

May 18, 2015

Honorable Mayor and City Council,

I am pleased to provide you with the City of Goodyear Annual Budget for the fiscal year 2015-16 (FY16) and 10-year Capital Improvement Program (CIP). The budget is balanced, sustainable, and incorporates the priorities and policy direction communicated by the Council in more than 20 hours of public meetings over the past eight months of budget discussions.

Over the last year, there continue to be signs of flattening and modest growth in the local economy, including rising population figures and growing sales taxes. Construction sales taxes declined a little more than anticipated with the completion of the I-10 and 303 interchange. In addition, building permit activity was slow early in FY15 but has been picking up in recent months. The budget is prepared with moderate optimism and a conservative approach in revenue projections. This fiscal conservatism regarding growth projections and spending has served the City well in the past.

BUDGET APPROACH

The city's financial policies are some of the key guiding principles in developing the FY16 budget, as they establish the framework for overall fiscal planning and management. In addition, attention to adopted plans such as the Strategic and General Plans are in focus as departments submit requests and the budget recommendations are developed and recommended.

In preparing the FY16 budget, staff continued to focus on efficient spending while maintaining our services to the community. Revenue estimates were based on the tax policy direction received from Council over the last two months including to continue to maximize the annual primary property tax levy, utilize an overall floating property tax rate to support debt service requirements, and maintain the 2.5% general sales tax rate and the 2.0% food for home consumption (grocery) sales tax rate. This year the combined property tax rate will remain equal to the FY15 \$1.87 per \$100 of assessed valuation.

This year, improvements were made in the internal staff process for developing the annual operating budget and 10-year capital improvement plan. The Finance Department engaged in additional review and analysis of department requests for capital project additions or revisions and for requests for operating budget additions or supplementals. In addition, the Engineering Department participated in the review of capital project proposals. The goals of these reviews were to improve and clarify the scope of requests, identify all significant cost factors and to determine if other methods or sources were available to address the need. An internal staff CIP Committee also reviewed the requests and ratings of proposed capital project changes and additions.

After careful review and scrutiny including more than 20 hours of presentations and discussions in City Council Work Sessions, a number of top priority items are funded to address the City's most pressing challenges and opportunities.

The FY16 budget totals \$236 million, which represents a 6.3% increase from the prior year. This increase is primarily due to several unusually large on-going projects including the Goodyear Blvd improvements (\$5M), the citywide enterprise system replacement (\$4M), a Police building (\$2M), and efforts to build up funding for a future recreation center and replacement of breathing apparatus for the Fire Department.

The operating portion of the FY16 budget represents approximately \$99 million for all funds (general and enterprise funds). The General Fund portion of that operating budget is \$69.2 million. There is \$25.8 million budgeted for all funds debt service requirements. The General Fund contingency (rainy day fund) is increased consistent with financial policy to \$16.6 million an increase of \$300,000 from FY15. In addition the budget includes three allocations to allow for the potential of new improvement districts or other significant new revenues (\$19 million), grant sources (\$2 million), and for Water enterprise needs (\$7.5 million). These budget appropriations would allow the city to undertake such activities should these types of new resources become available during the fiscal year. The Water enterprise is currently undergoing a capital needs and rate study that will not come before City Council for rate and debt funding consideration in time to be incorporated into this budget process.

BUDGET PRIORITIES

Included in the FY16 budget is a continued focus on distributing funds included in last year's budget and enhanced funding to maintain our existing assets. With this budget, the City is also taking steps to grow economic development efforts and to prepare and be ready for growth. There are modest additions in the FY16 budget including only four new positions. This budget also continues the Council direction to invest in our employees, so that they are ready and able to serve our customers as effectively and efficiently and possible. The FY16 budget is one that works within existing resources, but also includes modest additions to ensure service levels are maintained and to meet the demands of our growing community.

- **Maximizing/Preserving Assets and Resources** – Taking care of what we have and finishing what we have begun was a continuing message in developing this FY16 budget. Nearly \$12M in General Funds is included in this budget for asset management reserve funding and catch-up for deferred maintenance in parks facilities, equipment and right-of-way. This was accomplished by beginning a planning process to allocate \$5 million set-aside as seed money by the City Council in the FY15 budget. With that funding and message, city staff began an effort to develop 10-year capital asset maintenance and replacement plans for department and programs throughout the city. In FY15, the plans for fleet, information technology hardware, and parks were finalized and average annual funding requirements determined. New financial policies were also established to provide for General Fund reserves and Enterprise Funds forecasts to provide for funding to be available when

replacements or maintenance work must be performed. Several other areas including Police, Fire, and Facilities are well underway and plans for several small departments were completed. This effort to develop and finalize plans will continue throughout FY16.

- **Growth and Economic Development** – Consistent with the Council adopted Focus on Success, this budget provides resources for economic development initiatives and to be prepared and ready for development-related growth. The FY16 budget includes new one-time and on-going funding to implement the adopted Focus on Success Marketing Plan and to pursue retail and business attraction activities. There is also funding to provide for temporary staffing in areas such as plans review, inspections and permitting, so that the City is prepared to respond to increasing activity in these areas. In the last few months, there have been slight increases in permitting activity. Early in the fiscal year, the City Council will also be reviewing proposed capital plans for the Water and Wastewater programs.
- **Investing in Employees** – Employees are our most valuable asset. They provide the direct services to customers. This FY16 budget addresses the City Council direction to maintain our employee compensation at the local market including the newly negotiated Memorandum of Understanding agreements with represented sworn Police and Fire employees. With those agreements in place, average salary increases will be 3.25% for non-represented employees citywide; 7.5% and 6.0% for represented police and fire employees, respectively. Over the three year agreements, the goal is to have represented police and fire employee pay at the local market. This budget also includes technology and training to provide employees key resources to do their jobs.

Other priorities addressed in the FY16 budget include four new positions to: 1) implement the use of body cameras in the Police patrol which will require a position to process related records requests, 2) conversion of a temporary to a full-time position in uncontained trash collection to improve efficiency, 3) a new position to be filled later in the fiscal year to prepare for the July 1, 2016 takeover of the citywide inventory of trash containers from the current contractor per that agreement, and 4) reestablish the Public Works Director position. The Records Clerk and 25% of the Public Works Director are funded in the General Fund with Sanitation, Water and Wastewater funding the remaining 2.75 positions.

OPERATING BUDGET

The FY16 operating budget totals \$99 million, which includes all departmental salaries, commodities, and contractual services in the general fund and all enterprise funds. The operating budget is structurally balanced, with ongoing revenue sources planned to cover all ongoing expenditures consistent with existing financial policies.

Each year, there is always an increased cost of doing business, with additional expenses necessary to cover the price of utilities, gas, water, and personnel items such as healthcare. Departments worked to absorb many of these costs, but some increases were required in these on-going areas.

Also in the FY16 budget, the City and employees will experience a 7% increase to maintain the City's current medical plan structure. This is significantly less than last year's 11% increase and the market changes experienced by others.

At the peak in FY09, the City had 553 positions. In FY08, a year before that, our City positions per 1,000 population peaked at 9.71 and 544 positions. With the FY16 addition of four positions, there will be 531 authorized full-time positions, which equates to 6.91 positions per 1,000 population. From FY08 to the FY16 budgeted levels, the City population will have grown an estimated 37%, and the number of authorized positions will have dropped 2.4%.

LONG-TERM FINANCIAL PLANNING

With the gradually improving economy, Goodyear began seeing its property valuations rise last year. However, with changes in property tax law, the growth in assessed valuation is now capped beginning in FY16 and was slightly less than initially forecasted. As a result, the combined property tax rate in FY16 will remain equal to the \$1.87 per \$100 of assessed valuation as in FY15. With increasing assessed valuations and additional growth citywide over the next year, it is anticipated the City will be able to continue to drop the combined property tax rate beginning in FY17 until it eventually reaches the \$1.60 rate again. The FY16 combined property tax levy totals \$12.5 million.

Currently, the City is making interest-only payments on its Public Improvement Corporation (PIC) bond debt for the financing of our Spring Training facility. In the event the City does not receive our Arizona Sports and Tourism Authority funding in FY19, the City developed and executed a proactive, long-term plan in FY13 to prepare for the full principal and interest payments at that time, without a detrimental impact to operations. Each of the past three years, the City included incremental increases to a PIC set aside of \$680,000, building a surplus of ongoing operating revenues (capacity). In the FY16 budget, the incremental increase to the PIC set aside in the amount of \$680,000 is included, bringing the total capacity to \$2.7 million. This funding is used in the FY16 budget for one-time initiatives such as capital projects, or one-time operating budget requirements such as purchasing a new vehicle.

CAPITAL IMPROVEMENT PROGRAM

The Capital Improvement Program (CIP) is a financial plan designed to create, support, maintain, and finance Goodyear's present and future infrastructure needs. It is updated with the budget process each year to incorporate new funding information, revised priorities, and Council decisions. FY16 is the first year of implementing and updating a 10-year instead of a 5-year CIP plan. An update style approach was used with an emphasis on the FY16 and new 10th year of FY25. The new 10th year is supported only by forecasted general funds. Water and Wastewater are in the process of preparing detailed five-year plans and the next update for the Infrastructure Improvements Plan (IIP), which provides impact fee growth related project funds will be updated in two to four years. State law requires strict adherence to the most recently adopted IIP. Accordingly, the only changes are to the timing of impact fee funded projects based on the expected collection of the revenue within the IIP 10-year time frame.

The FY16 budget includes \$27.1 million in new funding for capital projects. In addition, another \$31.8 million in carryovers of projects that were begun or partially funded in the FY15 budget is included in the FY16 budget. Some of the key projects funded in FY16 include road widening projects on Sarival from Van Buren to Portland, design of Van Buren widening from Estrella Parkway to Sarival, additional funding for a planned future recreation complex, three traffic signals, and a police operations facility. Funds come from a variety of sources including development fees, general fund, contributions from developers, and grants from regional partnering agencies.

The City recognizes that water is a precious commodity and vital to the sustainability and growth of our community. A process is currently underway to evaluate capital needs in both the Water and Wastewater programs including a citizen panel review. Rate changes and Enterprise funded debt are likely outcomes. Because the timing of this process is lagging the budget adoption timeline, \$7.5 million is included in the FY16 budget for potential Water capital projects to allow for the budget authority should the City Council eventually vote to fund these or a portion of these items.

CONCLUSION

Goodyear's FY16 budget is a product of thorough analysis and collaboration between the City Council, city management, department directors, and staff to identify funding priorities. The preparation of the budget is one of the most important tasks we perform each year and the review and adoption of the budget is also one of the most important policy decisions that you as elected officials make in the best interests of our community. I would like to thank staff for their time and effort, as well as the Council for their guidance and support throughout the development of the FY16 budget.

Sincerely,

Brian Dalke
City Manager