

***PLEASE NOTE: Since the Glendale City Council does not take formal action at the Workshops, Workshop minutes are not approved by the City Council.**



**MINUTES OF THE
GLENDALE CITY COUNCIL WORKSHOP SESSION
Council Chambers – Workshop Room
5850 West Glendale Avenue
January 18, 2011
1:30 p.m.**

PRESENT: Mayor Elaine M. Scruggs, Vice Mayor Steven E. Frate and Councilmembers Norma S. Alvarez, Joyce V. Clark, Yvonne J. Knaack, H. Phillip Lieberman, and Manuel D. Martinez,

ABSENT: None

ALSO PRESENT: Ed Beasley, City Manager; Horatio Skeete, Assistant City Manager; Craig Tindall, City Attorney; and Pamela Hanna, City Clerk

WORKSHOP SESSION

1. **FY 2011 GENERAL FUND OPERATING BUDGET UPDATE AND FY 2012 GENERAL FUND OPERATING BUDGET STRATEGY – 30 MINUTES**

CITY STAFF PRESENTING THIS ITEM: Sherry M. Schurhammer, Management and Budget Director; Diane Goke, Finance Director; and Don Bolton, Assistant Budget Director

This is an update for City Council about the economy and the FY 2011 General Fund (GF) operating budget through the first five months. This is also a confirmation of the strategy for balancing the GF operating budget for FY 2012 and beyond as the economy gradually recovers and returns to robust health.

Council's strategic goals continue to serve as the foundation for the development of the city's annual budget regardless of whether the economy is growing or contracting. Vision, innovation, partnerships, and dedicated employees continue to play a central role in making the city's efforts successful in areas of key importance to the Mayor and Council.

Economic Update

According to a September 2010 announcement from the National Bureau of Economic Research (NBER), the recession officially ended in June 2009, 18 months after it began in December 2007.

The NBER defines a recession as "a significant decline in economic activity spread across the economy, lasting more than a few months, normally visible in real gross domestic product, real income, employment, industrial production, and wholesale-retail sales." According to the NBER, the end of the recession is defined as "the end of the declining phase and the start of the rising phase of the economic cycle."

NBER is the nation's leading private, nonprofit, nonpartisan research organization dedicated to economic research and has been operating since 1920. It has been under contract with the U. S. Department of Commerce for many decades and is well-known for providing start and end dates for recessions in the United States.

The consensus among experts on the Arizona economy such as Elliott Pollack, Marshall Vest (University of Arizona), and Lee McPheters (Arizona State University) is that the worst of the recession's impact is past us although the return to normal and healthy economic growth will take time.

Recovery is expected to be gradual and occur over an extended period of time. It is important to recognize that economic recoveries frequently are marked by occasional unevenness, with stretches of growth sporadically interrupted by elements of decline, although the long-term trend is toward growth and a return to normal economic capacity. Further, significant improvement in the unemployment rate is a lagging indicator so economic experts expect that measure to decline slowly over a longer period of time.

According to the Arizona experts on the economy, recovery across the state relies on business growth, business investment and population growth, the traditional drivers of economic growth in Arizona, as well as a clearing of the excess inventory of vacant homes.

Budget Strategy

Given that economic recovery is expected to occur gradually over time, the budget strategy that was presented to Council as part of the FY 2011 GF operating budget remains in place. This strategy will take us through the next few fiscal years as the economy strengthens until we see sustained growth in retail sales, income taxes and other critical revenue sources. Further, this strategy was affirmed by the public through a series of extensive public meetings that occurred last spring.

The budget strategy is built around a strategic, business-based and phased approach. This strategy sustains core city services that serve the community, as defined by Council, ensures the smooth operation of the overall organization and minimizes, to the extent possible, impacting other services provided to the community.

One element of this budget strategy is the city's Innovate Initiative. This initiative is directly tied to the budget process and the city's strategic business model. Employees have been, and continue to be, actively engaged in making business-based recommendations for adjustments that help us prepare a balanced budget. Some adjustments will result in expenditure savings while

others, through changes in process or structure, result in efficiencies not currently captured. Yet other adjustments will result in new or improved revenue streams for the GF.

While this budget strategy is designed to adapt operations to constrained resources, it also positions the city to be ready for the time when the economy is fully recovered.

Other steps have positioned Glendale to be more successful than other cities. These measures include the cooperative efforts we have witnessed across the Glendale organization such as voluntary employee efforts and other innovative expenditure management measures. Glendale was the only valley city to adopt this approach in FY 2010, including adjustments to represented labor agreements. Additional expenditure management measures include the following:

- Programs that were not paying for themselves or achieving targeted contribution rates were eliminated or reduced;
- Services for which demand had diminished, or future demand was not anticipated, were eliminated;
- Hours of operations for some facilities were adjusted to better match demand for service;
- Activities offered by other organizations in the community were eliminated; and
- Vacancies have been and continue to be carefully evaluated to determine if they must be filled.

Revenue enhancements also have been pursued such as new agreements for electronic marquees and revised agreements for the placement of cell phone towers on city property. Additional examples of revenue enhancements include the following:

- Implementation of Fire Department inspection fees, premium parking fees for downtown special events and transaction fees for pawn shops and second-hand stores; and
- Implementation of a tax amnesty program that resulted in an additional \$1.3 million in revenue with 618 taxpayers participating.

In addition, Glendale has remained at the forefront in bringing high quality economic development to the city. In FY 2010, the City's efforts resulted in 1,776 jobs (includes both new jobs and the expansion/retention of jobs). Through the first half of FY 2011 the City's efforts resulted in an additional 710 jobs (includes both new jobs and the expansion/retention of jobs).

It is important to recognize that a municipality is a service organization. Therefore, continuation of the phased budget strategy is appropriate as it takes us through a series of steps that are designed to attain a fiscally responsible budget while not severely diminishing the valuable services we provide to the community.

The outlook for FY 2012 requires continuation of the realignment of resources based on the business needs of the community and the level of resources we can afford. This means we must continue to adjust our delivery system to match the peak demand times for services. We are also continuing the review of the useful life of all equipment and capital assets by extending their service life as long as efficiency of service delivery would not be affected. The intent of these steps is to sustain the city's core services that serve the community and ensure smooth operation of the overall organization while we continue to strategically manage our way through this current economic downturn.

The long-term outlook requires continuation of strategic investments in business delivery systems and realignment of functions that enable us to be responsive when the economy fully recovers. Some strategic investments that have started and will continue include the following:

- Upgrade of the city's tax and license technology system that will reduce manual processing of tax and license filings, simplify and shorten transaction times for customers, improve the turnaround time for management reporting and improve revenue recovery efforts. The new system is expected to be in operation during the spring of 2011.
- Realignment of functions within the city to reposition programs based on the needs of the community and based on the recognition that some programs will continue to be provided by non-profits and/or the private sector.

The first quarter report on the FY 2011 GF operating budget was presented to Council at the November 16, 2010 workshop.

Glendale's budget is an important financial, planning and public communication tool. It gives residents and businesses a clear and concrete view of the city's direction for public services, operations and capital facilities and equipment. It also provides the community with a better understanding of the city's ongoing needs for stable revenue sources to fund public services, ongoing operations and capital facilities and equipment.

The budget provides Council, residents and businesses with a means to evaluate the city's financial stability.

The budget strategy was presented to the public through community-wide public meetings on the proposed program and service adjustments for FY 2011. These meetings occurred on March 3, 4, and 8, 2010. A document summarizing the proposed program and service adjustments was posted publicly in advance of the meetings.

The public also was given the opportunity to provide feedback on the proposed program and service adjustments through the city's website and a telephone hotline, both of which were available through the close of business on March 11, 2010. A total of 200 responses were received plus 52 citizens spoke at the public meetings. Overall, the public affirmed the budget strategy.

All budget workshops are open to the public and are posted publicly according to state statutes.

Today's workshop is for information only. Decisions on the FY 2012 budget will not be requested until the budget workshops are held in March and April 2011.

Horatio Skeete, Assistant City Manager, provided a brief summary. He explained that staff will proceed with development of the FY 2012 budget using the same strategy used for the development of the FY 2011 budget. He noted that the public and Council validated this strategy through the community meetings on the proposed service adjustments and the council budget workshops, both of which occurred in February and March 2010. Additionally, Council's goals and objectives from their retreat in December 2010 will be used. He stated this presentation will include a brief summary of the current fiscal year expenditures and revenues. He said it was important to note that today's presentation is for the first five months of the year and therefore will not reflect any holiday sales activity. He said those retail sales figures will be included in a later status report.

Sherry M. Schurhammer, Management and Budget Director, explained that executive management began implementing corrective actions when revenues began shrinking and resulted in three consecutive years of operating budget reductions. Through this tough economy, the city has consistently adopted a balanced budget as required by state law. She explained that as budget reductions have been implemented, the departments have tried to minimize impacting major services and programs to the community. Staff also has continued to evaluate program and service performance and to identify adjustments through strategic, business-based decisions. In addition, executive management has worked successfully with employees and their representative labor groups to ensure they are proactively and positively involved in the budget process.

Ms. Schurhammer explained that the National Bureau of Economic Research declared in December 2010 that the national recession ended in June of 2009. The National Bureau of Economic Research is a private, non-partisan, non-profit research organization dedicated to economic research since 1920. It is the organization tasked with dating economic cycles for the federal government and has been doing so for decades. She noted that the end of the national recession is arrived at when there is data showing 'the end of the declining phase' for a range of economic measures such as real income, gross domestic product and retail sales at the wholesale level. This declaration means the worst of the recession is behind us and economic recovery is underway. She further clarified that Arizona has been particularly hard-hit during this recession, so recovery is expected to occur over a longer period of time. She also noted that signs of recovery have occurred already and represent encouraging signs of progress. For example, both state and city sales taxes have halted their slide downward and have begun to grow slightly. Also, corporate income tax receipts at the state level are showing strong improvements and the tourism industry has reported gains over the prior calendar year. She also stated that job growth in Arizona is beginning to take hold as unemployment claims are declining.

Diane Goke, Finance Director, said Glendale has had many successful accomplishments related to positioning the city for future economic growth. These accomplishments include steps to build confidence in the community and encourage businesses to invest and relocate to Glendale. She explained that despite the deep recession of the past few years, Glendale remains at the

forefront in attracting high quality economic development. Another accomplishment for the city has been the retention of the city's strong bond rating during this challenging economy. This bond rating is based on the city's recognition of the changed economy and the city's disciplined financial management including three consecutive years of budget reductions to address diminished revenues.

Don Bolton, Assistant Budget Director, presented a slide summarizing of General Fund revenues and expenditures through the first five months of the fiscal year. He said the expenditure side saw a favorable change from the first quarter with spending at \$1.3 million less than budget. This is a savings of 2.1% through five months. On the revenue side, the nationally reported strong retail sales activity over the holidays is not reflected in the revenue figures so it is not surprising to see collections below budget. Additionally, most of the revenue enhancements included in the FY 2011 adopted budget are expected to be collected in the last half of the fiscal year.

Mr. Bolton provided a slide showing the calendar for developing the FY 2012 balanced budget and the Council budget workshops. He remarked that this summary included some very good news for Glendale residents: no increases to water, sewer, and sanitation rates for FY 2012. .

Councilmember Lieberman welcomed Councilmember Alvarez as the newest member of the Council to her first meeting.

Councilmember Lieberman questioned the statement about the end of the recession by pointing out that housing sales in the Phoenix metropolitan area have dropped for the fourth month in a row. He also expressed his concerns about the many personal and business bankruptcies occurring. He noted that many shopping centers remain empty and the unemployment rate still remains at 9.8%. He explained that because of these facts and other indicators, he is somewhat confused by the notion that the recession is over. However, he was glad Glendale was able to fair well through it all.

Councilmember Clark asked about the projection for FY 2012 property valuations since secondary property tax revenues fund a large portion of the city's capital improvement plan. Ms. Schurhammer said the Maricopa County Assessor's Office will issue those figures in mid-February. Councilmember Clark asked if the secondary assessed valuation for Glendale has been trailing downward and Ms. Schurhammer replied yes.

Councilmember Clark asked for the city's total GF operating budget figure for FY 2011. Ms. Schurhammer replied the figure was \$147.3 million. Councilmember Clark inquired if that meant the expenditures were \$1.3 million less than \$147.3 million. Ms. Schurhammer replied no. She added the slide presented only reflected where they were at the end of five months. Councilmember Clark said it was difficult to form a conclusion based on the small amount of information received in their packet. She asked if they are to assume that revenue trends will be substantially under budget. Ms. Schurhammer replied no. She added they have not yet recorded the nationally reported strong retail sales from the holiday season. Additionally, for five of the last six years, both city and state sales tax have done better in the last part of the fiscal year.

Councilmember Alvarez inquired about employee furloughs. Ms. Schurhammer explained furloughs will be addressed when the City Manager's recommended FY 2012 budget is presented in March. She said staff was still putting together the proposed budget for next fiscal year as additional data needed to complete next fiscal year's budget has not been available yet. Councilmember Alvarez asked if Council's input and discussions were also done in mid-March. Mayor Scruggs asked Mr. Ed Beasley, City Manager to explain the city's budget process. Mr. Beasley explained the process.

Councilmember Martinez remarked this was the first time staff has provided only five months worth of data; therefore, this presentation was new for everyone. Additionally, he believes that although good news has been reported, he still has reservations about the recession being over. He added that he believes they will have a tough year with the budget. However, they will have a much better picture when Council receives the six month update and hopes they will not have to make additional difficult cuts in the budget.

Councilmember Lieberman inquired if staff had comparison totals for the city's secondary assessed valuation over several years. Ms. Schurhammer stated she did not have that information with her; however, she can provide it after the meeting. Councilmember Lieberman asked for comparison information for FY 2006 through FY 2011.

Councilmember Knaack remarked she was glad to see no proposed water and sewer rate increases. However, she would like information on the effect this will have on the enterprise funds.

Mayor Scruggs inquired if the enterprise funds will also be covered in the March budget workshops and Ms. Schurhammer replied yes and said those issues were normally covered at that time.

Vice Mayor Frate thanked staff for providing the most updated information available. He noted he appreciates staff not offering speculation as fact and waiting until they have all the information before presenting.

As there were no further comments, Mayor Scruggs adjourned the meeting.

ADJOURNMENT

The meeting was adjourned at 2:00 p.m.