# FY 2011 BUDGET PROCESS

**OVERVIEW:**

The FY 2011 operating and capital budgets are based on council's continued vision of 'one community' and the supporting strategic goals that Council reaffirmed at a December 2009 retreat:

- One community that is fiscally sound,
- One community with strong neighborhoods,
- One community committed to public safety,
- One community with quality economic development,
- One community with a vibrant city center,
- One community with an active partnership with Luke Air Force Base, and
- One community with high quality services for citizens.

The principal issue for FY 2011 continued to be the recession and the impact it has on the city's resources to fund services to the community as well as the city's CIP. Prior to mid-FY 2009, Glendale had revenue growth to address rising demand for city services and cost increases related to service delivery. The city's major ongoing revenue sources, sales taxes and state-shared revenues, began to decline significantly in FY 2009 as the effects of the recession reverberated across the country. The decline continued into early FY 2010, although at a slower pace, and leveled off by mid-year. However, demand for city services has remained steady and, in several areas, grown.

Development of balancing options for the FY 2011 budget began in July 2009. Executive management reviewed various reduction alternatives during the summer and early fall and these reviews resulted in the city manager providing direction to develop program and service adjustments for the FY 2011 operating budget. The Management and Budget Department provided each deputy city manager and chief with varying target reduction levels to meet in identifying service delivery adjustments. For a more in-depth discussion of the budget strategy for FY 2011, please see the *City Manager's Budget Message*.

The city manager directed departments to focus on retention of core services, as defined by City Council's strategic goals, when they developed program and service adjustments for consideration. He also directed staff to minimize the impact of service and program adjustments on our residents and businesses. The Innovate Initiative that was commenced in FY 2009 was tied into this effort because it is directly related to the budget development process and the city's strategic business model. Staff was challenged to use creativity and innovation in building a business case for departmental service delivery adjustments. These messages were conveyed to the city's deputy city managers, department heads and budget experts through a variety of meetings that executive staff led.

After several executive management reviews of the proposed adjustments, a balanced operating budget was developed for City Council's consideration. The recommended operating budget included the following elements:

- elimination of vacant positions;
- continuation of the same furlough program that was implemented on a mandatory basis for FY 2010 for all non-represented employees;
- continuation of pay-related adjustments to the labor agreements for the represented employees;
- implementation of revenue enhancement opportunities; and
- implementation of proposed service and program adjustments totaling $14.7 million. Public safety provided reductions that equated to 10% of their respective operating budgets once vacant positions were included. All other departments provided reductions that equated to 10% to 27% of their respective operating budgets once vacant positions were included.

A public document outlining the proposed service and program adjustments was prepared and released to the public in mid-February. This document was the basis for three (3) public meetings that occurred in early March to solicit feedback on the proposed service and program adjustments to the FY 2011 general fund operating budget.

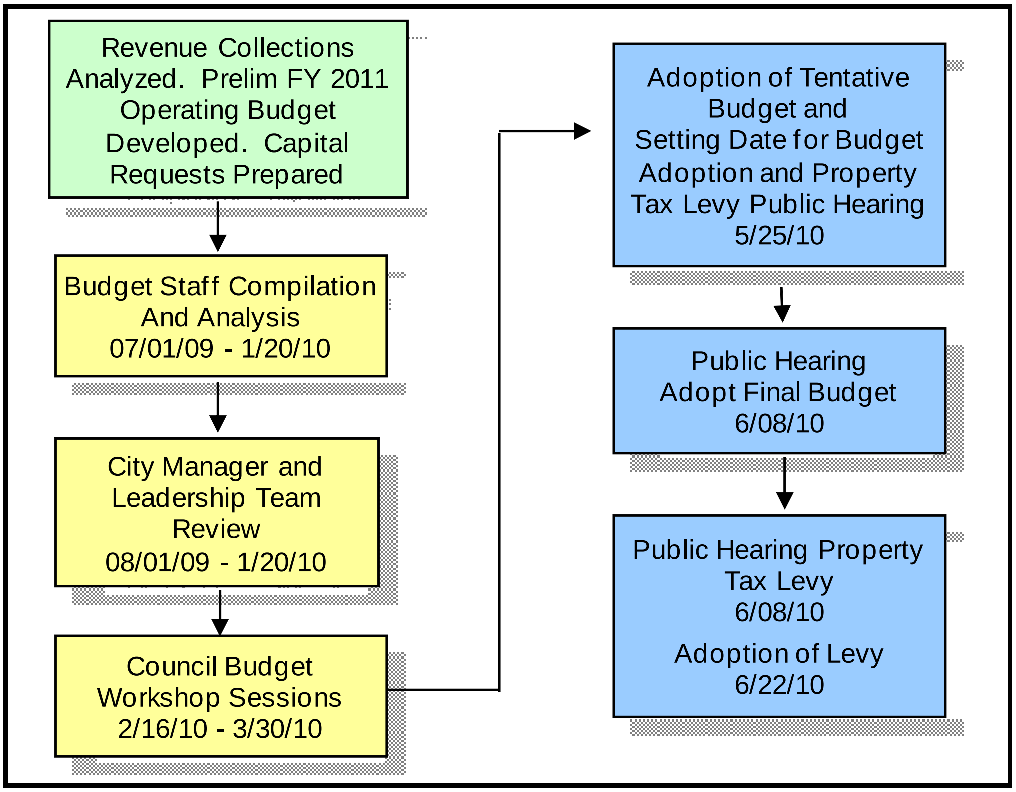
In working with departments to develop the FY 2011 operating budget in light of the proposed program and service adjustments, the Management and Budget Department continued to use the "base budget" approach. However, this approach was modified as explained in the next paragraph. Under normal circumstances, the base budgeting approach means that divisions are allocated a target base expenditure amount to support all ongoing operations for the upcoming fiscal year. Allocations are based on the prior year ongoing appropriation for that division, with any one-time funds in the current fiscal year's budget excluded from the target base budget for the upcoming fiscal year. In addition, departments are encouraged to shift allocations for non-salary items within the target base amount if needed. All salary and benefit related items are calculated and established separately by the Management and Budget Department.

The base budget approach was modified because the recession required two different ongoing budget reductions to departments' operating budgets prior to the development of the FY 2011 operating budget. While the base budget cuts were not made to the Police and Fire Department operating budgets in FY 2009 and FY 2010, their spending was reduced to match decreases in public safety sales tax revenues.

A final balancing meeting with executive leadership occurred in January. Decisions at this meeting resulted in the recommended budget presented to City Council at a series of budget workshops held in February and March.

At the conclusion of these budget workshops, the proposed budget was presented to Council for tentative adoption and then, two weeks later, for final adoption. The budget was transmitted to the general public in the form of public hearing notices. These notices included summary budget information, including the date for the public hearing on the property tax levy, as required by Arizona state law. After completing the public hearing for the final FY 2011 budget, the Council adopted it and thereby set the expenditure limitation for FY 2011. A separate public hearing on the FY 2011 property tax levy was conducted at the same meeting as the final budget adoption.

Adoption of the property tax levy occurred two weeks later. The chart below illustrates the broad outline of the FY 2011 budget development process.




## VARIATIONS IN BUDGETING METHODS:

The budgets of general government type funds, such as the General Fund, Public Safety Special Revenue Fund, Streets Fund and Transportation Fund are prepared on a modified accrual basis. This means that unpaid financial obligations, such as outstanding purchase orders, are immediately reflected as encumbrances when the cost is estimated, although the items may not have been received yet. However, in most cases revenue is recognized only after it is measurable and actually available. Beginning with FY 1996, sales tax revenues were recorded in the period in which they were due to the city. This changed in FY 2008 and sales tax revenue is now recorded to the month it is collected.

Enterprise funds (Water/Sewer, Landfill and Sanitation) are prepared using the full accrual method. Enterprise funds also recognize expenditures as encumbered when a commitment is made (e.g., through a purchase order). Revenues, on the other hand, are recognized when they are obligated to the city (for example, water user fees are recognized as revenue when service is provided).

Purchase orders for goods and services received prior to the end of the current fiscal year will be eligible for payment for a period of days following the close of the fiscal year. However, encumbrances for all other purchase orders will automatically lapse.

The Comprehensive Annual Financial Report (CAFR) presents the status of the city's finances on the basis of Generally Accepted Accounting Principles (GAAP). Since FY 2002, the CAFR has been prepared in compliance with Governmental Accounting Standards Board (GASB) Statement No. 34 requirements. The CAFR shows fund expenditures and revenues on both a GAAP basis and budget basis for comparison purposes. In most cases, this conforms to the way the city prepares its budget with the following exceptions:

a. Compensated absences liabilities that are expected to be liquidated with expendable available financial resources are accrued as earned by employees on a GAAP basis as opposed to being expended when paid on a budget basis.
b. Principal payments on long-term debt within the enterprise funds are applied to the outstanding liability on a GAAP basis as opposed to being expended when paid on a budget basis.
c. Capital outlays within the enterprise funds are recorded as assets on a GAAP basis and expended on a budget basis.
d. Inventory is expensed at the time it is used.
e. Depreciation expense is not budgeted as an expense.

## ACCOUNTING CHANGES:

Two funds were eliminated during FY 2009, the Cable Communications (Fund 1160) and the Training Facility (Fund 2533). The Cable Communications Fund was previously used to track the revenues and expenditures associated with the rental of city owned cable communications equipment, including a cable van to outside parties. This fund was closed out during FY 2009 and will not have any budgeted activity going forward. Any remaining activities associated with the fund have been combined with the Convention/Media/Parking Facility budget in the General Fund. (This fund will be removed from our financial reports and schedules with the adoption of the FY 2012 budget.)

The Training Facility Debt Service (Fund 2533) was used to track the capital construction contributions made by the partners that helped pay for the Glendale Regional Public Safety Training Center. This facility was built with capital contributions from the City of Glendale (74.8%), Maricopa County Community College District (8.2%), City of Surprise (6.6%), City of Peoria (6.5%), City of Avondale (3.9%) and the federal government. Since the city issued a combination of general obligation and MPC bonds to build the entire facility, these cash contributions were used during FY 2009 to help pay the outstanding MPC debt service associated with the facility. This fund will be removed from our financial reports and schedules with the adoption of the FY 2011 budget.

Debt service for Highway User Fee Revenue (HURF) bonds will continue to be addressed as it was for FY 2010. The City has outstanding HURF bonds for street projects that are backed by a pledge of the HURF monies the city receives from the state. The state reduced the amount of HURF revenue that is distributed to cities for FY 2010 and that reduction will continue for FY 2011. Therefore, HURF debt service will continue to be paid by secondary property tax revenue ($2.7 million), roadway development impact fees ($1 million) and transportation sales tax revenues ($1 million).

One new fund was created since the adoption of the FY 2010 budget in June 2009. Fund 1842 was created to account for all activity related to grant funds allocated to the City of Glendale as part of the American Reinvestment and Recovery Act (ARRA), the federal stimulus package. It appears in the Special Revenue Fund Group in Schedule 1.

The GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, is expected to be incorporated into the FY 2011 CAFR. Once it is implemented into the CAFR, the *Annual Budget Book* will be modified accordingly.