

Honorable Mayor and Council:

While the current economic environment has presented its share of challenges for local and state government, the City of Glendale continues to look towards the future with optimism, flexibility and resilience. Vision, innovation, partnerships, and dedicated employees continue to play a central role in making the city's future efforts rewarding and successful despite the difficult economy.

This outlook is a result of City Council's continued focus on enhancing fiscal strength through quality economic development and the continuation of strategic investments that build upon those made over the last several years. This outlook also is the result of the strategic management of constrained city resources. Consequently, the city's FY 2011 budget continues to provide resources to maintain

high quality, core services while moving forward with efforts that ensure a positive, sustainable future.

The FY 2011 operating and capital budgets are based on Council's continued vision of 'one community' and the supporting strategic goals that Council reconsidered 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.

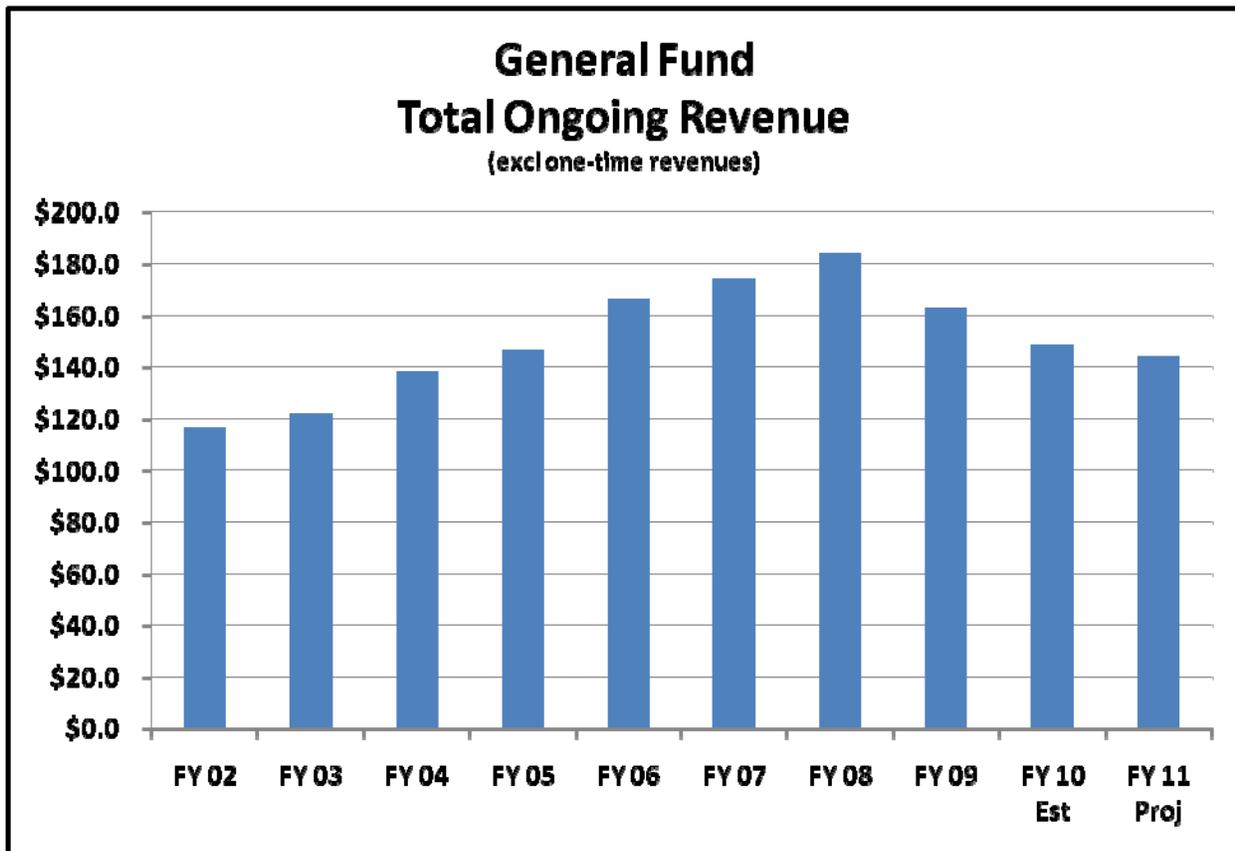
Also, the FY 2011 budget continues to reflect the enduring challenges of today's economy. We have implemented many expenditure management measures since the start of FY 2009 while keeping our focus on providing core services that sustain Council's strategic goals. As an example, a top priority for Council is public safety and those core services have been spared from implementing the level of reductions other departments have realized. The bottom line is that regardless of whether the economy is growing or contracting, City Council's strategic goals continue to form the foundation and guide the development of the city's annual budget.

Discussion

Economic Conditions. The principal issue for FY 2011 continues to be the recession and the impact it has on the city's resources to fund services to the community and the city's capital plan. The encouraging news is the decline in General Fund (GF) revenue collections has leveled off since the start of FY 2010. In fact, the third quarter of FY 2010 GF revenue collections showed a

modest increase over the prior two quarters. Nevertheless, the fact that revenues stabilized at much lower levels than we anticipated when this recession started is a moderating influence on the encouraging news. This fact foretells a restrained climb back to the robust economic energy we witnessed only a few short years ago.

GF (including Streets Fund) ongoing revenue collections reached its peak in FY 2008 at \$184.2 million. Since then collections have declined almost \$40 million, or 22%, when compared to the FY 2011 projection of \$144.4 million (excludes new revenue opportunities). As the chart below illustrates, the FY 2011 GF (including Streets Fund) revenue projection is comparable to the amount collected in FY 2005.



City sales taxes and state-shared revenues continue to be the two major sources for the GF. They have comprised between two-thirds and three-fourths of the GF ongoing revenue since FY 2002 and are expected to continue to do so for FY 2011. Of the two sources, city sales tax is the single largest revenue source for the GF; in FY 2007 city sales tax receipts reached \$63.6 million but since then collections have receded 21% to an expected \$50.5 million in FY 2011.

State-shared revenue has experienced a similar level of decline. Three sources comprise state-shared revenue with income tax being the largest component. Glendale's portion of state shared revenue peaked in FY 2008 at \$66.1 million. The FY 2011 projection of \$49.8 million reflects a



25% drop in state income tax revenue to be distributed to Glendale, from \$31.3 million to \$23.6 million.

On the capital side, property tax revenues have similarly declined as a result of the constrained real estate market that dominates the Phoenix metropolitan area. The Maricopa County Assessor's Office announced that the median value of single family residential properties across the entire county dropped an astonishing 44% over three consecutive years. And, for the first time in several decades, the median value of commercial properties declined – a surprising 24% in one year.

For the future, the big unknown is whether property values have stabilized in the Phoenix metropolitan area. Sales data from the first few months of calendar year 2010 show a leveling off of prices, but that encouraging sign is tentative given the unknown supply of properties in foreclosure but not yet on the market.

The outstanding question for the longer-term outlook is the length of time over which a recovery will occur. The consensus among experts on the Arizona economy is that the state has entered the recovery phase, albeit on tentative footing. A return to normal levels of economic activity is expected to take place over at least a few years because Arizona was hit particularly hard by the recession. Factors contributing to a gradual recovery in Arizona include constrained job growth, weak personal income growth, weak consumer confidence and the lingering effects of a very challenging real estate market. Therefore, Arizona economic experts do not expect a return to normal growth until at least FY 2012 or later.

Given this outlook, the city's operating and capital budgets required longer-term modifications to address the expectation of constrained revenue sources for the next few years. The strategy for addressing this situation is discussed below.

Budget Balancing Strategy. The budget strategy for FY 2011 is built around a strategic, business-based and service-based approach that will be implemented in phases over several months. This approach includes a mix of ongoing and one-time budget measures that result in a balanced budget. The phased budget strategy is appropriate for a service organization like the city because it takes us through a series of steps that are designed to attain a fiscally responsible budget while not severely diminishing the valuable services we provide to the community.

This budget strategy also sustains core city services as defined by City Council strategic goals. These core services are health and safety related such as emergency response services provided by the Police and Fire Departments. This strategy was confirmed by input from citizens through three communitywide public meetings that were held to solicit feedback on the proposed service and program adjustments.

Overall, this approach represents the measures needed now to address:

- The short-term outlook for matching expenses to constrained resources and
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- The long-term outlook for ensuring the city has business delivery systems that enable us to be responsive when the economy turns around.

In preparing the FY 2011 budget, staff was challenged to use creativity and innovation in building a business case for departmental service delivery adjustments. The direction provided to the departments was to focus on core services, as defined by City Council's strategic goals, and to minimize the impact 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. Departments and individual employees have been, and continue to be, actively engaged in making business-based recommendations to adjust existing processes and bring forward new business concepts to bolster revenue. These business-based recommendations have helped us prepare a balanced budget.

This strategy will result in Glendale being strongly positioned for the future. For example, Glendale has remained at the forefront in bringing high quality economic development. One recent project includes the Humana Pharmacy Solutions announcement to fill the *Glendale 91* class A office space.

Another new economic development project is DeVry University. Its new location at the Westgate City Center is its fourth Arizona location, bringing dozens of new professional jobs to the city. This addition enhances Glendale's standing as the West Valley leader in higher education opportunities as both undergraduate and graduate degree programs will be offered at the Glendale location.

Further, the National Hockey League's Coyotes team that is the anchor tenant at the Jobing.com Arena, the centerpiece of the city's sports and entertainment district, is very close to resolution. Keeping the Coyotes in Glendale for the remainder of their lease at Jobing.com Arena has been a priority to ensuring the future sustainability of Glendale's sports and entertainment district. At the time this message was developed, the National Hockey League was evaluating an offer to purchase the Coyotes hockey team. The offer protects the City's investment in the sports and entertainment district by keeping the team in Glendale, not using taxpayer dollars, not impacting current revenue streams and ensuring the city has the ability to share in any new revenue opportunities.

FY 2011 Operating Budget. The budget strategy includes several expenditure reduction steps totaling \$31.6 million. They are briefly explained below.

Eliminate 100.5 existing vacancies in the GF that were created as a result of freezing positions that became open due to the retirement program initiated in the spring of 2009 as well as normal attrition during the FY 2009 and FY 2010. These vacancies exclude sworn positions in public safety. **\$7.3 million in savings.**

Continue the same furlough program that was initially implemented on a voluntary basis during FY 2009. The City of Glendale employees deserve recognition and praise for offering to take a



5% pay reduction (furloughs) to help the city balance its FY 2010 budget. They stepped forward again to say they wanted to continue this program for FY 2011 to help balance the budget. All non-represented employees participate in the furlough plan. **\$3 million in savings.**

Similarly, the City of Glendale's represented employees deserve recognition and praise for continuing the mutually agreed upon adjustments to their labor agreements that were implemented in FY 2010. As a result of the open relationship that has been established through the Organizational Cooperative Process (OCP), each union's Memorandum of Understanding (MOU) was completed. As they have done in previous years, members of these organizations stepped up to help the City deal with the current budget situation. Between the two groups, they contributed over \$1.8 million in deferral of pay and benefits for FY 2011 while ensuring that their issues will be considered in future years. Both the Glendale Chapter of the United Phoenix Fire Fighters Association – Local 493 and the Glendale Police Officer's Coalition took the final draft MOU to their respective membership where each voted to approve the terms for FY 2011 and FY 2012. **\$0.6 million in net savings.**

Another measure is a reinvestment of other fund balances and involves investing restricted funds in higher-yielding government obligations. This allows the reinvested funds to earn higher rates of interest in a low-interest earnings market while reducing interest expenses on lease debt obligations paid out of the operating budget. **\$6 million in savings.**

Implement business-based reductions as a result of additional program and service adjustments. Public safety provided reductions that equate to 10% of their respective operating budgets once vacant positions are included. All other departments provided reductions that equate to 10% to 27% of their respective operating budgets once vacant positions are included. **\$14.7 million in savings.**

The program and service adjustments were developed after an extensive evaluation of operations that included an in-depth evaluation of the needs of residents in light of core services as defined by City Council strategic goals, the demand for services and the resources available to support the operating costs of those services. Specifically,

- Programs that were not paying for themselves or achieving the targeted contributing rates were evaluated for reduction or elimination.
- Services for which demand had diminished, and an uptick in demand is not expected for the next fiscal year or so, were identified for adjustment.
- Hours of operation for some facilities were evaluated for adjustment during slower times of the day.
- Activities offered by other organizations in the community were evaluated for elimination and low-use and/or high cost facilities were evaluated for closure.

A total of 133 FTEs have been identified as part of the program and service adjustments and they represent \$9.5 million of the \$14.7 million in savings. Some of those positions are already vacant and will be eliminated. Twenty-two of the positions will be phased in as revenue

recovers (20 in police and 2 in fire). As for remaining positions, a variety of factors are being finalized at the time this message was written. These factors are part of the phased process and include:

- Attrition – the normal turnover that could result in possible additional vacancies,
- Retirement – there are employees who are currently eligible to retire and should they do so over the next few months that could result in additional vacancies, and
- Organizational realignment – adjustments to our day-to-day business practices will be needed to combine resources, put into use innovative services and find proactive solutions to our economic challenges.

In conjunction with the expenditure reduction measures are efforts to enhance revenue opportunities to improve cost recovery and to pursue innovative means for seeking additional revenue sources. The revenue enhancement measures total \$2.9 million of new revenue expected for FY 2011. A few examples of these opportunities include the following:

- Adjustment of fees charged for wireless facilities (e.g., cell phone towers placed on city property) to reflect the fees charged by other valley cities;
- Adjustment of liquor license fees to reflect the level and type of fees charged by other valley cities;
- Implementation of a premium parking fee for use of the city's covered parking garages during the city's special events held in the downtown area; and
- Implementation of a transaction fee for pawn shops and second-hand stores to reflect the cost of complying with state requirements to report all transactions to local police and to reflect the fees charged by other valley cities.

As we have done in the past several years, an annual review of the rates charged for water, sewer, sanitation collection, and landfill disposal services was completed. These annual reviews of the enterprise funds are done to ensure incoming revenues are sufficient to support operating and capital expenditures for those individual operations. Other fees, such as those charged for plan review and building inspections, are adjusted periodically per the consumer price index (CPI). As a result of these reviews, water and sewer rates will be adjusted for FY 2011 and some of the community development fees will be restructured during FY 2011. Sanitation rates will remain unchanged while landfill fees charged to city departments will be modified.

Capital Program. The principal issue for the capital budget also is the economy and the impact it has on the city's resources to fund capital assets. Glendale's General Obligation (G.O.) capital program is funded with secondary property tax revenues, with development impact fees playing a strong supporting role for growth-related projects. Both revenue sources have been significantly constrained as a result of the economic downturn with a corresponding impact on the capital plan.



The Maricopa County Assessor's Office announced in February 2010 that single family residential properties across the county have experienced three consecutive years of valuation declines. In Glendale, residential values have fallen over 50% since the 2006 peak. The Assessor's Office also announced that commercial properties experienced a decline in every city in the county, something that has not happened in decades. For Glendale commercial properties, values declined 27% in one year.

Based on the most recent valuation figures from the county, Glendale's secondary AV is expected to decline another 14% in FY 2012. This sizable decline follows two consecutive declines of 3% in FY 2010 and 18% in FY 2011. Overall, the decline in Glendale property values equates to a loss of almost one-third of the city's secondary assessed valuation – from a peak of \$2.19 billion in FY 2009 to a projected amount of \$1.51 billion for FY 2012.

Given the sizeable decline in secondary AV expected for FY 2012, property tax revenue to pay secondary property tax-funded debt service will be insufficient if corrective actions to the current plan (adopted as part of the FY 2010 budget) were not taken. As a result of this information, the new 10-year capital plan reflects the remaining portion of the new Municipal Court project moving to FY 2015, and the West Area Library moving from FY 2014 to FY 2015.

It is important to understand that the city did not build a capital improvement program based on any expectations of a windfall in projected property tax revenue because of rising property values in 2005, 2006 and 2007. In fact, at that time, the capital plan's growth projections for secondary assessed valuation were very conservative at a 3% - 4% growth rate. This conservative assumption is in contrast to the 10 year [1997 – 2007] average annual growth rate of 8.7% in Glendale's secondary assessed valuation.

It should be noted that several energy efficiency capital projects are moving forward as a result of a \$2.3 million allocation through the American Recovery and Reinvestment Act's (ARRA) Energy Efficiency and Conservation Block Grant. This grant funding will allow for capital projects to be completed that otherwise may not be completed for several years. Some of the projects to be completed include:

- Replacement of outdated lighting systems at the public safety/court facility, the main library and sport courts in the city's parks with energy efficient lighting systems;
- An upgrade to the ultraviolet disinfection system at the Arrowhead Wastewater Reclamation Facility;
- Completion of the LED conversion program for the remaining 30 (of 190) signalized intersections; and
- Expansion of the existing environmental education program to include energy efficiency.

For the water and sewer capital program, the economy has impacted the timing of capital projects. Water usage had averaged 14.7 billion gallons from FY 2006 through FY 2008. During FY 2009, the total number of bills issued declined by approximately 18,500 from the prior year and water usage decreased 8% to 13.5 billion gallons. Both of these declines are viewed as the result of the

economy given business closures and the rising number of vacant residential units. In addition, conservation efforts appear to be playing a contributing role in the decline in usage. Given these trends, capital projects were deferred to later years except for improvements to the Arrowhead Wastewater Reclamation Facility.

The Glendale Onboard transportation capital program is primarily supported by the designated sales tax for transportation, with federal, state and regional transportation funds used for some projects. As expected, the economy has impacted this program's capital plan. The FY 2011 program focuses on the Northern Avenue Parkway and the New River Multi-Use Pathway. The Northern Avenue Parkway project is the largest project and is now in final design with construction anticipated to start in FY 2012. The parkway will provide a high capacity arterial roadway initially connecting West Valley travelers from the Loop 303 to the Loop 101 and eventually to Grand Avenue. The pavement overlay program for arterials, collector and residential streets received \$35 million through the G.O. program from FY 2008 through FY 2010. The overlay program will continue in FY 2011 with unspent project funds from FY 2010. However, no new funds will be allocated in FY 2011 to these projects.

Glendale will benefit tremendously using ARRA funds on transportation projects. Examples of some projects now underway include the improvements being made at the Loop 101 and Union Hills Drive interchange and the alleyway/pedestrian improvements in downtown Glendale. ARRA funds have made it possible to use 100% federal monies for these projects, allowing us to re-direct our local transportation funds to other projects in these times of revenue shortfalls.

Glendale also has been approved for over \$6 million in ARRA funding for capital projects that will help lower our ongoing maintenance expenses. Street pavement overlays will enhance the life of the pavement on two arterial streets, Litchfield Road and Glendale Avenue. ARRA monies will also be targeted for long-term pavement markings on 25 miles of arterial streets, and to improve the existing signal system with new equipment that will reduce the burden on local funds to maintain older equipment prone to breakdowns and emergency repairs.

Conclusion

As we progress through FY 2011, we will continue to employ fiscally conservative spending practices. We also will continue to monitor expenditures and revenues during the course of the fiscal year to ensure we are on the path the Council has charted for the city. We will continue providing quarterly reports to Council on the performance of the General Fund and the designated sales tax funds. These reports will keep you apprised of how revenues and expenditures are doing when compared with the revenue and expenditure budgets established for FY 2011.

Even with the program and service adjustments included in the FY 2011 budget, employees will remain focused on implementing City Council's strategic goals. The provision of exceptional city services will continue as will collaborative, innovative efforts to:

- Strengthen neighborhoods,
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BUDGET MESSAGE
City Manager's Budget Message

- Ensure Glendale is a safe community,
- Retain and attract quality economic development opportunities,
- Foster sustainable downtown development, and
- Continue the dedicated partnership with Luke Air Force Base.

It is important to thank employees for their active participation in and valuable contributions to the development of the FY 2011 budget. As a service organization focused on providing exceptional services to the community, the employees remain the city's most critical resource.

In closing, I believe the FY 2011 budget is a plan that provides resources to maintain core city services while moving forward with strategies that ensure a positive, sustainable future. I continue to be confident that the Mayor and Council's vision will ensure an outstanding quality of life for the Glendale community and further enhance our position as a world-class destination city.

Sincerely,