

AGENDA ITEM #: _____

DATE: June 8, 2020

CAR #: 2020-6895



CITY COUNCIL ACTION REPORT

SUBJECT: Adopt the FY2021 Tentative Budget

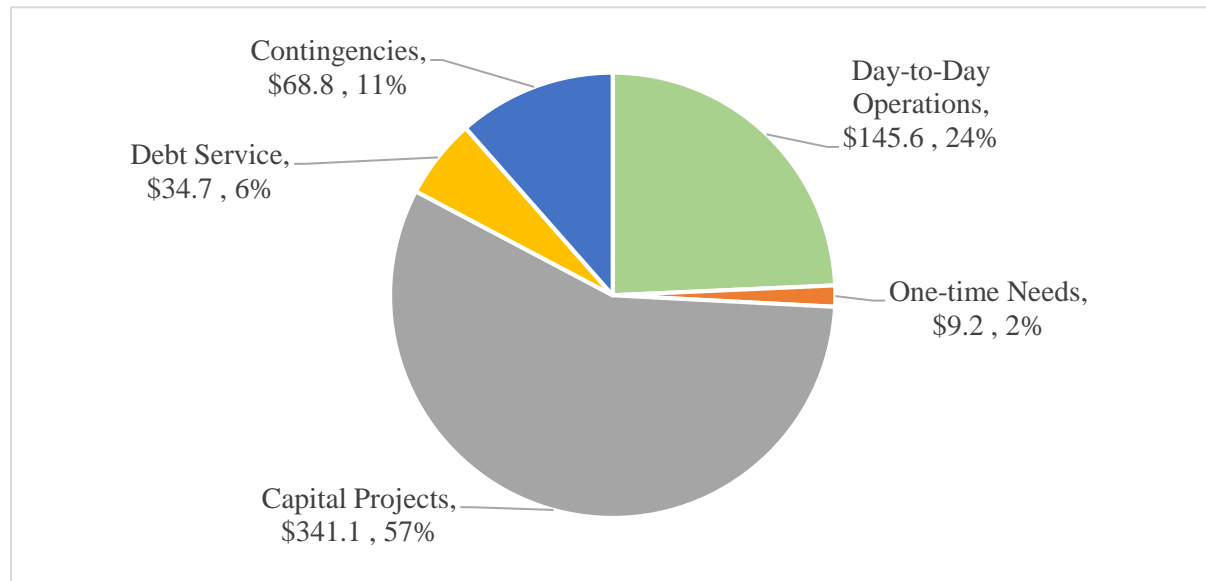
STAFF PRESENTER(S): Lauri Wingenroth, Finance Manager-Budget and Research

OTHER PRESENTER(S): None

Summary: Staff will present the \$599.4 million all funds FY2021 Tentative Budget for adoption by the City Council.

The FY2021 Annual Budget provides for day-to-day operations, the first year of the five-year CIP, debt service, new ongoing and one-time 'must do' supplemental budget additions, and carryovers from the FY2020 budget. The budget increases the position count by 25.4 to 706.2 full-time equivalent positions and includes the costs of the labor agreements with represented police and fire. In a change from the City Manager's recommended budget, non-represented compensation will increase by 2.5% on an ongoing, rather than one-time basis with no change to the budget total and a continued commitment to readdress mid-year when the local economic climate is better understood.

Tentative Budget All Funds FY2021 - \$599.4 (in millions)



The following explains the \$9.5 million all funds budget increase from the recommended budget presented in May.

Resource Changes:

The General Fund Beginning Balance resource is increased as a result of two changes in FY2020. First, nearly \$10 million in CARES Act funds were allocated to the city by the state of Arizona for the purpose of reimbursing public safety costs. It is anticipated this will cover our public safety salary and benefits expenses through the month of June. In addition, the last project to be funded by the Police Asset Management fund is complete and the remaining \$0.2 million is returned to the General Fund.

Operating budget changes include:

- \$192,400 added for Fire Stations 181 and 186 part year operating costs
- \$180,000 added using restricted Court revenues to provide two temporary positions
- \$132,500 added for carryover updates and small technical corrections
- \$ 50,000 added for CDBG Entitlement plan preparation consultants

Capital project changes include:

- \$1.2 million reduced attributable to blending the Ballpark Wall Stabilization project into the current year safety project
- \$1.0 million deferred from FY2021 to FY2022 for the construction of two traffic signal projects on Camelback Road based on schedule updates
- \$0.8 million reduced by incorporating the SCADA control room into the Surface Water facilities and within that budget and removing the planned project to relocate elsewhere
- Nearly offsetting corrections to the Estrella Foothills traffic signal project with a \$15,300 cost increase and a \$9,000 reduction to the Surface Water project carryover.

General Fund Special Contingency increased to \$17.1 million:

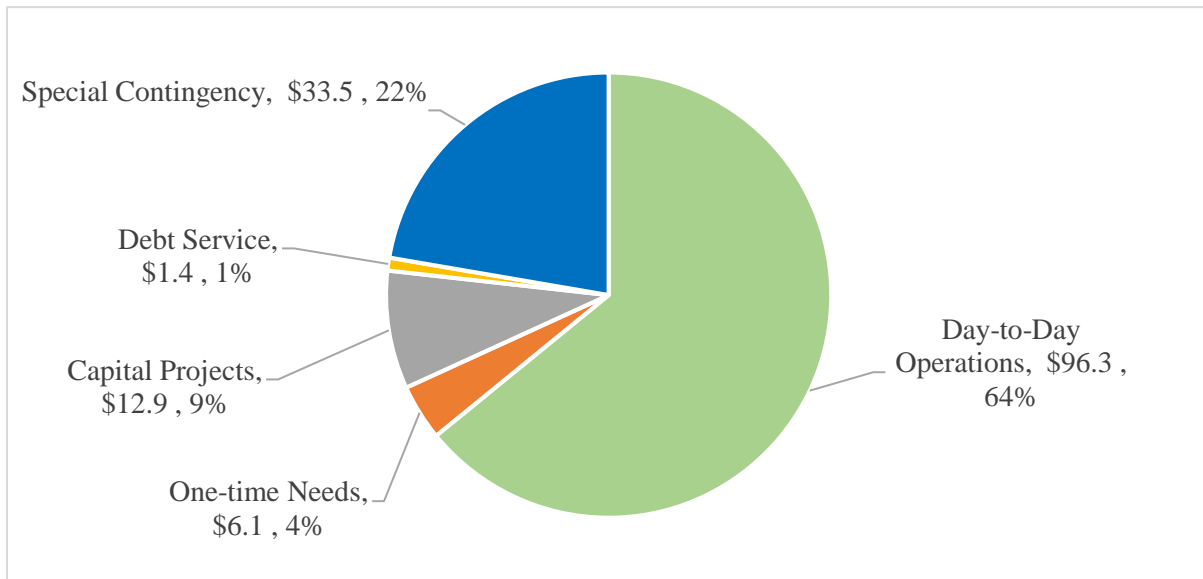
General Fund resource increases and net expenditure savings, as described above, allows the Special General Fund Contingency to be increased to \$17.1 million. This is in addition to the 15% 'rainy day' contingency required by financial policy, and differs in that the intent is to use the Special Contingency mid-year 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.

The FY2021 General Fund Budget, which is the primarily tax-supported portion of the citywide budget, is \$150.2 million. 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.

This General Fund budget reflects a reduction from the City Manager recommended and prior year budgets. This results from a change in how capital projects with complex funding sources are budgeted. Such projects will now be budgeted in one capital project fund and interfund transfers will move the resources from the various funds paying for the project into that fund.

This results in a shift of \$41.6 million in General Fund capital project expenses to the capital project fund and an offsetting increase in the transfer of General Funds to that fund. This practice reduces budget and accounting adjustments, and allows the Finance Department to spend down the programmed funding sources based on priority. The timing of spending various funds is important to assure proper proportioning outlined in development agreements, in managing multiple bond issues, and due to limits on the amounts of and how long bond or impact fees can be held. The same practice is in place for Water and Wastewater projects using a capital project fund set up in each enterprise.

General Fund FY2021 Tentative Budget - \$150.2 (in millions)



The contingencies portion of the General Fund budget is unusually large due to the inclusion of the Special Contingency of \$17.1 million.

Recommendation:

ADOPT RESOLUTION NO. 2020-2035 ADOPTING THE FISCAL YEAR 2020-2021 ESTIMATES OF REVENUES AND EXPENSES FOR THE CITY OF GOODYEAR, INCLUDING ESTIMATED PROPERTY TAX LEVY AND PROPERTY TAX RATES, AS THE TENTATIVE BUDGET FOR FISCAL YEAR BEGINNING JULY 1, 2020 AND ENDING JUNE 30, 2021; SETTING FORTH THE RECEIPTS AND THE AMOUNTS ESTIMATED AS COLLECTIBLE FOR THE PREVIOUS FISCAL YEAR; THE AMOUNT PROPOSED TO BE RAISED BY DIRECT PROPERTY TAXATION FOR THE VARIOUS PURPOSES; GIVING NOTICE OF THE TIME FOR HEARING TAXPAYERS; FOR ADOPTION OF BUDGET AND SETTING THE TAX LEVIES.

Fiscal Impact: This is the first step in adopting the FY2021 budget. Adoption of the tentative budget sets the cap expenditure limitation amount for FY2021 and authorizes expenditure of funds in FY2021.

No sales tax rate changes are included in this budget, primary property taxes are 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. Further, no other rate or fee changes are included in the budget. However, separate rate and fee studies are in progress for the enterprise funds, storm water, and citywide user fees. Enterprise fund rate changes typically occur in January and rate increases are anticipated in water as a result of the approval of the surface water project. These rate studies will be discussed with Council in mid-FY2021.

Background and Previous Actions

The FY2021 budget process began in the late summer with departments 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 state statute (law) requires 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 World Health Organization declared a global pandemic and on Thursday, March 12th Major League Baseball 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 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 for in the budget.

The City Manager presented a recommended budget on May 5, 2020 which focused on continuing existing programs and services, fair compensation for employees, meeting obligations, opening new capital facilities, and continuing the capital improvement program. The changes to that recommended budget are summarized in this report.

Throughout March and April, further responses and actions to address the pandemic have continued causing additional uncertainty. March 2020 local sales taxes exceeded the revised revenue estimates. March involved stock up activities and was not within the time frame of the state's Stay Home, Stay Safe order. With continuing high levels of construction sales tax, early results show April total sales tax collections will also exceed the revised estimate. Full month data for April will not be available until mid-June.

To comply with state statute, the Council must adopt a Tentative Budget today. Budget and Truth in Taxation publications will each appear twice in the newspaper per state requirements. The required public hearing for budget adoption, Truth In Taxation and Final Budget adoption will follow on June 22, 2020. The Property Tax Levy adoption will occur on July 6, 2020.

Staff Analysis

This budget was built from a framework that arose from the high levels of uncertainty in the local and national economies and city revenues associated with responses to the corona virus pandemic. Though still uncertain in areas such as spending pattern changes by consumers and businesses, and depth and duration of the economic decline, more is known about federal and state actions impacting our budget than in late March. AZ CARES funds are known and are being spent in FY2020 on public safety expenses as directed by the state. Consistent with practice, the related increase in the FY2021 beginning balance is treated as an unrestricted one-time General Fund resource in FY2021.

The budget framework remains one 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 revenue losses or cost increases,

and continuing the capital improvement program given the benefits that derive to the local economy from such projects.

‘Must do’ additions to the ongoing base budget open capital facilities now under construction including the recreation campus and two fire stations as well as addressing growth and development related needs. 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 will continue.

The FY2021 tentative budget complies with all financial policies including General Fund ongoing resources exceeding the ongoing uses by \$1.0 million. 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

Resolution 2020-2035

FY2021 Official City-Town Budget Forms - Schedules A – G

FY2021 Tentative Budget