

Agenda

City Council Policy Session

Meeting Location:
City Council Chambers
200 W. Jefferson St.
Phoenix, Arizona 85003

Tuesday, January 30, 2018

2:30 PM

phoenix.gov

CALL TO ORDER

COUNCIL INFORMATION AND FOLLOW-UP REQUESTS

This item is scheduled to give City Council members an opportunity to publicly request information or follow up on issues of interest to the community. If the information is available, staff will immediately provide it to the City Council member. No decisions will be made or action taken.

CONSENT ACTION

This item is scheduled to allow the City Council to act on the Mayor's recommendations on the Consent Agenda. There is no Consent Agenda for this meeting.

CALL FOR AN EXECUTIVE SESSION

A vote may be held to call an Executive Session.

REPORTS AND BUDGET UPDATES BY THE CITY MANAGER

This item is scheduled to allow the City Manager to provide brief informational reports on topics of interest to the City Council. The City Council may discuss these reports but no action will be taken.

INFORMATION AND DISCUSSION (ITEM 1)

1 2018-19 Early General Fund Budget Status

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The purpose of this report is to provide City Council with an update on the 2018-19 budget development process. Based on current information, we are confident that the 2018-19 budget can be balanced without increasing revenues or negatively impacting existing services based on the following:

- One-time expenditure savings carried in the fund balance;

- Ongoing savings from early Council budget actions; and
- Improved revenue.

This is the first of our annual series in building a City budget for 2018-19.

The schedule includes:

1. Early GF Budget Status - today
2. Capital projects review, inventory of programs and 5-year GF Forecast - February
3. City Manager's Trial Budget - March
4. Public review of Trial Budget - April
5. Proposed Budget presentation - May
6. Formal Budget adoptions - June/July

THIS ITEM IS FOR INFORMATION AND DISCUSSION.

DISCUSSION AND POSSIBLE ACTION (ITEM 2)

2 2018 Legislative Update

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This report provides information regarding the status of current state and federal legislative issues, and also requests City Council approve that the City advocate to ensure that the Census Bureau has the necessary funding and other resources to conduct a complete and accurate count in Phoenix for the 2020 decennial census.

THIS ITEM IS FOR DISCUSSION AND POSSIBLE ACTION.

ADJOURN

For further information or for reasonable accommodations, please call the Management Intern, City Manager's Office, at 602-262-4449 or Relay 7-1-1 as early as possible to coordinate needed arrangements.

Si necesita traducción en español, por favor llame a la oficina del gerente de la Ciudad de Phoenix, 602-262-4449 tres días antes de la fecha de la junta.

Members:

Mayor Greg Stanton
Vice Mayor Laura Pastor
Councilwoman Thelda
Williams Councilman Jim
Waring Councilwoman
Debra Stark Councilman
Daniel Valenzuela
Councilman Sal DiCiccio
Councilman Michael
Nowakowski Councilwoman
Kate Gallego



2018-19 Early General Fund Budget Status

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THIS ITEM IS FOR INFORMATION AND DISCUSSION.

Summary

Since February 2017, the projected budget status for 2018-19 has been refined under the direction of the City Council as staff finds ways to tighten expenditures and receives access to current information on revenues and expenditure trends. Based on current information, we are confident that the 2018-19 GF budget can be balanced without negatively impacting existing services or requiring a revenue increase. This report also briefly discusses several other assumptions that will significantly impact the overall budget status as we look ahead.

The February 2017 Five-Year GF Forecast projected a potential GF budget shortfall of between (\$43 million) and (\$64 million) for fiscal year 2018-19. At the time of last year's forecast the estimated beginning balance for fiscal year 2017-18 was estimated at \$119 million. As reported in September 2017, the actual beginning balance was \$144 million (Attachment A, Item 1). The change in fund balance provides additional one-time resources of approximately \$25 million that can be used to address next year's projected shortfall.

In addition to the fund balance changes discussed above there are four other changes totaling approximately \$31 million that contribute to next year's improved budget forecast. These items include:

- Net increase in current year GF resources of approximately \$9 million (Attachment A, Item 2);
- Early efficiencies approved by City Council in September totaling approximately \$4 million in 2017-18 (Attachment A, Item 3);
- Current year savings resulting from staff's detailed technical reviews and tight spending controls totaling approximately \$10 million (Attachment A, Item 4); and
- Net increase in 2018-19 state-shared sales tax totaling approximately \$8 million (Attachment A, Item 5).

These items will be discussed in greater detail during next month's Five-Year GF Forecast as staff continues to analyze all revenue and expenditure data.

Areas to Monitor

While many variables ultimately influence the budget, it is our opinion that the following four items reflect the major areas of discussion over the next few months as staff develops the Five-Year GF Forecast and the Trial Budget to be presented in March. These items include the following:

General Fund Revenue Outlook

Excluding one-time revenue sources and timing issues, GF revenue collections at 5 months were \$18.5 million or 4.2% higher than last fiscal year. Budgeted revenue for 2017-18 is \$1.140 billion, representing 3.1% growth over 2016-17. As a result, revenue collections through five months are trending closely to budgeted revenue; however, because we only have five months of activity, GF revenue collections will be closely monitored until we receive all holiday-related sales tax data before we finalize our revenue projections. These estimates will be reflected in upcoming budget discussions with the City Council during the annual budget development process that will take

place over the next few months.

One area of concern for the GF revenue outlook to monitor closely is the future allocation of State-Shared Revenue, which is now based on annual population adjustments. State-shared sales tax is distributed to cities and towns based on relative population share. While Phoenix's population has grown over the years, our relative population share decreased from 30.3% in 2010 to 29.38% this year. The city's population becomes even more important as we look ahead to the 2020 Census. The city will need to take an active role to encourage strong resident participation. To assist with this effort, the city will need to allocate additional resources for marketing materials, advertisements and staff as soon as possible to ensure that Phoenix residents are accurately reported. In the absence of strong resident participation, the city's relative population share could decrease further.

GF Pension Costs

While total COPERS-related expenses are expected to increase next year, these increases are expected to be less than what was originally forecasted in last year's Five-Year GF Forecast. This change is due to the continued impact of pension reform, as well as strong plan performance over the last year. More detailed projections for COPERS-related costs in future years are currently being developed and will be discussed in greater detail during next month's Five-Year GF Forecast. The net pension unfunded liability for COPERS decreased from \$1.833 million to \$1.776 million. More detailed projections for COPERS-related costs in future years are currently being developed based on recently approved actuarial reports.

HB 2485, approved by the State in 2017, changed the amortization of Police and Fire pensions. As a result, GF costs are expected to decrease by approximately \$5 million in FY 2018-19 as compared to the current year budget and by as much as \$15 million when compared to last year's Five-Year GF Forecast. This decrease accounts for adoption of a 25-year amortization period, impact of pension reform and strong plan performance over the last year. In addition, this also provides resources needed to establish the pension stabilization fund. However, as discussed with the Council in December, the unfunded public safety pension liability still requires significant, ongoing attention. The net pension unfunded liability for PSPRS increased from \$2.108 million to \$2.687 million.

In the absence of the 25-year amortization period, GF public safety pension costs would increase by approximately \$25 million in 2018-19. This change would seriously impact our ability to balance next fiscal year without either additional revenue or difficult cuts to existing GF programs and services. Detailed projections for the next few years are currently being developed and will be included as discussion points in

next month's Five-Year GF Forecast.

Infrastructure and Capital Needs

Each year, the budget has to accommodate needed capital projects. The city's GF departments operate a large number of facilities in order to provide services to the residents of Phoenix. As these facilities age, they require significant investments for maintenance and general repairs. For the past few months Budget and Research and Finance staff have been working with Public Works staff to identify significant maintenance and other capital projects that must be addressed in the near future.

In addition to these facility projects, there are other projects like the IT server modernization project and an aging vehicle fleet, particularly in Police and Fire, that will require a significant increase in GF resources over the coming years. Staff will return to Council next month with additional information about these projects and potential funding options.

Service Levels

For more than 35 years, the city has conducted an annual Program Budget Review process to evaluate services, an essential step in the city's zero-based budgeting process. Departments are tasked with conducting a systematic review of programs at current service levels, identifying innovative service delivery changes that enable greater efficiency, evaluating priorities and recommending any changes to services. The process is also important in determining possible changes to programs to address reduced resources, increased costs and/or other factors. This process also affords city departments with an opportunity to request additional funding and resources needed to address new or increased demand for city services. As in past years, all GF departments will submit potential programmatic expenditure reductions for consideration should budget reductions be necessary. The potential reductions are in areas that would result in the least possible impact to the community and reflect the lowest priority programs within each department.

Although it is unlikely that reductions would be required, it is important that a full range of realistic potential options be available for discussion. Identifying more proposals than needed provides flexibility for the City Council and management to quickly deal with any unforeseen budgetary problems. It also allows us to address any potential cuts to state shared revenue that may arise during the legislative session.

Responsible Department

This item is submitted by City Manager Ed Zuercher and the Budget and Research Department.

Attachment A

Summary of Balancing Efforts Since Last Year's Forecast

	<u>Adjustments to 2017-18 Beginning Balance</u>	<u>\$ Amount</u>
1.	At the time of last year's five-year forecast the estimated beginning balance for 2017-18 was estimated at \$119 million. As reported in September 2017, the actual beginning balance was \$144 million.	
		<u>\$25,000,000</u>
	Subtotal of Fund Balance Changes Since February 2017 Forecast	\$25,000,000
	<u>Additional Savings Identified After February 2017 Forecast</u>	
2.	After accounting for all estimated changes to resources (Local Sales Tax, State Shared Revenue, Primary Property Tax, User Fees, Fund Balance, Transfers and Unspent Contingency), staff is currently assuming a net increase in current year resources of approximately \$9.0M.	
		9,000,000
3.	In September 2017 Council approved early efficiency actions which resulted in current year one-time savings of \$4.0M.	
		4,000,000
4.	Current year savings resulting from staff's detailed technical reviews and tight spending controls.	
		<u>10,000,000</u>
	Subtotal Additional Savings	\$23,000,000
	<u>Net Adjustment to 2018-19 Resources</u>	
5.	Based on the most recent estimates staff projects that state shared revenues can be increased next fiscal year by approximately \$8.0M over estimates reflected in last year's five-year forecast	
		<u>8,000,000</u>
	Subtotal Adjustments to 2018-19 Resources	\$8,000,000
	Total All Adjustments	\$56,000,000



2018 Legislative Update

This report provides information regarding the status of current state and federal legislative issues, and also requests City Council approve that the City advocate to ensure that the Census Bureau has the necessary funding and other resources to conduct a complete and accurate count in Phoenix for the 2020 decennial census.

THIS ITEM IS FOR DISCUSSION AND POSSIBLE ACTION.

Summary

Jan. 30, 2018, is the 23rd day of the Second Regular Session of the 53rd Legislature. Attachment A provides the status of legislation as of Jan. 23, 2018. To date, 799 bills have been introduced and staff continues to review these measures to identify potential impacts.

A federal report (Attachment B) provides information regarding the 2020 Census and requests an addition to the 2018 Federal agenda.

Responsible Department

This item is submitted by Deputy City Manager Karen Peters and the Office of Government Relations.

Attachment A
City Council Policy Session
January 30, 2018

State Update

Jan. 30, 2018, is the 23rd day of the Second Regular Session of the 53rd Legislature. The information provided in this report regarding status of legislation is current as of Jan. 23, 2018. To date 799 bills have been introduced and staff continues to review these measures to identify potential impacts.

Governor's State of the State Address and Budget

On Monday, Jan. 8, Governor Ducey presented his State of the State Address. He addressed a wide variety of issues, such as:

K-12 Education

Education funding received the greatest emphasis. The Governor stated that Arizona's overall per pupil spending is up 10 percent since 2015, and he committed to maintain investments in:

- All-day kindergarten,
- Career and technical education,
- Computer science and coding,
- Reducing waitlists,
- Closing the achievement gap,
- High-speed internet to rural schools, and
- New school buses.

Wrong-Way Drivers

Arizona continues to make the news with wrong-way drivers. Governor Ducey announced:

- that all wrong-way drivers under the influence of drugs and/or alcohol will face a felony conviction and jail time; no exceptions, and
- an enhanced "Wrong-Way Driver Night Watch" program.

Prisoner Recidivism

Arizona has seen a 10 percent drop in recidivism in its prison systems. Governor Ducey announced:

- expansion of the Second Chance Centers in Phoenix and Tucson to graduate 975 more inmates each year, and
- ADOT will work with ADOC to provide soon-to-be-released inmates with an ID before they are released.

Child Care

The Governor stated that in 2017 Arizona prevented more than 24,000 children from losing health insurance, funded KidsCare through the spring, and found 11,000 kids a

permanent home through adoption. He announced that the budget investment this year will be in adoption services, so Arizona can continue to find every child a loving home.

Rules & Regulations

Last year, the Governor announced the launch of RedTape.az.gov aimed at rolling back regulations to create a more business-friendly environment. In this year's address, he stated that 676 rules and/or regulations had been eliminated, reportedly saving Arizonans an estimated \$48 million.

Employment

Governor Ducey stated that since 2015, Arizona has added more than 160,000 jobs, and the employment rate has fallen to one of its lowest levels.

Opioid Crisis

Regarding the state-wide opioid crisis, the Governor stated "This is an epidemic that requires an aggressive approach."

As a result, on Monday, Jan. 22, 2018, the Governor called the legislature into special session. He is requesting the following legislation:

- Enacting standards for limiting the dispensing of controlled substances,
- Increasing access to treatment for substance use disorder,
- Establishing mandatory e-prescribing of Schedule II controlled substances,
- Enacting a Good Samaritan protection,
- Ensuring that persons on medication-assisted treatment have access to behavioral health residential facilities and recovery homes,
- Collecting statewide data relating to the opioid epidemic, and
- Establishing enforcement procedures for violations, including overprescribing and illegal dispensing of Schedule II controlled substances and enhancing penalties for manufacturers that engage in fraudulent activity related to opioid drugs.

On Friday, Jan. 12, 2018, the Governor released his budget proposals for FY 2019-2020. The \$10.1 billion package includes additional monies for education, Department of Revenue auditors, and opioid prevention. Of note, shared revenues remain intact and more than \$800,000 is added for police officer training, which would help Phoenix's training academy.

Bills that staff has identified as negatively impacting the City's core principles:

- A. HB 2005: Municipal Economic Development; Sale; Lease (Rep. Vince Leach; Tucson) would require municipalities to cap ground leases at 25 years and only enter into leases with the high bidder resulting from mandatory public auctions. This would make municipal land for economic development less competitive with the private real estate market and reduce a municipality's ability to maintain a sustainable financial position. The leasing auction process proposed under the bill is also counter to a variety of federal laws affecting "municipal land," such as municipal land with FAA obligations. Staff testified in opposition of the bill

because it impacts local control. HB 2005 passed the House Local and International Affairs Committee by a vote of 4-3 on Jan. 17, 2018, and now awaits review in the House Rules Committee.

- B. HB 2032: Partisan Offices; Cities; Towns (Rep. Jay Lawrence; Scottsdale) would require cities and towns to print on the ballot the political party affiliation of those running for mayor or council. Staff testified in opposition of the bill because it impacts local control. The bill failed to pass the House Local and International Affairs Committee by a vote of 2-5 on Jan. 17, 2018.
- C. HB 2126: Government Property; Abatement; Slum; Blight (Rep. Vince Leach; Tucson) would remove GPLET designations after ten years, change a city's central business district size limitation to 2.5 percent of its total land area or 960 acres, and add specific characteristics that must be present for properties to receive approval of a tax-abated lease agreement. Staff is participating in stakeholder meetings regarding this proposal. HB 2126 awaits a hearing in the House Ways and Means Committee.
- D. HB 2208: Prohibition; Photo Radar (Rep. Travis Grantham; Gilbert) prohibits local governments from identifying individuals violating speeding or traffic statutes or ordinances through photo radar and other electronic recording devices. Staff opposition is based on the bill preempting use of photo radar vans in and around schools as well as red light traffic cameras at intersections in the City that have a history of high accidents and fatalities. The bill awaits a hearing in the House Judiciary and Public Safety Committee.
- E. HB 2371: Mobile Food Vendors; State Licensure (Rep. Kevin Payne; Peoria) prohibits the City from restricting mobile food vendors from operating on public property, regulating the hours of operation, and allows any food trucks to use all legal parking spaces, including metered parking. HB 2371 awaits a hearing in the House Military, Veterans and Regulatory Affairs Committee.
- F. HB 2387: Municipal TPT; Speculative Builders (Rep. Tony Rivero; Peoria) proposes to exclude transaction privilege taxes for the gross proceeds of sales or gross income from the price of any lease on real property or other intangible or personal property included in determining the total sales price of improved real property to the extent allocated in the affidavit of legal value related to speculative building. This could result in a loss of up to \$6 million to the City, based on FY2016 and FY2017 collections. The bill awaits a hearing in the House Ways and Means Committee.
- G. HCR 2015: Municipal and County Tax Limitations (Rep. Bob Thorpe; Flagstaff) proposes to amend the state constitution, limiting ad valorem tax levy growth from two percent to one percent and would require a public vote if the levy increase is proposed for three consecutive years. Additionally, the bill requires a public vote for any excise tax increase, stating the amount of tax or tax rate

increase and the specific purpose for which the revenues may be spent, and that the revenues generated from the tax be placed and maintained in a separate fund. Not only does this measure conflict with the City's Charter, it also preempts the ability of the Mayor and Council to act on potential tax rate increases as needed. HCR 2015 is awaiting House Committee assignments.

- H. SB 1002: Home-Based Businesses; Regulations; Municipalities (Rep. David Farnsworth; Mesa) would limit the ability of municipalities to regulate business-related activities in residentially-zoned areas. Local governments regulate in these areas in order to protect neighborhoods from unnecessary noise, traffic, and trash. A related bill, HB 2333; Home-Based Businesses; Local Regulation (Rep. Jeff Weninger; Chandler) was also introduced in the House. SB 1002 is awaiting a hearing in the Senate Commerce and Public Safety Committee.

Bills that the Mayor and Council support and legislation that advances the City's core principles:

- I. HB 2023: Prohibited Weapon; Bump-fire Device; Accessory (Rep. Randy Friese; Tucson) would prohibit possession of bump stocks, which allow for conversion of semiautomatic firearms into quasi-automatic weapons by harnessing the recoil when a shot is fired, bumping the rifle backward and forward. The bill is awaiting a hearing in the House Judiciary and Public Safety Committee.
- J. SB 1039: Appropriation; Arizona Water Protection Fund (Sen. Gail Griffin; Hereford) appropriates \$1 million from the state General Fund to the Arizona Water Protection Fund (AWPF) for FY2019. The AWPF provides funding for projects that protect, restore and ensure the quality of the state's rivers, streams and riparian habitats, including the fish and wildlife resources dependent on those habitats. The results are not only beneficial to the state, but to the City as well. The bill passed the Senate Natural Resources, Energy and Water Committee on Jan. 22, 2018, by a vote of 7-0. SB 1039 now awaits a hearing in the Senate Appropriations Committee.

Bills for which staff requests Council action:

- K. HB 2114: Power Authority; Procurement Code; Exemption (Rep. Darin Mitchell; Goodyear) exempts the Arizona Power Authority (APA) from the state's procurement code. The APA was created in 1944 to manage and distribute electricity generated by the Hoover Dam. The APA is a self-supporting agency and does not receive any state funding. State law currently grants the APA broad authority in order to accomplish the state's water and power plan. The City currently receives discounted power from the APA, which benefits Phoenix's residents. This measure simply codifies the APA exemption that it has been operating under since its creation. Staff recommends supporting this bill. HB 2114 is awaiting a hearing in the House Energy, Environment and Natural Resources Committee.

Attachment B
City Council Policy Session
January 30, 2018

Federal Update

Census 2020

The U.S. Constitution requires that a national census be taken every 10 years, and Census Day -- April 1, 2020 -- is approaching. The census affects political representation and directs allocation of billions of dollars in government funding. The Budget and Research Department estimates that for every person living in Phoenix who is not counted in the census, the City loses approximately \$352 in annual State funding, and \$133 in annual Federal funding that is issued directly to Phoenix. Additionally, a George Washington Institute of Public Policy study found that for each citizen not counted in Arizona, the State loses an additional \$1,845 in Federal funding received from various programs that rely on Census-derived data to guide the distribution of funds.

The census is a count of everyone residing in the United States and includes people of all ages, citizens and non-citizens. However, 2020 Census responses will be administered differently than in the past; most notable is the Census Bureau's intent to encourage respondents to use electronic submissions.

Due to the importance of a complete and accurate count of Phoenix residents during the 2020 Census staff recommends adding the item below to the 2018 Federal agenda.

RECOMMENDATION:

Staff recommends that the City advocate to ensure that the Census Bureau has the necessary funding and other resources to conduct a complete and accurate count in the City of Phoenix and the State of Arizona for the 2020 decennial census.