirement plans to ensure they are sufficiently funded. This increase in the City's share of the costs is not supplemented by an increase in the employees' share of the costs because the Arizona state legislature sets, by statute, the employee contribution level for these specific retirement plans.

Citywide, the total number of new positions added is 58 with only 4 positions added to the GF base budget. The remaining 54 positions were added to the base budget of other funds, with 52 specifically for the designated sales tax funds for the Police and Fire Departments. An increasing demand for the city's services has occurred with the steady growth in Glendale's



population and the rapid transformation of Glendale's western area. In addition to the new public safety positions, some other examples are noted below:

- One ongoing program manager position for the city's new Redevelopment Program (described in more detail below).
- One ongoing, direct service position for the city's commercial sanitation collection program.
- One ongoing, direct service position for the Utilities Department to help maintain high service levels related to the maintenance and cleaning of the 12.5 miles of new sewer lines and 500 extra manholes added since January 2007.
- One traffic engineering technician to provide field and technical review of traffic barricading plans submitted by contractors and utility companies. Construction zones on city streets can average up to 40 per day. This new position will ensure construction barricading is properly implemented in the field so the safety of the traveling public is not affected. Fees charged for barricade permits will offset the cost of this additional position in the GF.
- One assistant city prosecutor for code compliance cases. Given the current code compliance caseload, an ongoing, full-time assistant city prosecutor position is needed to efficiently obtain resolution for the increased number of civil and criminal cases related to neighborhood code compliance cases.

Other critical elements of the FY 2009 operating and capital budgets include the following:

- \$523,500 for the increased cost of electricity and natural gas that is used to operate city buildings and parks.
- \$317,000 for the increased cost of electricity related to the operation of the city's streetlights.
- \$600,000 for the increased cost of electricity to operate the city's West Area Water Reclamation Facility.
- \$160,000 for the increased cost of watering the city's parks and other landscaped facilities.
- \$1.1 million for prisoner maintenance expenses at the Maricopa County Jail with \$880,000 from the GF and \$220,000 from the Police Special Revenue fund.
- \$100,000 for the increased cost of oil-related products used for streets maintenance work such as asphalt repairs and sealcoating.

- \$600,000 for the Neighborhood Improvement Grants program to provide small-scale capital improvements to various neighborhoods such as right-of-way landscaping enhancements and neighborhood entryways.
- \$100,000 for a new Redevelopment Program that will lead to the establishment of strategies to improve and enhance under-performing or under-utilized areas of the city. The purpose of this effort is to encourage local business growth that will benefit the Glendale community and generate higher levels of sales tax revenues.
- \$150,000 for continuation of the Visual Improvement Program that helps business owners in the renovation and improvement of the exterior of their businesses.
- \$11.5 million in the Glendale Onboard transportation capital program, which is supported by the designated sales tax for transportation, for the city's pavement management program, with \$3.5 million for residential street overlay and \$8 million for arterial street overlay. This funding supplements the \$11.5 million that was allocated for the same purposes in the FY 2008 budget.
- \$11.3 million in the general obligation bond program for various flood control projects, including storm drainage improvements along Northern, 67<sup>th</sup>, and 59<sup>th</sup> Avenues.
- \$6.6 million in the Landfill Fund for equipment replacement and soil excavation and liner installation in the north expansion area.
- \$6.5 million in the Highway User Revenue Fee capital fund for improvements along 99<sup>th</sup> Avenue to complement the sports and entertainment, commercial, residential, and office development that has occurred and continues to occur around the Loop 101 freeway in the western area of Glendale.
- \$1.1 million in the general obligation bond program for the rehabilitation and renovation of existing city buildings to include roofing, flooring, electrical, lighting, and interior finishes.

As we progress through FY 2009, we will continue to employ fiscally conservative spending practices. For example, we continue to follow many of the cost-saving measures that were implemented in FY 2003, such as:

- No transfers of salary savings to operating budgets except in warranted instances.
- No unbudgeted carryover savings except in very limited instances, which means that unspent but appropriated funds at the end of each fiscal year are returned to the appropriate fund's fund balance.



- 4.5% budget reductions to the ongoing base budgets for all GF departments except for the Police, Fire, and Homeland Security Departments, will continue into FY 09.
- Capital projects are reviewed annually for all operating and maintenance costs impacting the GF and the enterprise operations.

We also will continue to monitor expenditures and revenues during the course of the fiscal year to ensure we are on the path the Council has charted for the city. We will continue providing quarterly reports to Council on the performance of the General Fund and the designated sales tax funds. These reports will keep you apprised of how revenues and expenditures are doing when compared with the revenue and expenditure budgets established for FY 2009.

In closing, I continue to be confident that the Mayor and Council's vision will ensure an outstanding quality of life for the Glendale community and further enhance our position as a world-class destination city.

Sincerely,

Ed Beasley  
City Manager