



Honorable Mayor and Council:

While the current economic environment has created challenges, the City of Glendale enters FY 2010 in a good financial position. This position is a result of judicious management of city resources over the past several years as well as during the current economic downturn. This position also is a result of strategic infrastructure and other economic development-related investments in the community over the last several years. Consequently, the city's FY10 budget continues to provide resources to maintain high quality city services while moving forward with strategies that ensure a positive, sustainable future.

The FY 2010 operating and capital budgets are based on council's continued vision of 'one community' and the supporting strategic goals that Council reconsidered at a

December 2008 retreat:

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

The recommended budget also reflects the constrained and tough economic conditions the nation currently faces. We implemented several expenditure management measures in FY 2009 – hiring freeze, base budget reductions, retirement incentive program, voluntary furloughs, etc. – that will continue through FY 2010. These measures were implemented while keeping our focus on sustaining Council's strategic goals. Vision, innovation, partnerships, and dedicated employees continue to play a central role in making the city's future efforts rewarding and successful despite the difficult economy.

## **Discussion**

**Economic Conditions.** The principal issue for FY 2010 is the economy and the impact it has on the city's resources to fund services to the community. In prior fiscal years, we had revenue growth to rising demand for city services and cost increases related to service delivery. FY 2010 is different in that revenue resources have shrunk while demand for city services has remained steady or increased in some areas (e.g., code compliance).

The local and national economy has changed significantly over the past year. Twelve months ago (spring 2008) we knew the housing market was in flux as a new equilibrium point between buyers and sellers was being established. Credit also had tightened for consumers and, to some

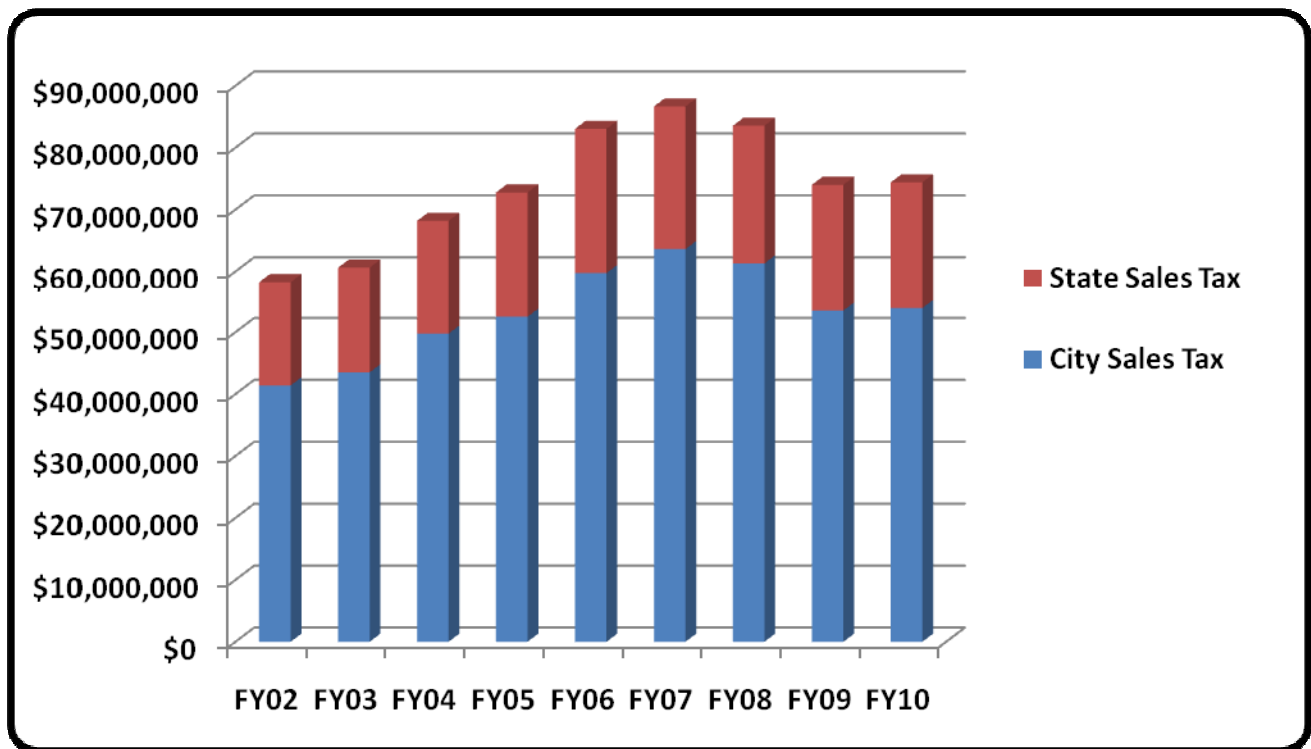
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extent, the business community. Business investment had slowed but not stopped. While these conditions were present a year ago, they were not pervasive and had not significantly impacted Glendale's sales tax collections.

These national conditions deteriorated rapidly during the summer and fall of 2008. The credit market froze for consumers and businesses resulting in a precipitous decline in business investment and consumer spending. Then the ranks of the unemployed began to grow and have continued to swell over the winter and spring of 2009.

For the local economy, the impact of the current recession is reflected in Glendale's sales tax collections. Through March 2009, city and state sales tax collections, which comprise nearly one-half of the current fiscal year's General Fund (GF) revenue budget, receded to levels last experienced in FY 2005.

**Figure 1: City and State Sales Taxes**



We also will see the impact of the current economy in future income tax revenue disbursements from the state. Income tax is Glendale's second largest source of GF revenue after sales taxes. Distribution to the cities lags by two years. This means the state income tax receipts for FY 2010 will reflect the income tax the state collected in FY 2008. Glendale's share of state income tax revenue is expected to decrease \$5 million or 14% in FY 2010. Another decline is expected in FY 2011 when the state's FY 2009 income tax collections are distributed to the cities.



Overall, total GF revenue collections are expected to come in at \$165.8 million in FY 2009. This is a 10% or \$18.5 million decline from the peak of \$184.3 million collected in FY 2008. The FY 2010 forecast is \$162.3 million or about \$3.5 million less than the FY 2009 estimate.

**Budget Balancing Strategy.** The strategy for steering the city through the economic downturn is a phased approach intended to balance the budget and think beyond the current recession in order to position the city for future success. This strategy's focus is to

- avoid layoffs,
- maintain essential services based on sound business decisions that reflect customer demand and efficient processes,
- minimize impacts to the public and
- communicate effectively with employees and the public regarding the city's response to the current economic challenges.

I believe the Glendale community would suffer undue consequences if I recommended the elimination of services and the implementation of layoffs to achieve a certain dollar amount to balance the budget. If a service is valued by the public, and the business data substantiates that, it is my belief the service should be continued even if it faces reductions, restructuring, consolidation or realignment. However, should the decline in revenues continue into the next fiscal year, I am prepared to bring more difficult recommendations forward to City Council.

A series of steps comprise the phased budget strategy. They are designed to attain a fiscally responsible budget and not severely diminish the valuable services the city's employees provide to the community. Employees are the city's most valuable resource and they represent about 70% of the city's GF operating budget. A municipality is a service organization, and knowledgeable, skilled employees are essential to providing quality services to our residents and businesses. Therefore, layoffs were not implemented in FY 2009 and are not part of the recommended FY 2010 budget.

The phases undertaken during FY 2009 were the following:

- Fall 2008 – hiring freeze across all funds and 6% ongoing reductions in the non-salary budget for GF departments except public safety sworn positions;
- Winter 2009 -- 10% one-time reductions (excluding public safety) for GF departments, with a focus on reducing contractual and temporary positions; and
- Spring 2009 – Voluntary furloughs and voluntary retirements.

While cuts were not made to the Police and Fire Department budgets in FY 2009, their spending was reduced to match decreases in public safety sales tax revenues.

In developing recommendations for the budget reductions, staff was challenged to find alternative ways to manage programs and provide services to the community through restructuring, collaboration and efficiencies. The goal was to minimize impacts to our residents

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and businesses. Departments and individual employees were engaged in making business-based recommendations that helped us prepare a balanced budget.

Listed below are just a few examples of the cost-savings efforts that have been implemented or will be with the start of FY 2010:

- A simple shift change in the city's vehicle and equipment repair shop will save the city a minimum of \$20,000 annually. It has also boosted employee morale and provided improved customer service to the four largest user departments: Police, Fire, Sanitation and Parks and Recreation. User departments have noted their trucks and vehicles are being turned around faster, in some cases as much as a day faster.
- The City Clerk's Office will eliminate passport processing services given there are 20 other providers within a 10 mile radius of City Hall, with several of them offering more frequent hours of operation than currently provided by the city. This change will result in annual savings of about \$1,150.
- The Parks and Recreation Department will consolidate 12 summer drop-in recreation sites to eight locations, with the resulting eight sites within one to three miles of the closed sites. This consolidation will result in savings of \$77,200 annually.
- The Parks and Recreation Department's will reduce contracted landscape maintenance services. This change will mean mowing frequency will occur every 10 days rather than every seven days. Parks staff also assumed responsibility for retention basins and absorbed portions of other horticultural services. To ensure city parks remain clean, Parks staff will augment trash pickup at city parks and will continue to service daily the city's regional and high profile parks. These changes will result in savings of \$299,800 annually.

As part of these budget balancing efforts, the city launched its new Innovate Initiative. This initiative is directly tied to the city's strategic business model that requires departments and employees to ask two basic questions:

1. Should we do this? (Is the service or program aligned with council goals and does it make good business sense?)
2. How do we efficiently and effectively provide the service or program?

The Innovate Team recently began a business evaluation of nine processes that cross multiple departments; this evaluation will continue through FY 2010. One business method to be evaluated is the city's accounts payable process. This process currently has almost 50 manual steps undertaken before a bill is paid. By automating the process, the manual error rate and redundant steps will be reduced, thus freeing up employee time to provide services more quickly. Additionally, many vendors and contractors offer reductions if bills are paid within two weeks. An overhaul of this key business process will allow the city to take advantage of these discounts.

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Also underway are technology projects that will result in significant business process improvements that will benefit our residential and business customers. One project is the implementation of a new billing system for monthly water, sewer, and sanitation collection services. Once implementation is complete in the summer of 2009, customers will be encouraged to pay bills on-line, receive e-bills rather than paper bills if desired, access real-time activity for their account, review usage history in graphical form and tabular form, and access other data such as meter reading data. In addition, many manual, paper-based processes will be replaced with automated, paperless processes.

Another project that will benefit our business customers is implementation of a new sales tax and business license system that is robust, provides effective, flexible management of licensing and sales tax returns, and replaces a manual, paper-intensive process. The current system was developed in-house over a decade ago and has reached its functional limits as it does not support e-commerce capabilities. Implementation of a new sales tax system will provide many e-commerce benefits to our business customers including on-line license applications, on-line tax return filing, on-line customer account information, on-line tax return payments and online payment for other type of tax and licensing bills using Automated Clearing House (ACH) capabilities.

Internally, implementation of the new system will allow integration with the city's Geographic Information System (GIS) which already includes information layers for water/sewer lines, code compliance cases, and crime data. The integration of tax and license information with current GIS capabilities is expected to be particularly useful for an analysis of existing economic development conditions and emerging economic development patterns. Other internal benefits of the new sales tax system include significantly better query and reporting capabilities, electronic workflow of all applications, daily posting to the city's financial management system and a better document management, storage and retrieval system that is compatible with future software upgrades/changes.

Overall, we expect these and additional innovation and process improvement projects will result in service delivery adjustments that produce expenditure reductions and/or more effective use of limited resources to provide high quality services.

**FY 2010 Operating Budget.** The next phase in this budget strategy will be undertaken with the start of FY 2010. The FY 2010 GF operating budget has a \$14.4 million shortfall between ongoing revenue and ongoing expenses that is balanced through a mix of one-time and ongoing measures. The ongoing measures include the 6% ongoing, non-salary budget reductions implemented in FY 2009 plus a 15% ongoing, non-salary reduction with the start of FY10. The Police and Fire Departments were not included in these base budget reductions but will see the implementation of ongoing, non-salary reductions that average 5.4%. In addition, their spending was reduced to match decreases in public safety sales tax revenues.

Additional balancing measures to be done administratively include the following one-time steps:

- continuing the current hiring freeze ,
  - leaving unfilled those positions that become vacant as a result of retirements,
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- implementing a mandatory furlough program for employees across all funds (except represented employees in police and fire) that equates to 104 hours over 12 months,
- restructuring leases to defer principal payments, and
- deferring various compensation-related features for represented employees in police and fire.

In an effort to recognize and reward those employees who stepped up in FY 2009 by volunteering up to 32 hours of furlough, credit will be given for those hours during FY 2010. To those employees I say thank you.

Other balancing measures required Council policy consideration and guidance was provided during the spring 2009 budget workshops to proceed with their implementation for FY 2010. One measure involves revenue enhancements related to electronic billboards. In March 2009, Council approved a resolution authorizing staff to begin negotiations for a digital marquee placement license agreement. New revenue for the GF is expected in FY 2010 as a result of these negotiations. The other measure involves approval of a one-time transfer from the Arts Fund. This transfer will leave funds available for any public art projects that might be needed in the near-term future and has no impact on current projects.

While the enterprise fund operations did not undertake the same level of ongoing base budget reductions that affected GF departments, they have and will continue to participate in expenditure management measures to minimize rate adjustments. For example, the hiring freeze applies to their vacancies and employees of the enterprise fund operations will participate in the mandatory furlough program.

Given the challenging economic conditions, there will be no merit or market pay increases in the FY 2010 operating budget. Neither will there be any new positions added to city operations. The benefits division in the Human Resources Department was successful in negotiating a no cost extension of the current benefits package. The various state retirement plans also have no FY 2010 increases planned for employer and employee contribution rates although we anticipate they will increase for FY 2011.

Approximately \$3.2 million in one-time funds was made available to address essential items as identified below:

- \$1.1 million to address rate increases for electricity, water, sewer, and natural gas,
- \$1.2 million to address economic development commitments, and
- \$903,000 to address urgent building repair issues and repayment to the state's Aviation Fund for a project at the Glendale City Airport.

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 adjusted periodically per the consumer price index (CPI). As a result of these

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reviews, water, sewer, and landfill rates will be adjusted for FY 2010. Sanitation rates will remain unchanged.

Even with the budget reductions and other expenditure management measures, employees will remain focused on implementing City Council's strategic goals. The provision of exceptional city services will continue as will collaborative, innovative efforts to

- strengthen neighborhoods,
- ensure Glendale is a safe community,
- retain and attract quality economic development opportunities,
- foster sustainable downtown development, and
- continue the dedicated partnership with Luke Air Force Base.

**Capital Program.** The principal issue for the capital budget also is the economy and the impact it has on the city's resources to fund capital assets. Glendale's General Obligation (G.O.) capital program is funded with secondary property tax revenues, with development impact fees playing a strong supporting role for growth-related projects. Both revenue sources have been significantly constrained as a result of the economic downturn with a corresponding impact on the capital plan.

The Phoenix metropolitan real estate market witnessed an unprecedented plunge in property values in calendar year 2008, with even lower prices dominating the market during the first quarter of calendar year 2009. Foreclosures and other types of distressed property sales accounted for 43% of all residential resales in the Phoenix metro area in 2008; the comparable share of foreclosed homes in 2007 was 15.6%. Given the lag in the assessed valuation process, the calendar year 2008 real estate market will impact the city's FY 2011 secondary property tax revenue.

The unprecedented number of distressed housing sales in 2008 resulted in Glendale's residential values plummeting 33% for FY 2011, after a 13% drop for FY 2010. While new commercial development mostly offset the 13% housing value drop in FY 2010, it is not expected to do so for FY 2011 because of the significant decline in commercial construction. For development impact fee revenue, the drop off in housing and commercial construction has meant anemic collections in FY 2009, with similarly weak collections expected in FY 2010.

Given this situation, changes to the capital plan presented to City Council in spring 2009 were required for FY 2010 through FY 2013 (first four years of the plan). Over the course of two budget workshops, City Council discussed the options and decided the following:

- Fund \$12 million for the new city court facility over FY 2009 and FY 2010 while alternative financing options are fully explored as possible opportunities for completing the new court project as soon as possible.
  - Complete projects with funding budgeted in FY 2009 that carryover to FY 2010 including the additional funding planned for 2 flood control projects (Northern Avenue Storm Drain and Bethany Home Outfall Channel) that started in FY 2009.
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- Fund the following capital projects:
  - 800MHz Communication Equipment: \$939,925 planned for FY 2010;
  - Engine and Ladder Replacement: \$1.7 million planned for FY 2010 and \$2.2 million planned for FY 2013; and
  - Police Digital Communication System: \$512,500 planned for FY 2010, \$1.4 million planned for FY 2011, and \$512,000 planned for FY 2012 through FY 2013;
  - Downtown Land Acquisition, Downtown Redevelopment and New Development Initiative: \$2 million total in FY 2010 and \$2 million total in FY 2011;
  - AZDES Permit: \$160,925 planned for FY 2010 through FY 2013;
  - Street Beautification: \$1.3 million planned for FY 2010; and
  - Petition Lighting Program: \$160,000 planned for FY 2010.
  
- Defer the following capital projects:
  - Park Redevelopment: \$1.6 million planned for FY 2010 is moved to FY 2014,
  - Park Enhancements: \$248,837 planned for FY 2010 is moved to FY 2014,
  - Parks Facilities Renovations: \$252,376 planned for FY 2010 is moved to FY 2014,
  - General Government Projects: \$1.4 million planned for FY 2010, \$737,569 planned for FY 2011 and \$892,255 planned for FY 2012 are moved to FY 2014 and beyond,
  - Bethany Home Road, 79<sup>th</sup> to 67<sup>th</sup> Ave Storm Drain: \$615,175 in FY 2010 and \$3.9 million in FY 2011 are moved to FY 2015 through FY 2019;
  - West Area Library: \$6.8 million in FY 2011 and \$5.6 million in FY 2012 are moved to FY 2014.

For the water and sewer capital program, the largest project planned for FY 2010 is the Zone 4 Groundwater Treatment Plant at \$40.7 million. This will help ensure compliance with federal water quality regulations and will provide an additional 10 million gallons per day of groundwater treatment capacity to meet customers demand. Also planned for FY 2010 are the following projects:

- \$3.6 million for improvements to the 91<sup>st</sup> Avenue Wastewater Treatment Plant that is co-owned by the City of Phoenix, City of Glendale, and other valley cities,
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- \$3.3 million for the replacement of existing treatment elements at the Arrowhead Ranch Water Reclamation Facility,
- \$2.8 million for replacement of the sanitary sewer and concrete structures located along Camelback Avenue, and
- \$976,421 for the development of a master plan for the West Area Water Reclamation Facility.

The Glendale Onboard transportation capital program is primarily supported by the designated sales tax for transportation, with federal and state transportation funds used for some projects. The FY 2010 program includes \$6 million for the city's pavement management program, with \$2 million for residential street overlay and \$4 million for arterial street overlay. This funding supplements the \$23 million total that was allocated for the same purposes in the FY 2009 and FY 2008 budgets. Another Glendale Onboard capital project for FY 2010 is \$11.8 million for the Northern Avenue Super Street. This project will provide a high capacity arterial roadway initially connecting West Valley travelers from the Loop 303 to the Loop 101 and eventually to Grand Avenue.

### **Conclusion**

As we progress through FY 2010, we will continue to employ fiscally conservative spending practices. We will continue to adhere to the expenditure management measures implemented in FY 2009. 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 2010.

In closing, I believe the FY 2010 budget is a plan that provides resources to maintain essential city services while moving forward with strategies that ensure a positive, sustainable future. 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

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