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## 2020-21 Year-End General Fund Budget Results and 2022-23 Budget Calendar

This report provides an overview of the 2020-21 General Fund (GF) budget results. Overall, resources exceeded estimates by \$27.9 million representing a variance of 1.8 percent and expenditures ended the fiscal year \$4.9 million under the estimate representing a variance of only 0.4 percent. As a result, the GF ending balance of \$275.6 million was approximately \$32.8 million higher than estimated. This report also requests adoption of the 2022-23 budget calendar.

### **THIS ITEM IS FOR DISCUSSION AND POSSIBLE ACTION.**

#### **Summary**

The GF ending balance of \$275.6 million exceeded the estimate of \$242.8 million by \$32.8 million and provides a strong fiscal starting point for the current year. It is important to note, the fund balance includes a combined \$121 million in one-time funds from the Coronavirus Relief Fund (CRF) approved by City Council to offset public safety salaries as permitted by the Federal guidelines. The ending balance carries forward to the current fiscal year and will be used as planned to pay for the supplemental expenditures approved in the 2021-22 adopted budget. The additional resources of \$32.8 million will be factored into the development of the 2022-23 GF Budget Status.

Two components make up the GF ending balance: resources and expenditures. GF 2020-21 actual resources were \$1,613.5 million and exceeded the estimate of \$1,585.6 million by \$27.9 million, or a variance of 1.8 percent. Higher than anticipated revenue collections contributed to the GF ending balance. GF revenues were \$1,488.1 million, representing a variance to the revised revenue estimate of \$56.0 million or 3.9 percent. The increased revenue collections were partially offset by increased transfers, primarily to City trust funds including the Worker's Compensation Trust and the Self-Insurance Reserve Trust. These trust funds are statutorily and actuarially required to be adequately funded and additional resources are needed due to increases in the cost of insurance, claim activity, and required reserve amounts. It is anticipated increased funding requirements for these trust accounts will continue next fiscal year. GF expenditures ended the fiscal year at \$1,337.9 million, and \$4.9 million less than the revised estimate of \$1,342.8 million, representing a variance of 0.4 percent. City

departments have worked through many challenges since the COVID-19 pandemic began in the third quarter of 2019-20. Since that time expenditures have been below estimates, demonstrating staff's commitment to responsible spending while concurrently providing exceptional service delivery to residents. The GF expenditure variance of \$4.9 million is primarily due to vacancy savings and lower than estimated capital pay-as-you-go expenditures. **Attachment A** provides graphical illustrations of the GF budget results and **Attachment B** provides a department by department comparison of GF expenditure actuals to the revised estimate.

Over the coming months staff will develop revised resource and expenditure forecasts to prepare a 2022-23 GF Budget Status and Five-Year Forecast scheduled to be presented to the City Council on Feb. 22, 2022.

## 2020-21 General Fund Results

### Resources

Total resources include:

- Beginning fund balance;
- Annual revenue;
- Recoveries of prior year encumbrances that were not spent; and
- Interfund transfers to/from other City funds.

As mentioned above, GF resources were \$1,613.5 million for the 2020-21 fiscal year and include a beginning balance of \$169.1 million, revenues of \$1,488.1 million, recoveries of \$2.5 million, and net transfers out of \$46.2 million. Total GF resources exceeded estimates by \$27.9 million representing a variance of only 1.8 percent. The reason for the variance was higher than anticipated revenue collections primarily in city and state sales taxes, offset by lower than anticipated net transfers.

Revenue forecasting throughout the COVID-19 pandemic has been extremely challenging. Several factors have influenced revenue collections and are uncharacteristic compared to past economic cycles. Primarily, the infusion of one-time funds from the federal government via the Coronavirus Aid, Relief, and Economic Security (CARES) and the American Rescue Plan (ARPA) acts into state and local economies. According to the State Joint Legislative Budget Committee (JLBC), \$60 billion has been provided to Arizona via direct federal COVID-19 aid. This is remarkable, unprecedented and has certainly influenced City revenue collections. However, this funding is temporary and contributes to the difficulty in predicting revenue growth. Budget and Research staff worked diligently over the past 18 months

since the pandemic started, to analyze revenue data and economic indicators, utilize our econometric model developed in partnership with the University of Arizona's Economic and Business Research Center for sales taxes, and listen to our trusted economic sources to project revenues. Forecasting was also challenging due to the first ever economic shutdown in the fourth quarter of 2019-20 and increased inflation in recent months. Fortunately, Phoenix has a strong and diversified economy. We are no longer reliant on one sector of the economy to provide growth in revenues. This diversification has resulted in economic resiliency as evidenced by growth in overall resources for the fiscal year.

Additionally, the overall GF revenue variance of 3.9 percent is less than the variances of six surrounding cities and is in line with the variance of the JLBC. For example, the 2020-21 GF revenue variance of six surrounding cities were all higher than Phoenix's revenue variance of 3.9 percent, ranging from 5.9 percent (Scottsdale) to 11.7 percent (Glendale). And, as reported by the JLBC in the July 2021 Fiscal Highlights report the 2020-21 State GF variance was 3.6 percent. This further demonstrates the difficulty experienced by several government agencies in estimating local and state revenues during the pandemic.

### **Expenditures**

Total GF expenditures were estimated at \$1,342.8 million, and actual expenditures were \$1,337.9 million, or \$4.9 million (0.4 percent) less than estimated. The variance is due to savings in department operating expenditures of \$2.6 million (**Attachment B**) and GF capital pay-as-you-go savings of approximately \$2.3 million. Savings in operating expenditures were primarily the result of City departments achieving more salary savings than expected. Staff built into the expenditure forecasts additional salary savings based on recent data trends, however the number of vacancies grew more than anticipated. The variance in capital pay-as-you-go expenditures was due to less than estimated expenses for facility maintenance projects.

Budget and Research staff are underway with the annual salary and benefits projection review process and will soon start on the technical expenditure review process, which is a tried and true method of working with all City departments to evaluate spending at the line item level. This deep dive into department budgets will enable us to identify savings and establish realistic estimates necessary to continue existing programs and services. The process runs through November and is followed by the central review process, which involves estimating costs for various commodities such as fuel and electricity and personnel services line items, particularly pension. These processes are critical steps in development of the GF Budget Status.

## Looking Ahead

The 2020-21 GF ending fund balance variance of \$32.8 million is in "reserve" until the budget status for 2022-23 is developed over the next several months. The higher than anticipated ending fund balance is good news and will be beneficial as we move forward. However, the City faces many fiscal challenges in the years ahead which will require strategic decision making to optimize resources. These challenges include:

- Rising employee benefit costs, particularly for Public Safety pension;
- Additional resources to adequately fund City trust accounts;
- Ongoing need to offer competitive and fair compensation packages to City employees;
- Deferred maintenance and aging infrastructure such as vehicles, equipment, and City facilities;
- Increases in expenses for replacing and protecting City information technology assets;
- Demand for additional or expanded GF services;
- Ongoing operating expenses for 100 W. Washington St.;
- Potential budgetary impacts from the Department of Justice investigation of the Police Department;
- Challenges estimating revenue collections in the current economic climate;
- Impacts to state shared revenues as a result of state income tax cuts;
- Reductions to state shared revenues due to the decrease in Phoenix's relative population share from the 2020 Census; and
- Potential reduction in state and federal funding or new unfunded state or federal mandates, including environmental requirements.

The items above add significant pressure to the GF operating budget and create challenges for estimating City revenues and expenditures. Staff will be working over the next few months to study data trends, gather updated economic information, and complete our necessary budget development steps in order to construct both the GF 2022-23 Budget Status and the GF Five-Year Forecast.

It is important to mention that based on preliminary data from the 2020 Census, it's anticipated Phoenix's relative population share used to calculate state shared revenues will decrease, effective in the current fiscal year. Staff has estimated the negative impact to GF revenue could range from \$15M to \$17M per year. Pension costs will also continue for the foreseeable future based on information we received from the Public Safety Personnel Retirement System (PSPRS) actuary. Estimates from the most recent actuarial projection included in the GF Five-Year Forecast presented to City Council in February 2021 suggest GF costs could increase from the 2021-22

GF budgeted amount of \$245 million, by a range of \$65-\$85 million through the 2025-26 forecast horizon. Updated pension rates from the June 30, 2021 actuarial valuation will be provided to the City in December and will be used to develop the GF 2022-23 Budget Status and Five-Year Forecast. **Attachment C** includes historical and forecasted GF public safety pension costs based on the most recent estimates from the PSPRS actuary.

Additionally, increases in other employee benefit costs including health insurance and worker's compensation are expected. The City's health care costs are expected to increase 7.2 percent, which will result in premium increases ranging from 4 percent to 13 percent for calendar year 2022 to active employee plans. Since the start of the pandemic approximately \$8.6 million has been paid for COVID-19 related claims. Worker's Compensation costs continue to increase as well with the actuary recommending a 3 percent increase in reserves this fiscal year. Since the start of the pandemic there have been over 600 claims filed related to workplace COVID-19 exposures with an incurred cost of approximately \$2.7 million.

### **2022-23 Budget Calendar**

The City Charter and Code include legal deadlines and actions that must be followed in adopting the budget. In cases where the deadlines conflict, the City meets the earlier of the two dates or a date designated by the City Council. Adoption of the budget calendar ensures compliance with the City Charter and Code, and also allows staff to properly plan the budget development process and all legally required advertising. Staff requests City Council approval of the 2022-23 budget calendar reflected in **Attachment D**.

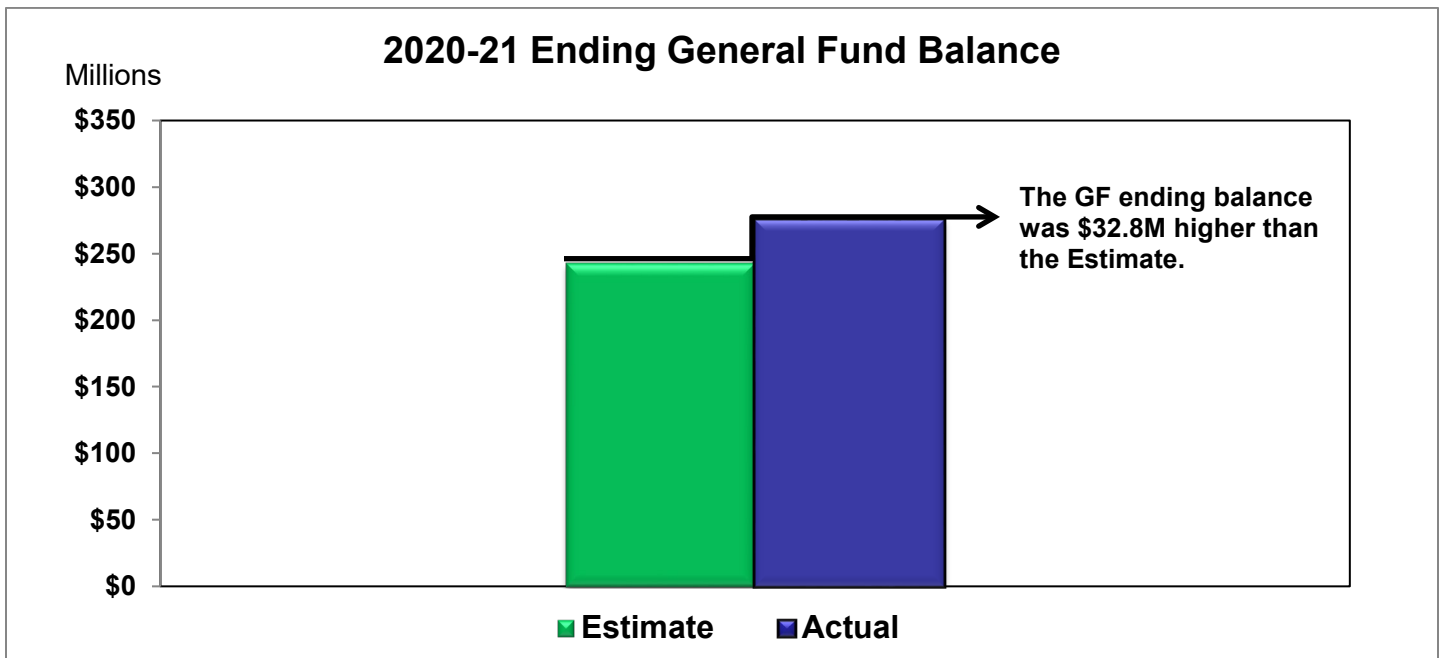
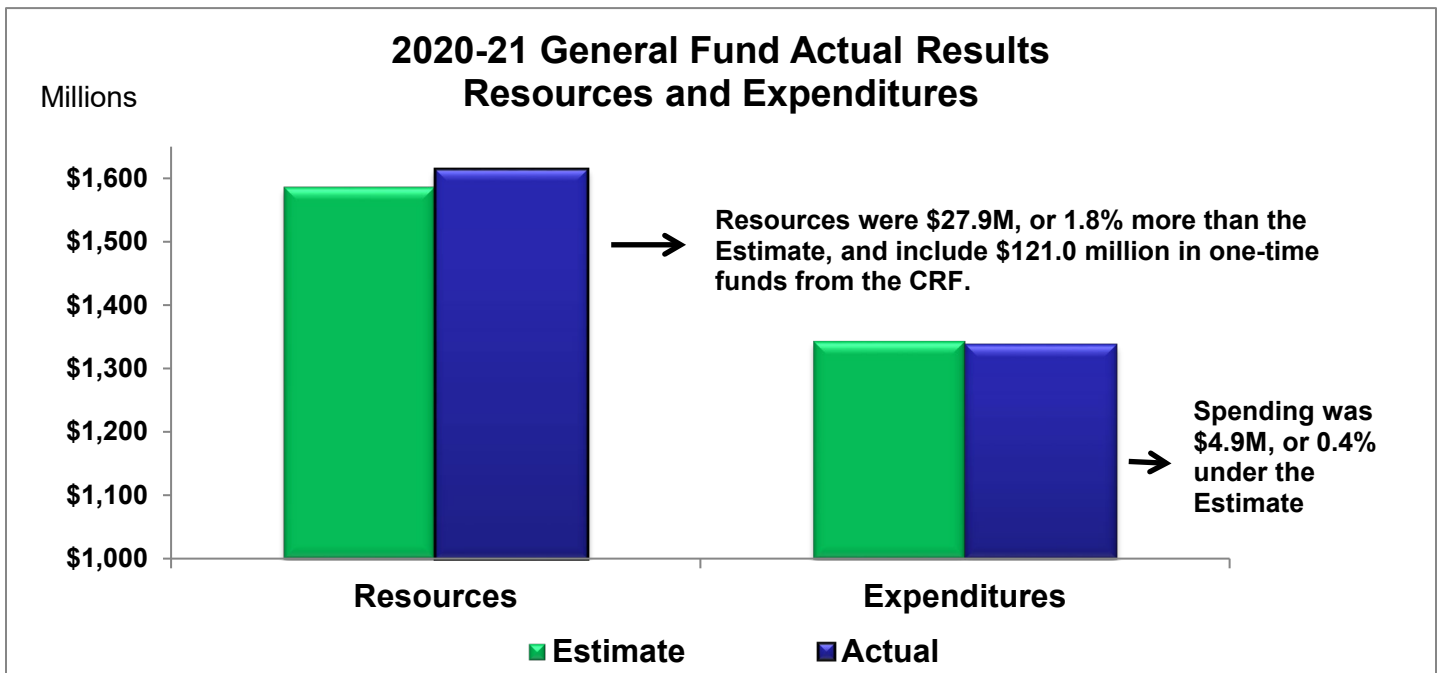
### **Responsible Department**

This item is submitted by City Manager Ed Zuercher, Assistant City Manager Jeffrey Barton, and the Budget and Research Department.

# ATTACHMENT A

Total 2020-21 GF resources were \$1,613.5 million and \$27.9 million more than estimated. Resources include \$121.0 million in one-time funding from the Coronavirus Relief Fund (CRF) allocated to the GF in 2019-20 and 2020-21 to offset public safety salaries as permitted by the Federal guidelines and approved by City Council. GF spending was \$1,337.9 million and \$4.9 million under the estimate. As a result, the year-end fund balance was \$275.6 million and \$32.8 million more than estimated.

	Actual	Estimate	Variance Amount	Variance Percent
GF Resources	1,613.5	1,585.6	27.9	1.8%
GF Revenues	1,488.1	1,432.1	56.0	3.9%
GF Expenditures	1,337.9	1,342.8	-4.9	-0.4%
<b>GF Fund Balance</b>	<b>275.6</b>	<b>242.8</b>	<b>32.8</b>	<b>13.5%</b>



**ATTACHMENT B**  
**2020-21 COMPARISON OF GENERAL FUND OPERATING EXPENDITURES**  
**REVISED ESTIMATE TO PRE-AUDIT ACTUALS**  
(In Thousands of Dollars)

Program	Estimate	Pre-Audit Actuals	Variance	
			Amount	Percentage
<b>General Government</b>				
Mayor	\$ 2,244	\$ 2,006	\$ (238)	-10.6%
City Council	5,398	4,162	(1,236)	-22.9%
City Manager	6,146	2,926	(3,220)	-52.4%
Government Relations	1,270	1,235	(35)	-2.8%
Communications Office	2,684	2,713	29	1.1%
City Auditor	2,912	2,655	(257)	-8.8%
Equal Opportunity	2,470	2,345	(125)	-5.1%
Human Resources	13,588	12,768	(820)	-6.0%
Phoenix Employment Relations Board	140	96	(44)	-31.4%
Regional Wireless Cooperative	-	-	-	-
Retirement Systems	-	48	48	100.0%
Law	6,018	6,295	277	4.6%
Information Technology	51,753	52,333	580	1.1%
City Clerk and Elections	6,336	5,519	(817)	-12.9%
Finance	24,365	21,833	(2,532)	-10.4%
Budget and Research	3,823	3,597	(226)	-5.9%
<b>Total General Government</b>	<b>\$ 129,147</b>	<b>\$ 120,531</b>	<b>\$ (8,616)</b>	<b>-6.7%</b>
<b>Public Safety</b>				
Police	\$ 569,252	\$ 574,045	\$ 4,793	0.8%
Fire	351,479	351,832	353	0.1%
Emergency Management	91	43	(48)	-52.7%
<b>Total Public Safety</b>	<b>\$ 920,822</b>	<b>\$ 925,920</b>	<b>\$ 5,098</b>	<b>0.6%</b>
<b>Criminal Justice</b>				
Municipal Court	\$ 31,310	\$ 31,102	\$ (208)	-0.7%
City Prosecutor	18,420	17,645	(775)	-4.2%
Public Defender	5,373	5,060	(313)	-5.8%
<b>Total Criminal Justice</b>	<b>\$ 55,103</b>	<b>\$ 53,807</b>	<b>\$ (1,296)</b>	<b>-2.4%</b>
<b>Transportation</b>				
Street Transportation	\$ 18,967	\$ 18,596	\$ (371)	-2.0%
Aviation	-	-	-	-
Public Transit	1,089	418	(671)	-61.6%
<b>Total Transportation</b>	<b>\$ 20,056</b>	<b>\$ 19,014</b>	<b>\$ (1,042)</b>	<b>-5.2%</b>

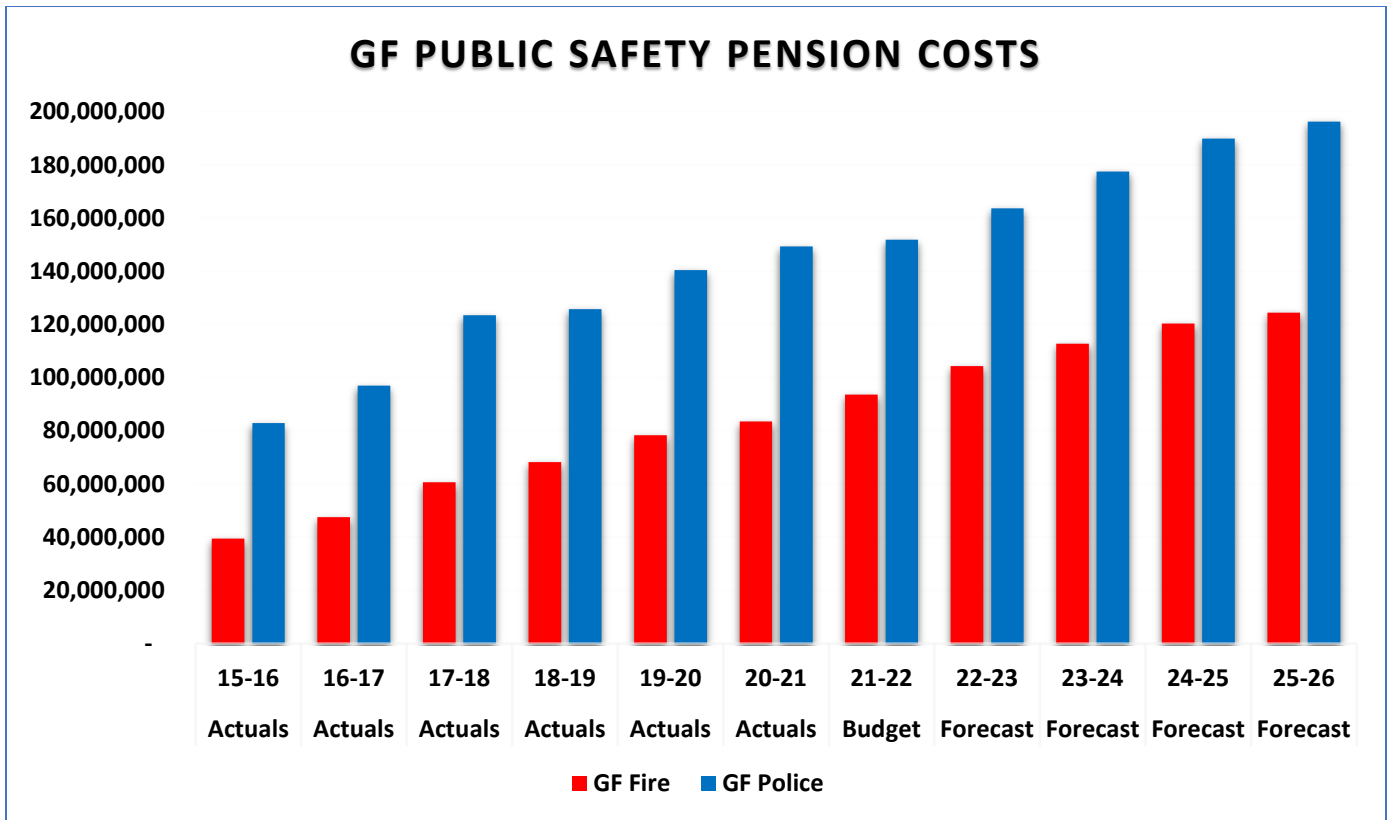
**ATTACHMENT B**  
**2020-21 COMPARISON OF GENERAL FUND OPERATING EXPENDITURES**  
**REVISED ESTIMATE TO PRE-AUDIT ACTUALS**  
(In Thousands of Dollars)

Program	Estimate	Pre-Audit Actuals	Variance		
			Amount	Percentage	
<b>Community Development</b>					
Planning and Development Services	\$ 4,349	\$ 4,238	\$ (111)	-2.6%	
Housing	295	578	283	95.9%	
Community and Economic Development	5,856	5,720	(136)	-2.3%	
Neighborhood Services	14,445	13,467	(978)	-6.8%	
<b>Total Community Development</b>	<b>\$ 24,945</b>	<b>\$ 24,003</b>	<b>\$ (942)</b>	<b>-3.8%</b>	
<b>Community Enrichment</b>					
Parks and Recreation	\$ 95,701	\$ 93,833	\$ (1,868)	-2.0%	
Library	40,027	38,838	(1,189)	-3.0%	
Phoenix Convention Center	2,386	2,006	(380)	-15.9%	
Human Services	19,735	19,363	(372)	-1.9%	
Office of Arts and Culture	3,947	3,882	(65)	-1.6%	
<b>Total Community Enrichment</b>	<b>\$ 161,796</b>	<b>\$ 157,922</b>	<b>\$ (3,874)</b>	<b>-2.4%</b>	
<b>Environmental Services</b>					
Water	\$ -	\$ -	\$ -	-	
Solid Waste Management	-	-	-	-	
Public Works	17,507	16,892	(615)	-3.5%	
Environmental Programs	734	726	(8)	-1.1%	
Office of Sustainability	429	440	11	2.6%	
<b>Total Environmental Services</b>	<b>\$ 18,670</b>	<b>\$ 18,058</b>	<b>\$ (612)</b>	<b>-3.3%</b>	
<b>Non-Departmental Operating</b>					
Contingencies	\$ -	\$ -	\$ -	-	
Unassigned Vacancy Savings	(8,677)	-	8,677	-100.0%	
<b>Total Non-Departmental Operating</b>	<b>\$ (8,677)</b>	<b>\$ -</b>	<b>\$ 8,677</b>	<b>-100.0%</b>	
<b>GRAND TOTAL</b>	<b>\$ 1,321,862</b>	<b>\$ 1,319,255</b>	<b>\$ (2,607)</b>	<b>-0.2%</b>	



## ATTACHMENT C

The below chart illustrates the rise in General Fund (GF) costs for public safety pension. The forecast for fiscal years 2022-23 through 2025-26 is based on information from the Public Safety Personnel Retirement System (PSPRS) Actuary based on the valuation dated June 30, 2020, and included in the most recent GF Five-Year Forecast presented to City Council on February 23, 2021. Projected amounts account for changes made by the PSPRS Board to lower the payroll growth assumption from 3.5% to 2.0% by a factor of 0.5% each fiscal year, which causes upward pressure on employer contribution rates. Actual amounts may differ from the forecast. The forecast will be updated and based on the June 30, 2021 valuation to be issued in December 2021 and will be included in the 2022-23 GF Budget Status and Five-Year Forecast scheduled to be presented to City Council on February 22, 2022.



## ATTACHMENT D

### 2022-23 BUDGET ADOPTION CALENDAR

<b>Date</b>	<b>Budget Items</b>
November 2021	FundPHX (available to the public)
February 4, 2022	2022-23 Inventory of Programs
February 22, 2022	Preliminary 2022-23 Budget Status and 5-Year General Fund Forecast
March 15, 2022	City Manager's Trial Budget and Preliminary CIP
April 2022	Community Budget Hearings (tentative)
May 3, 2022	City Manager's Proposed Budget
May 17, 2022	Council Budget Decision
June 1, 2022	2022-23 Tentative Budget Ordinance Adoption
June 15, 2022	2022-23 Funding Plan and Final Budget Ordinance Adoption
July 1, 2022	2022-23 Property Tax Levy Ordinance Adoption