

AGENDA ITEM #: _____

DATE: May 4, 2020

CAR #: 2020-6859ws



CITY COUNCIL ACTION REPORT

SUBJECT: City Manager's Recommended FY2021 Annual Budget and FY2021-2025 Capital Improvement Program

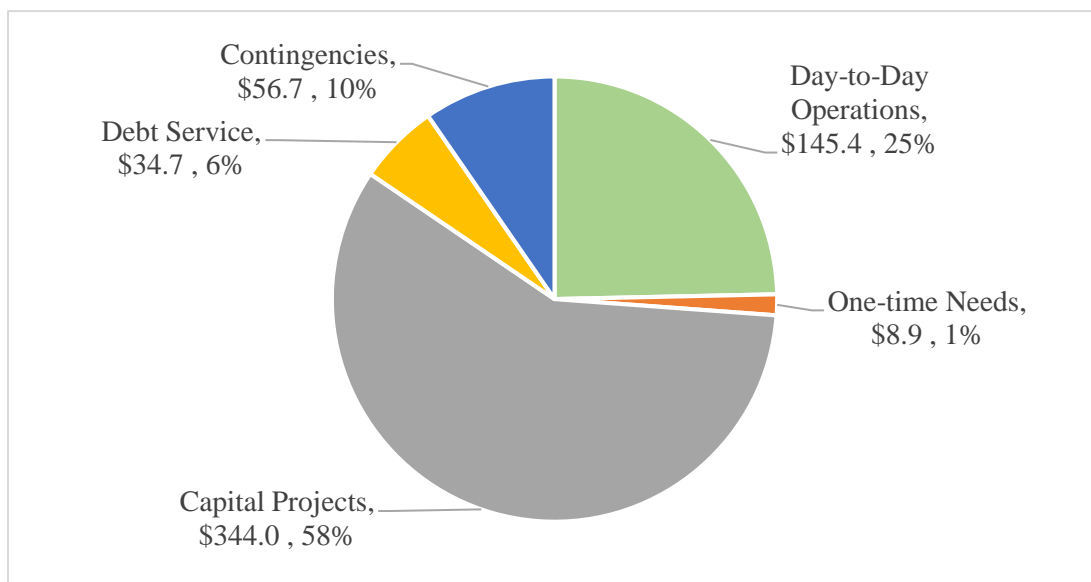
STAFF PRESENTER(S): Lauri Wingenroth, Finance Manager-Budget and Research

OTHER PRESENTER(S): None

Summary: Staff will present, answer questions, and receive input from the City Council on the FY2021 City Manager's Recommended Budget and five-year FY2021-2025 Capital Improvement Program (CIP). Council discussion and feedback will be used to make any required modifications prior to presenting the Tentative Budget and preparing required publications for final adoption of the FY2021 budget.

The City Manager's Recommended Budget for FY2021 is \$589.8 million, including estimated FY2020 carryovers. This budget is presented in an environment of high levels of uncertainty due to the unknown impacts on city revenues from the corona virus pandemic. Impacts of the federal stimulus, responses by all levels of government, consumers and businesses are all unknown, but are estimated with the best information available at this moment.

City Manager's Recommended Budget All Funds FY2021 - \$589.8 (in millions)



As a result of the uncertain environment, this proposed budget is built around a framework of maintaining current programs and services, addressing the highest priorities expressed by City Council and ‘must do’ supplemental budget additions, compensating employees fairly, providing capacity to absorb further revenue losses or cost increases, and maintaining a focus on continuing the capital improvement program given the benefits that derive to the local economy from such projects.

As presented the recommended budget retains all base budget programs and services and adds \$3.3 million in ongoing supplementals including 26.4 new positions, plus \$6.1 million in one-time supplementals. Of the position additions, eight are in Water and Wastewater to support growth and maintenance, and the balance are required to open the now under construction recreation campus.

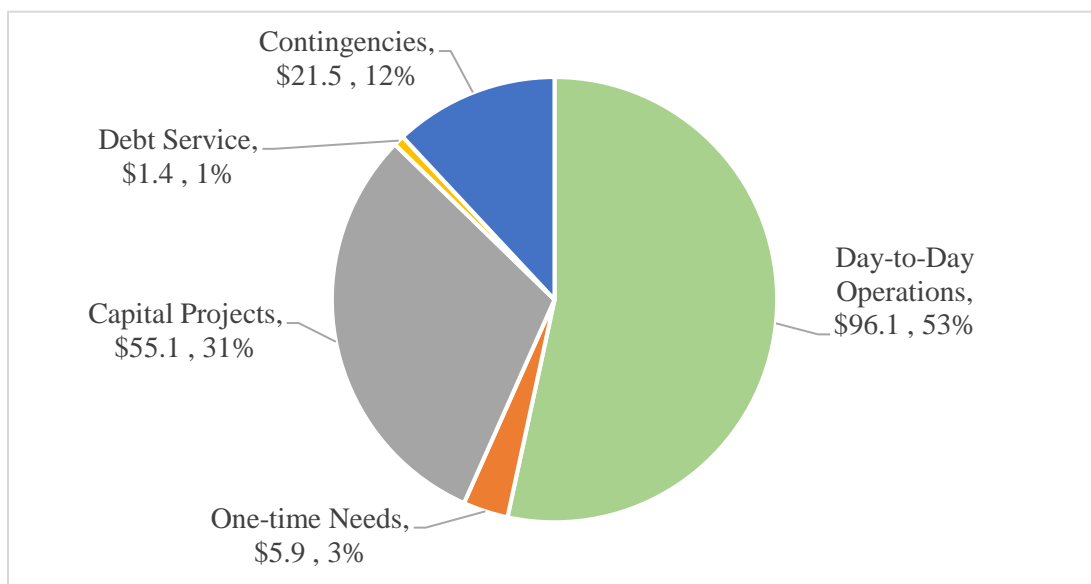
Tentative agreements with represented sworn police and fire employees that were or were nearly completely negotiated in early March are fully funded including step increases and 2.5% merits plus other changes in specialty or assignment pays and benefits. Non-represented employees would receive a one-time 2.5% payment in July and it is recommended that the ability to address further compensation and/or benefit changes for this group be explored mid-year once more is known about the economic fall-out from the pandemic.

The five-year capital improvement program remains essentially intact, with no significant changes made as a result of the anticipated revenue losses. All of the projects now in progress continue. Major continuing capital projects included in the FY2021 recommended budget include full funding to complete Fire Stations 181 and 186 and the recreation campus with a community park, aquatic facility, and recreation center; and for the ongoing surface water and Civic Square at Estrella Falls projects. Converting the streetlight system to LED financed through electricity savings, beginning design of a fire station for west Goodyear and the expansion of the Police Operations facility and the major projects beginning in FY2021. New to the five-year program projects for FY2021 include replacing water meters throughout the city, a traffic signal on Estrella Parkway at Estrella Foothills, widening Estrella Parkway near I-10, and landscape and branding for the Bullard tech corridor.

A handful of projects from the existing five-year capital plan have been deferred, rescope, and/or removed. Nearly all are associated with changes unrelated to the financial position. Finally, capital projects have been changed for water and wastewater pending the outcome and funding made available in the in process five-year rate study. Because this rate study is in progress, no rate changes are reflected in the proposed FY2021 budget for the water, wastewater, or solid waste enterprise funds. However, it is important to note that rate changes typically occur in January and are anticipated in water as a result of the approval of the surface water project. These rate studies, and a citywide fee study, will be discussed with Council in the first half of FY2021.

The recommended FY2021 General Fund Budget, which is the primarily tax-supported portion of the citywide budget, is \$180.0 million including \$1.7 million of ongoing and \$1.9 million of one-time supplemental additions. This is the portion of the budget most significantly impacted by the economic changes now occurring due to the pandemic. Local and state-shared sales taxes; which are derived from consumer and business spending on goods, at restaurants and bars, in hotels, and for entertainment; make-up 50 to 60% of General Fund revenue. The city is benefiting from high levels of development activity and the related, primarily one-time construction sales tax, and permit and building fees. Thus far, no significant slow-down is anticipated in this activity due to in progress projects. However, our typical approach to conservatively budget these revenues is in place in this recommended budget.

City Manager's Recommended Budget General Fund FY2021 - \$180.0 (in millions)



As seen in the above chart, capital projects make-up an unusually large component of the budget. This is primarily related to the civic square and recreation campus projects.

Another unusually large component of the budget is the contingencies. In addition to the 15% of ongoing revenues budgeted as a 'rainy day' contingency in the amount of \$16.4 million; the budget proposal creates an additional \$5.1 million contingency to address further revenue declines if they occur. If revenue estimates hold, this additional contingency can also be allocated mid-year to important needs by City Council action.

Local population growth and development both continue, generating ongoing and one-time revenues for the city. Assessed valuation growth for new properties again grew more than projections and existing properties assessed valuation reflects 4.9% appreciation. This growth supports both the ongoing General Fund and the city's ability to pursue critical voter approved general obligation bonding for capital projects. No sales tax rate changes are proposed in this General Fund budget, primary property taxes are proposed at the maximum levy consistent

with financial policy, and the secondary property tax levy is set so that combined the total property tax rate remains under \$1.74 per \$100 of assessed valuation.

Recommendation:

This item is for information, discussion, and input to guide the City Manager to prepare for the first of the formal steps of budget adoption. Tentative Budget adoption on June 8, 2020 is that first step. Tentative adoption is preceded and followed by Truth In Taxation and/or state required budget publications, then Final budget adoption and hearing on June 22, 2020, and Property Tax Levy adoption on July 6, 2020.

Fiscal Impact: This is an informational step in building the FY2021 budget. As proposed this budget complies with Council adopted financial policies that provide for fiscal conservatism, flexibility, and adherence to legal requirements and professional practices.

No sales tax rate changes are proposed. Property tax levies and rates are within legal limits for the levy and the combined rate is below the maximum established in the adopted financial policies. A citywide user fee and cost allocation study is underway, with no user fee changes assumed in this recommended budget.

The five-year rate plan is also being developed for the water, wastewater and solid waste funds with a citizen committee. As a result, no rate changes are included in those funds, but would be anticipated in January 2021.

The utility and citywide fee studies will be discussed with City Council in the first half of FY2021.

Background and Previous Actions

The FY2021 budget process began in the late summer with department submitting their initial list of new capital project requests as part of a 3-step CIP budget process that stretched through January. In October, departments began preparing base budget estimates and updating existing CIP project costs and timelines if needed and by December had also submitted supplemental budget addition requests. All of these estimates and requests are reviewed by Budget and Research and with the executive team. In the case of capital projects; Engineering Project Management, Information Technology, and Procurement were involved in reviews. The represented labor negotiation process began in the winter and progressed throughout March.

In early January, the Council provided insight into initial budget priorities in discussions at a retreat. As a result, some new capital project and/or supplemental requests were added into the process by departments to address the raised priorities. Revenue policy was also a topic at that session with no planned changes to financial policies or tax rates.

The first formal step in this budget process with the City Council, was the presentation of an economic update by Jim Rounds, a local economist, and the five-year General Fund forecast. At that time, the ten-year horizon for Goodyear was positive and essentially seen as recession proof

due to ongoing growth and strength in Goodyear and the west valley, as well as our economic development efforts and focuses. That work session was held on February 3, 2020.

On February 24, 2020, the City Council approved the financial and public safety pension policies as well as changes to the budget transfer policy. The key change in the financial policies was to increase from \$4.5 million to \$5.1 million, the portion of construction sales tax treated as ongoing revenue. This policy calls for annual review and the \$5.1 million was based on the average of the lowest five-years in the prior ten of General Fund construction sales tax collections. Added to the financial policies was the in place practice that City Council approve all changes in the citywide position count. The public safety funding policies remained unchanged, but require by state statute annual Council approval including acceptance of the unfunded liabilities. The budget transfer policy is a pre-approval of certain mid-year budget transfers that cross lines of appropriation. The primary change was related to transfers to reconcile carryover budgets to the proper total project budget.

With this direction, city management developed a preliminary budget. The executive team met on March 17, 2020 to review what had been the outcome of several meetings to develop a funded, balanced annual budget and five-year capital improvement program. However, on Wednesday, March 11th the WHO declared a pandemic and on Thursday, March 12th MLB canceled Spring Training. On March 16th the President announced a plan to social distance for 15 days.

The executive team immediately developed a new framework for making budget recommendations and Budget and Research began working on new revenue estimates. The General Fund revenue estimates presented in this recommended budget are \$12.3 million lower than those prepared for our March 17th City Manager's review. Budget capacity to both absorb lower revenues as described above, as well as to spend if the recovery is quick and some of this \$12.3 million in revenue loss is regained is provided in the recommended budget.

Throughout March and April, further responses and actions to address the pandemic have continued causing additional uncertainty. The first look at the full month of April city sales taxes will not be available until early June. To comply with state statute, the Council must adopt a Tentative Budget by June 8th with Final Budget adoption occurring two weeks later.

Staff Analysis

The proposed budget complies with financial policies with no proposed deviations to address the unprecedented impacts of the pandemic. The General Fund ongoing resources exceed the proposed ongoing uses by \$1.9 million which indicates capacity to take on more ongoing costs than the budget proposes. As presented, the recommended budget allocates this amount to the \$5.1 million additional General Fund contingency.

Further, the operating cost set-aside, which is used to step the General Fund budget into future capital project operating costs by using ongoing revenues equal to the set-aside for one-time purposes, is at \$4.1 million.

Attachments

FY2021 City Manager's Recommended Budget