

City Manager's Budget Message

May 23, 2016

Honorable Mayor and City Council,

I am pleased to provide you with the City of Goodyear Annual Budget for the fiscal year 2016-17 (FY17) and 10-year Capital Improvement Program (CIP). The \$254 million budget which includes 17 new full-time positions is balanced, sustainable, and incorporates the priorities and policy direction communicated by the Council in retreats and work sessions held over the past eight months.

This year non-construction sales taxes, which make up nearly half of General Fund revenues, have performed very close to budget. This is reflective of modest growth in the local economy, including rising population and growing sales taxes. Construction sales taxes are performing above budget which had been set conservatively due to the end of the very large I-10 and 303 interchange project. Building permit activity has been performing above the prior year, but remains somewhat volatile on a same month-to-month comparison to last year.

The FY17 budget assumes continued moderate growth and a conservative approach in revenue projections. A legislative change and special census have generated a \$2.1 million increase in state shared sales, income and vehicle license taxes due to changes in the City's relative population when compared to other incorporated cities. This increase in state shared revenues is in addition to the economic growth in those revenues. A continued conservative approach to revenue and growth projections and spending has served the City well. Increased revenues and expenditure savings compared to budget provide funding for one-time activities such as capital projects and asset replacements in future budget years.

BUDGET APPROACH

The city's financial policies establish a framework for overall fiscal planning and development of the FY17 budget. In addition, attention to citizen survey feedback and adopted plans such as the Strategic and General Plans are emphasized as departments submit requests and the budget recommendations are developed and recommended.

In preparing the FY17 budget, staff continued to focus on efficient spending while maintaining services to the community. Revenue estimates are based on the tax policy direction received from Council in January to continue existing operating budget tax revenue policies. The City Council did provide new direction for the purpose of developing the 10-year Capital Improvement Program (CIP) whereby the combined property tax may be \$1.74 per \$100 of assessed valuation up from the prior \$1.60 to support new and existing General Obligation (G.O.) Bond debt service. It is anticipated that new G.O. Bond

funded projects will begin in FY18 within this policy. For the FY17 budget the combined property tax rate will drop slightly from \$1.87 to \$1.8623 per \$100 of assessed valuation to support existing debt service and to set the primary property tax at the maximum allowable levy.

The internal process for developing the annual operating budget and 10-year capital improvement plan includes several steps and reviews. Departments prepare requests for the ongoing base budget, potential operating budget additions referred to as supplementals, and for new or revisions to projects in the existing 10-year CIP. All of these requests are reviewed by the Finance Department. In addition, the capital project requests are reviewed by the Engineering Department. 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. All the supplemental and capital project requests are reviewed by the Executive Team which ultimately developed recommendations for a Draft Budget for City Council.

BUDGET DEVELOPMENT PRIORITIES

Through the City Council retreats and work sessions, a series of guiding principles for budget development were established. Both the City Council and management also rely heavily on input received through the citizen satisfaction survey where maintaining and improving parks and providing recreational opportunities scored as the two highest priorities for programs to be funded. Included in the FY17 budget is a continued focus on maintaining existing infrastructure and assets, public safety, preparing for future operating cost increases, developing a gathering place within the community, and attracting and maintaining a skilled workforce to serve the community.

- **Take Care of What We Have** – Maintaining and timely replacement of existing assets and infrastructure continues as a clear priority in this FY17 budget. A formal asset management program was funded in FY15 with an initial \$5 million allocation. The process includes departments preparing formal 10-year replacement plans that are reviewed by Finance and the City Manager's Office. The FY16 budget included new General Fund asset management reserves for fleet, information technology hardware, streets, and for parks and right of ways. During this year these asset management plans were implemented and updated and new plans were developed for police and fire. The FY17 budget includes \$11 million in General Funds for asset management purposes. Enterprise funds incorporate fleet, information technology and other replacements into long-range forecasting and annual budgets.

The FY16 and FY17 asset management budgets include that focus on improving and maintaining parks with the in progress or planned replacement of playground equipment and adding canopies at the Estrella Vista North and South, Palm Valley and Canada Village parks.

- **Public Safety**– In defining this priority, the City Council addressed police, fire and the broader concept of a safe place to be. The FY17 budget includes ten new positions in the Police Department, eight of which are sworn police positions and one is a telecommunication operator. The eight sworn police positions include a new patrol squad, an investigator, and a sergeant to supervise the School Resource Officer program and provide opportunities for contact with more schools. In addition, the budget includes a fire station location study and items such as storm drainage, tree trimming and pool repairs.
- **Plan for Anticipated Operating Costs** – As the City grows, new costs will be incurred to provide services such as police patrols and to open new facilities such as fire stations and parks. Operating costs include staff salaries and benefits, supplies, utilities, custodial services, and other ongoing costs such as building maintenance. In February, the City Council discussed the five-year General Fund forecast that separately showed the forecast of resources and uses split between the ongoing and one-time portions to provide insight into the ability to take on such new costs. To prepare financially, the FY17 budget includes a \$1.25 million set-aside for the operating costs of the existing library that will shift from County to City funding in FY18 and for the costs to open two fire stations, an expansion to the police operations facility, a recreation center, an aquatics center, and a park that are included in the funded 10-year capital improvement plan. The set-aside protects ongoing budget capacity for future years by diverting the use of ongoing resources now to pay for one-time rather than ongoing costs. This leaves these ongoing resources available as needed in subsequent years.
- **Attract, Develop and Retain a Skilled Workforce** – Employees are the most valuable asset to City services. They provide the direct services to customers. The FY17 budget addresses the City Council direction to maintain our employee compensation at the local market. This budget includes funding for the second year of three-year negotiated Memorandum of Understanding agreements with represented sworn Police and Fire employees which include average salary increases of 6% and 5% 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. The non-represented employee salary increase is 3.5%. Also included in this budget is funding for technology, training and equipment to provide employees key resources to do their jobs.

Other priorities addressed in the FY17 budget include six new general funded and one new water enterprise funded positions to provide citywide procurement and human resource support, customer service positions in Finance and Parks to provide assistance and receive payments, and for facilities and parks maintenance. The Sanitation Fund budget includes costs to shift from contractor to City management of trash containers. The Water and Wastewater budgets reflect the revenue and new costs provided for in the five-year rate plan that was adopted by the City Council during FY16.

FY17 BUDGET OVERVIEW

The FY17 budget uses existing sources of revenue to provide additions to ensure service levels are maintained and to meet the demands of our growing community. Each year, there are increased costs of doing business to cover changing prices of utilities, gas, water, and contracted services. Departments worked to absorb many of these costs, but some increases were required in these on-going areas and were incorporated into the budget through the supplemental process. This budget includes the addition of 17 full-time positions and new programs such as traffic signal pole painting and one-time items.

The FY17 all funds budget totals \$254 million, which represents an \$18 million or 7.6% increase from the prior year. This increase is primarily due to changes in water and wastewater capital projects offset by lower anticipated spending in capital projects in the General Fund, increases in asset management, supplementals, and compensation increases. The General Fund including asset management is \$125.2 million of the total and is an increase of \$4.6 million or 3.8% from the prior year budget.

The operating portion of the budget includes salaries, supplies, and services for day-to-day operations. It is structurally balanced, with ongoing revenues covering ongoing expenditures consistent with existing financial policies. The operating portion of the FY17 budget including one-time items represents approximately \$118.4 million for all funds. The General Fund portion of that operating budget is \$85 million. In addition, the FY17 budget includes \$27.4 million in debt service requirements. The General Fund contingency, a rainy day fund set by policy at three months of ongoing operating costs, is \$17.8 million. The budget provides a \$17.3 million appropriation to allow for the potential of new improvement districts or other unknown or unanticipated new revenues such as grants. Also included in the total budget is \$73 million in capital projects funded primarily from impact fees, water and wastewater revenue and bonds, and general funds.

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 FY17 addition of 17 positions, there will be 548 authorized full-time positions, which equates to 7.04 positions per 1,000 population. Efficiencies, process improvements and technology have helped the City to keep full-time position growth below population growth.

LONG-TERM FINANCIAL PLANNING

For the first time, the five-year General Fund forecast presented to the City Council in February provided a separation of the sources and uses for the ongoing and one-time portions of the budget. This is consistent with good fiscal practice and the City's financial policy to pay for ongoing costs from ongoing revenues. Five-year fund forecasts are also prepared for the enterprise funds. In FY16 the water and wastewater forecasts were more extensive and supported the Council adopting a five-year rate plan.

With the improving economy, Goodyear began seeing its property valuations rise. However, with changes in property tax law, the growth in assessed valuation was capped beginning in FY16. This change reduced the tax base and impacted the environment in which already existing G.O. bonded debt was issued as well as plans for funding for future projects.

In developing the FY17 budget, the City Council discussed property tax policy given the tax base change and community desires for facilities and services. As a result, the 10-year Capital Improvement Program was developed with a financial policy that will allow the existing combined property tax rate to drop from \$1.87 to \$1.74 per \$100 of assessed valuation. The \$1.74 mark will serve as the maximum combined rate for issuing and financing G.O. Bonds that are serviced by secondary property taxes. The combined property tax rate in FY17 will drop slightly from \$1.87 in FY16 to \$1.8623 per \$100 of assessed valuation.

The City has been making interest-only payments on Public Improvement Corporation (PIC) debt for the financing of the Spring Training facility. The financing assumed principle payments consistent with the Arizona Sports and Tourism Authority (ASTA) timeline for when the City would begin receiving ASTA revenue. As the likelihood that the ASTA funds would be delayed surfaced, the City developed and executed a proactive, long-term plan in FY13 to prepare for the full principal and interest payments until the ASTA funds become available. Each of the past four years, the City included incremental increases to a PIC set aside of \$680,000, building a surplus of ongoing operating revenue capacity.

In the FY17 budget, the PIC set aside brings the total capacity to \$3.4 million. A change being implemented in FY17 is the refinancing of this debt that is expected to save more than \$12 million over the remaining life of that debt and also begins to use the PIC set-aside capacity to advance principle payments.

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 each year to incorporate new funding information, revised priorities, citizen feedback, and Council decisions. An update style approach was used with an emphasis on the FY17 and new 10th year of FY26. The new 10th year is supported only by forecasted general funds. Water and Wastewater are in the process of preparing detailed ten-year plans and the next update for the Infrastructure Improvements Plan (IIP), which provides impact fee growth related project funds will begin next fiscal year. Due to the legislatively-required process to update an IIP this will take well over a year to complete. 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 current plan and the expected collection of the revenue within the IIP 10-year time frame.

In addition, to the work to replace playground equipment and add canopies at four park locations, the Capital Improvement Program also responds to that citizen feedback to improve and maintain parks and to provide recreational opportunities through projects such as adding a children's playground with canopy at Foothills Community park in FY17 and addition of projects to create a gathering place in the community. With updated forecasts and the new combined property tax rate financial policy; a recreation center, aquatics center and partial funding and financing of the development impact fees for a park is planned in the 10-year CIP. An expansion of the police operations facility is also added to that 10-year plan. The initial site planning for the gathering place park, recreation center and aquatics facilities projects is included with general funds in the FY17 budget with G.O. Bond funds anticipated to begin in FY18 for the projects to be designed and constructed over several years.

The FY17 budget includes \$45.5 million in new funding for capital projects or funding for subsequent phases of existing projects. In addition, another \$27.4 million in carryovers of projects that were begun or partially funded in the FY16 budget is included in the FY17 budget. Some of the key projects funded in FY17 include completing the road widening project on Sarival from Van Buren to Portland, finishing the first phase of the Police Operations facility, two new traffic signals, various drainage improvements and water and wastewater expansions and rehab projects. Funds come from a variety of sources including development impact fees, general fund, contributions from developers, enterprise operating revenues and bonds, and grants from regional partnering agencies.

CONCLUSION

Goodyear's FY17 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 performed 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 FY17 budget.

Sincerely,



Brian Dalke
City Manager