

City Manager's Budget Message

May 22, 2017

Honorable Mayor and City Council,

I am pleased to provide you with the City of Goodyear Tentative Annual Budget for the fiscal year 2017-18 (FY18) and 10-year Capital Improvement Program (CIP). The \$320.3 million budget provides for ongoing services and includes additions and capital projects that address the priorities and policy direction communicated by the Council in retreats and work sessions held over the past six months. At \$125.0 million the General Fund is balanced, provides for existing and expanded services, and is in compliance with Council adopted financial policies addressing areas such as matching ongoing costs with ongoing revenues, an adequate contingency, and providing for maintenance and replacement of existing infrastructure.

The 10-year CIP stands at \$392.1 million and includes a \$114.2 million project to implement a new strategy to access and treat the city's allocation of Central Arizona Project (CAP) water. This project is essential to future growth and development of the entire city. Given this broad reaching impact, the project is partly financed with \$7.5 million of secondary property tax supported General Obligation (G.O.) Bonds. Though not disallowed in a Council adopted financial policy which states that enterprise funds should be self-sufficient, it is not consistent with recent practice. As a result, the use of General Funds and/or secondary property tax supported debt for this project has been presented and discussed at five City Council Work Sessions as both the project and the 10-year CIP were being developed. The project and its funding was also prominently displayed at the Budget Open House. It is significant to note that the Water and Wastewater funds have not been paying in-lieu property tax to the General Fund, but will do so in FY18 at an estimated amount of \$900,000. Governmental entities, including the city's water and wastewater operations, are exempt from property taxation. This in-lieu payment serves to place the enterprises in a financial position similar to a business.

The FY18 budget and 10-year CIP also includes a return to building new capital projects using property tax supported G.O. Bonds for the first time since the recession. Consistent with the Council adopted financial policy that caps the combined property tax rate at \$1.74 per \$100 of assessed valuation when issuing new debt, the City plans to issue up to \$25.0 million in G.O. Bonds for the above mentioned water project, a replacement fire station, and for a recreation center and aquatics facility as part of a project to begin developing an 86-acre recreation campus.

A conservative approach to revenue and growth projections and budgeting expenses has served the City well and continues as the underlying premise in building the FY18 budget. However, one of the most conservative responses that stemmed from the 'great' recession is being eased through a revision in the targeted General Fund Contingency or 'rainy day fund' in this budget. The new target of 15% of ongoing revenues is still at a level above that needed to maintain bond ratings and an appropriate safety net. At the same time, this budget continues and expands financial planning for future costs through asset replacement reserves, set asides to address known future debt service increases and for upcoming capital project operating costs, and also establishes a new

capital project reserve. The capital reserve project anticipates upcoming costs needed to advance key projects such as fire and police facilities and off sites such as roads for the 86-acre recreation campus.

ECONOMIC CLIMATE

This year non-construction sales taxes, which make up just over half of the ongoing General Fund revenues, have performed above budget and are estimated to grow by more than five percent (5%) over FY16. This is reflective of ongoing steady growth in the local economy, including rising population and growing sales taxes, especially in the retail and restaurant categories. Construction sales taxes, which are considered one-time in nature and planned conservatively in the budget, are performing well above budget. Residential building permit activity is above the prior year levels by more than 10% through the first nine months of FY17 with the last five of those months all meeting or exceeding the prior year. This is reflected in higher than budgeted revenue collections from development related plan review, building permit, and inspections fees.

The FY18 budget assumes continued moderate growth and a conservative approach in General Fund revenue projections. Non-construction sales taxes are estimated at 4.5% above the FY17 estimate. State shared sales, income and vehicle license taxes make up nearly 25% of the General Fund revenue and are budgeted based on information provided by the State. In combination, the state-shared General Fund revenues are projected at three percent (3%) above the current year estimate with growth rates over the current year estimate of less than one percent for income tax, 2.6% for sales tax, and nine percent for the smallest of the three revenues from vehicle license taxes. Because it is shared on a two month lag, state shared income tax is a known amount, excluding the annual population based adjustment. However, state income tax is an area where revenue growth is slowing due to past legislative changes in income taxation and could continue to stagnate over the next two years.

Water, Wastewater and the Sanitation enterprise funds all continue to experience account growth of about four percent annually. There are no rate increases included or anticipated in the Sanitation five-year forecast. Water and Wastewater rates will increase in January based on a five-year plan adopted by the City Council in October 2015. Water has experienced very little volume growth for a few years, most likely due to conservation efforts and elastic response to rate increases, but has shown volume growth in FY17.

The city is proud to have a culture and ethic to improve internal processes and reduce cycle times. Lean principles for process analysis and improvement are practiced throughout the organization with every employee having basic training. Improvement projects over the last two years have netted more than \$20,000 in direct cost savings and almost \$400,000 in cost avoidance savings primarily through staff time reductions. Cost avoidance through process improvement also reduces future budget additions.

BUDGET APPROACH

The city's financial policies establish a framework for overall fiscal planning and development of the FY18 budget. In addition, attention to citizen survey feedback and adopted plans are emphasized as departments submit requests and the budget recommendations are developed. Finally, priorities and policy direction for developing the budget is sought in the annual City Council Retreat and at Work Sessions held throughout the budget process.

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 Budget and Research team. In addition, the capital project requests are reviewed by the Engineering project management team. The goals of these reviews are 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

Continuation of ongoing priorities of the last several years to take care of and maintain existing infrastructure and assets, prepare financially for the future, support growth and development, and to attract and retain a skilled workforce were present in this FY18 budget development process. Public safety and recreational services and facilities are the direct public facing services emphasized in the Tentative Annual FY18 budget and 10-year CIP.

- ◆ **Recreation Services and Facilities** – The highest rated areas for desired enhancements in the last citizen attitude survey called for a greater focus on recreation services and facilities. The City Council reiterated this priority many times. As noted previously, the CIP includes funding in FY18 to design a recreation center, aquatics facility, and a 30-acre park. These facilities are planned to begin construction in FY19 using G.O. Bonds and impact fees. In response to discussions at the Work Session on the Draft Budget, pickle ball courts and a new softball field were added to further address this community priority.

The Parks and Recreation FY18 Tentative Annual Budget adds a third summer recreation program, expands library hours and provides one-time funding for sidewalk improvements in parks. A robust asset management program to replace parks equipment, maintain recreation sites such as playgrounds, and to replace right of way landscaping continues to be fully funded according to a ten-year replacement plan.

- ◆ **Public Safety Services** – Fire service and police response are addressed with capital projects and the addition of 16 sworn and non-sworn positions.

In Fire, capital projects to complete design and begin construction of one new station and the relocation and replacement of an existing station is planned for FY18. The Fire department annual budget also includes training of new paramedics and funding for equipment and the hiring and training of new positions to prepare to enter the ambulance service in July of FY19. A contingency was added to this budget to provide funding for the successful community para-medicine in the event that current or new partners do not provide the funding to continue this program.

Five sworn police officers and a sergeant for a new patrol squad and two telecommunication operators are added to address growth in workloads and to enhance response. A police assistant position and funding to move to a single digital evidence management system are

included and will enhance efficiency of patrol squads. Replacement of all hand held and patrol vehicle radio equipment is also provided for in the FY18 budget.

- ◆ **Support Growth, Maintain Infrastructure and Plan for the Future** – Goodyear is a fast growing city and is focused on finding ways to support the growth in housing with jobs and an economic base. The FY18 Tentative Annual Budget includes a one-time \$2.0 million allocation to be used to implement an impact fee reduction program to be targeted to attracting certain industries. The program will be further refined with the City Council in the coming months and is planned as a two year effort. In addition, the budget includes temporary and ongoing increase for the planning, permitting, building inspection and building safety functions to keep up with building activity, plus a development agreement coordinator position to ensure the city is administering all provisions in agreements with developers as well as cost recovery ordinances.

The asset management program was first identified as a Council priority in the FY15 budget and was added to the financial policies in FY16. The program funds 10-year plans for information technology hardware, fleet, parks, right of ways, the ballpark facilities, pavement management, and fire equipment replacements based on the annual average expense in each plan. Variations from this straight-line funding approach using the annual average are in the form of increases to address early year peaks, especially in new plans for areas where deferred maintenance still remains. The FY18 Tentative Budget adds a new asset management program for traffic signals with \$1.9 million as the first of three years of a higher funding level to address a backlog along with the current year needs. This program also includes public art on a portion of the traffic signal cabinet replacement or repainting projects. In total, more than \$9.5 million in asset replacements is included in this budget.

In terms of planning for other types of upcoming expenses, the FY18 budget includes for the second year a Future Operating Cost set-aside to prepare the city for projected operating and maintenance costs for planned capital projects. The set-aside concept directs ongoing resources in the FY18 budget to pay for one-time costs so that when the new ongoing operating costs materialize the city will have benefitted from funding some one-time needs and not be facing a situation where ongoing services would have to be altered to bring on new facilities. FY18 will be the last year for the ballpark debt service set-aside that has been used to prepare for a known FY19 increase in the debt service for that facility.

Finally, a new \$2.2 million capital project reserve is also included in the FY18 CIP. The capital reserve project is included in anticipation of the City Council's desire to advance several impact fee funded projects. Advancing those projects will require short-term loans of two to five years from the General Fund that will be repaid as the future impact fees are collected. In addition, the reserve project will provide funding for unanticipated costs for off-site roads or utility relocations for project such as the 86-acre recreation campus or future facilities that are not yet sited.

- ◆ **Attract, Develop and Retain a Skilled Workforce** – Employees are the most valuable asset to City services. They provide the direct services to customers. The FY18 budget addresses the City Council direction to maintain employee compensation at the local market. This budget includes funding for the third year of a three-year negotiated Memorandum of Understanding (MOU) agreements with represented sworn Police and Fire employees. A contingency allocation is provided in case an additional one percent increase is triggered

based on FY17 actual General Fund revenue results. The budget also includes increases recommended by a compensation study and an annual pay increase to move non-represented employees to market similar to the goal targeted in the three year MOUs. 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 FY18 Tentative Annual Budget include expanding the popular *In Focus* city magazine to 12 issues per year and converting two part-time recreation positions and a contract court security position to full-time positions. The budget also adds a Right of Way Superintendent position in the General Fund; as well as a technology engineer and a blue staking position in the Water and Wastewater enterprise funds.

FY18 BUDGET OVERVIEW

The FY18 budget uses existing sources of revenue to provide additions to ensure service levels are maintained and to meet the demands of our growing community. There are no General Fund fee or tax rate increases. The combined property tax rate will drop from \$1.8623 to \$1.7349 while still delivering the capacity to issue \$25.0 million in G.O. Bonds for essential projects.

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 24 new full-time positions in all funds and also provides for one-time costs such as replacement technology systems and new and replacement equipment.

In FY08, the city positions per 1,000 population peaked at 9.71 and 544 positions. With the FY18 addition of 24 positions, there will be 572 authorized full-time positions, which equates to 7.10 positions per 1,000 population. Efficiencies, process improvements and technology have helped the City to keep full-time position growth below population growth.

The FY18 Tentative all funds budget totals \$320.3 million. This represents a \$66.3 million increase from the prior year. This increase is primarily due to an increase of \$55.4 million in planned capital improvement project expenses. The most significant being the first \$30.3 million for the CAP surface water related project changes in water and wastewater capital projects, \$10.5 million for improvements to the MLB Cleveland Indians facilities that will be fully paid by the team through increased rental payments, and another \$9.5 million for two fire station projects. Operating costs are increased by \$8.9 million of which approximately half is from ongoing supplemental budget additions and the balance is from salary and benefit increases. The General Fund including asset management is \$137.1 million of the total and is an increase of \$11.9 million or 4.7% from the prior year budget. That \$11.9 million includes \$3.5 million in ongoing and \$6.3 million in one-time supplemental budget additions. The remaining General Fund changes are a \$2.4 million decrease in capital projects offset by approximately \$4.3 million in compensation and pension increases.

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 FY18 budget including one-time items represents approximately \$119.0 million for all funds. The General Fund portion of that operating budget is \$86.6 million. In addition, the FY18 budget includes \$28.1 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 \$15.0 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 \$128.4 million in capital projects funded primarily from impact fees, water and wastewater revenue and bonds, and general funds.

CONCLUSION

Goodyear's FY18 budget is a product of 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 FY18 budget.

Sincerely,

Brian Dalke
City Manager