

***PLEASE NOTE: Since the Glendale City Council does not take formal action at the Workshops, Workshop minutes are not approved by the City Council.**

**MINUTES
CITY OF GLENDALE
CITY COUNCIL WORKSHOP
February 15, 2005
1:30 p.m.**

PRESENT: Mayor Elaine M. Scruggs, Vice Mayor Thomas R. Eggleston, and Councilmembers Joyce V. Clark, Steven E. Frate, David M. Goulet, H. Phillip Lieberman, and Manuel D. Martinez

ALSO PRESENT: Ed Beasley, City Manager; Pam Kavanaugh, Assistant City Manager; Craig Tindall, City Attorney; and Pamela Hanna, City Clerk

1. 2ND QUARTER REPORT ON THE GENERAL FUND & FY05-06 REVENUE PROJECTION FOR THE GENERAL FUND

CITY STAFF PRESENTING THIS ITEM: Ms. Sherry Schurhammer, Budget Director
Police Chief Andrew Kirkland and Ms. Alma Carmicle, Human Resources Director

This is a request for the City Council to review the Fiscal Year (FY) 2004-05 second quarter report on the General Fund (GF) expenditures and revenues. Also to be reviewed is the FY 2005-06 General Fund revenue projection.

The FY 2004-05 second quarter report on the General Fund is consistent with the Council's goal of ensuring the city's financial stability through timely reviews of actual expenditures and revenues.

Council's review of the FY 2005-06 revenue projection for the General Fund also is consistent with the Council's goal of ensuring the city's financial stability.

In response to requests from the Council, staff committed to providing quarterly reports on the General Fund beginning with FY 2003-04.

As part of this report, the FY 2004-05 General Fund revenue projections will be presented in preparation for the Council budget hearings on the General Fund operating budget scheduled to begin on March 15, 2005.

The GF's second quarter revenue budget and actuals are as follows (in 000s):

	<u>FY05 Budget</u>	<u>FY05 Actuals</u>
City Sales Tax	\$24,108	\$26,380
State Income Tax	\$ 9,875	\$10,060
State Sales Tax	\$ 8,656	\$ 9,720
State Motor Vehicle In-Lieu	\$ 4,013	\$ 4,462
HURF	\$ 7,691	\$ 7,475
Primary Property Tax	\$ 1,798	\$ 1,931
All Other	<u>\$13,151</u>	<u>\$12,407</u>
TOTAL	\$69,292	\$72,435

As the preceding list shows, FY 2004-05 second quarter GF revenue receipts are \$3.1M (\$3,143,000), or 4.5% more than expected.

City sales tax receipts, which account for almost 35% of the city's total GF revenue budget, exceeded expectations by \$2.3M (\$2,272,000) or about 9.5% (9.42%). This is not surprising given that the FY 2004-05 revenue budget for city sales tax, \$48.2M (\$48,216,000) is less than the actuals received in FY 2003-04, \$49.8M (\$49,766,000).

State-shared revenues are performing very well, with receipts exceeding budget by almost \$1.7M (\$1,698,000) or 7.5%.

Highway User Revenue Funds, or HURF, are revenues commonly known as the gas tax, although there are several additional transportation related fees that comprise this revenue source. This revenue source is running about \$216,000 or 2.8% below budget.

Analysis of HURF revenues received over the past 3 years shows that the City has received 44.4% of HURF revenue during the first 6 months of the fiscal year. Based on this information, we would expect to receive \$6.8M (\$6,829,000) through the second quarter, whereas the City actually collected almost \$7.5M (\$7,475,000). In light of this analysis, the City's HURF receipts through the second quarter are ahead of pace by \$646,000, or 9.4%.

Primary Property Tax revenue appears to be ahead of budget at this point by about 7% or \$134,000, but Property Tax revenue primarily comes in during the second and fourth quarters. We expect to meet budget by the end of the year.

The All Other Revenue category is running about 5.5%, or \$744,000 below expectations. This can be attributed to \$1.7 MM in one time revenue reflected on the budget side that has not yet come in, as well as various seasonal revenue sources which typically do not come in until the third quarter.

There are no significant one-time sources of revenue reflected in the first quarter revenue actuals, unlike FY 2003-04 when the sale of parcels at the Northern Crossing development generated \$7.3M (\$7,270,000) in GF revenue.

The FY 2004-05 second quarter budget and actuals for the GF operating and pay-as-you-go (PAYGO) capital expenditures are as follows (in 000s):

	<u>FY05 Budget</u>	<u>FY05 Actuals</u>
GF Salaries/Benefits	\$45,063	\$41,096
GF Non-Personnel	\$23,398	\$19,517
GF Debt Service (leases)	\$ 2,195	\$ 2,649
PAYGO Capital	<u>\$ 1,804</u>	<u>\$ 1,054</u>
TOTAL	\$72,460	\$64,316

Salary savings for the second quarter of FY 2004-05 totaled almost \$4M (\$3,967,000).

Non-salary savings for the second quarter of FY 2004-05 totaled over \$3.8M (\$3,881,000).

Lease debt service payments are seasonal, with most occurring twice per year, once in the fall and once in the spring, thus reflecting actuals that exceed budget after the second quarter. In addition, the amount of each payment can differ based on payment terms and payment structures.

Overall, the City continues to be conservative in its spending as evidenced by the fact that the FY 2004-05 second quarter GF expenditures were \$8.1M (\$8,144,000) less than budget.

At the end of the second quarter of FY 2004-05, the budget-basis GF fund balance was \$56.5 (\$56,531,000), which is \$4.5M (\$4,535,000) more than the budget-basis GF fund balance at the start of FY 2004-05.

General Fund revenue projections are based on a variety of factors such as:

- a multi-year history of actuals to detect trends;
- Arizona per capita disposable income;
- growth in Arizona per capita disposable income;
- inflation; and
- projected population growth for Glendale.

The resulting calculations are compared to forecasts produced by the Economic and Business Research Center at the University of Arizona. A comparison is also made to the State of Arizona's budget forecast, which represents a consensus projection of experts from Arizona State University, the Arizona Department of Economic Security,

the Arizona Department of Revenue, and the Governor's Office of Strategic Planning and Budgeting.

The Arizona League of Towns and Cities does not produce a projection for state-shared revenues until mid-March or later. The State of Arizona does not produce a state-shared revenue projection for each municipality until June.

The University of Arizona's Economic and Business Research Center forecasts aggregate retail sales growth for the Phoenix metropolitan area as a robust 6.4% for 2005, moderating to a still healthy 3.9% in 2006. For the state as a whole, the Economic and Business Research Center forecasts 6.4% for 2005 and 4.5% for 2006. The State of Arizona's forecast for the state as a whole is 7.7% for FY 2005-06.

A recent history of city sales tax collections is shown below (in 000s):

	<u>Budget</u>	<u>Actuals</u>
FY01-02	\$42,300	\$41,400
FY02-03	\$42,900	\$43,511
FY03-04	\$44,163	\$49,766
FY04-05	\$48,216	\$52,166 (estimate)

City sales tax receipts collected through December 2004 are exceeding budget by \$2.3M (\$2,272,000) or about 9.5% (9.42%). This is not surprising given that the FY 2004-05 revenue budget for city sales tax, \$48.2M (\$48,216,000) is less than the actuals received in FY 2003-04, \$49.8M (\$49,766,000).

Since this fiscal year's budget for city sales tax is lower than last fiscal year's actuals, the better measure of how we are doing is to compare collections with last year's collections.

When this fiscal year's 2nd quarter actuals of \$26.4M (\$26,380,000) are compared to last fiscal year's collections of \$25.2M (\$25,162,000), we see that this fiscal year's collections are running \$1.2M (\$1,218,000) or almost 5% (4.84%) ahead of last fiscal year's 2nd quarter collections.

Based on the City's performance through the 2nd quarter of this fiscal year, it is estimated that the city will collect almost \$52.2M (\$52,166,000) or \$2.4M more than the \$49.8M (\$49,766,000) received in FY 2003-04.

The FY 2005-06 city sales tax projection is \$55.6M.

- This projection was derived by starting with the FY 2004-05 estimate of almost \$52.2M (\$52,166,000).

- Assuming the amount the City expects to receive this fiscal year, \$52.2M (\$52,166,000), grows 3%, or \$1.58M (\$1,586,000) – a growth assumption that is below the forecasts referenced earlier – we get to \$53.75M (\$53,752,000).
- Added to that amount is \$1.9M, the additional amount of city sales tax receipts the City anticipates receiving in FY 2005-06, if voter approval is received in the May 17, 2005 election, as a result of the renegotiated franchise agreements with Southwest Gas and Arizona Public Service.
- In summary, the calculation for the FY 2005-06 city sales tax projection is $\$52.16\text{M} + \$1.58\text{M} + \$1.9\text{M} = \55.6M (\$55,654,000).

State-shared revenue collections include state-shared income tax, state-shared retail sales tax, and motor vehicle in-lieu taxes. The distribution of state-shared revenues is based on a municipality's population in relation to the population of all incorporated cities and towns in Arizona. The distribution of HURF revenue also is based, in part, on a municipality's population in relation to the population of all incorporated cities and towns in Arizona.

A recent history of state-shared collections is shown below (in 000s):

	<u>Budget</u>	<u>Actuals</u>
FY01-02	\$48,160	\$46,903
FY02-03	\$49,200	\$49,020
FY03-04	\$45,086	\$47,005
FY04-05	\$45,086	\$48,399 (estimate)

The FY 2004-05 estimate is based on the revised figures that the Arizona Department of Revenue and the Arizona League of Cities provided municipalities during the summer of 2004.

The FY 2004-05 estimate of \$48,399,000 is conservative as illustrated by the following bullet points:

- The FY 2004-05 estimate is less than the annualized pace of the current fiscal year's receipts after 6 months. Specifically, at the 6-month mark, Glendale's state-shared revenue receipts are running \$1.7M (\$1,698,000), or 7.5%, ahead of budget.
- It is reasonable to annualize this pace given the 3-year history of state-shared collections. Specifically, state-shared income tax and motor vehicle in-lieu collections are received fairly evenly over the course of 12 months, with approximately 50% coming in during each 6-month

increment. State-shared sales tax receipts, however, come in more heavily during the last 6 months of the fiscal year at 54.5%.

- o Therefore, after annualizing this pace, it is conceivable we could receive actuals that are \$3.4M more than budget at the end of FY 2004-05, for a total of almost \$48.5M (\$48,486,000).

Despite the strong performance of state-shared revenues in FY 2004-05, and the strong economic outlook for the State of Arizona, the potential impact of the mid-decade census on the allocation of state-shared revenues should be considered. In October 2003, the Maricopa Association of Governments estimated that Glendale would lose \$3.4M (\$3,404,000) in state-shared revenues as a result of the mid-decade census.

Therefore, the FY 2005-06 projection for state-shared revenues is a conservative \$47M (\$47,005,000). This amount matches the amount received in FY 2003-04, but is almost \$1.4M less than the amount expected this fiscal year.

As noted previously in this report, the distribution of HURF revenue also is based, in part, on a municipality's population in relation to the population of all incorporated cities and towns in Arizona. Consequently, the distribution of HURF revenues to Glendale could be impacted by the mid-decade census.

The FY 2005-06 HURF projection of \$15,174,000, which matches the amount collected in FY 2003-04.

The FY 2005-06 projection for primary property tax is \$3,803,000, which represents a 5.8% growth over the FY 2004-05 budget of slightly less than \$3.6M. This rate of growth is in line with the financing assumption for the secondary property tax rate, the revenue source used for the capital improvement program.

The FY 2005-06 projection for the All Other Revenue category is \$25.5M (\$25,467,000).

In summary, the FY 2005-06 General Fund revenue projections, and a comparison with the current fiscal year's revenue budget, are as follows (in 000s):

	<u>FY05 Budget</u>	<u>FY05 Estimate</u>	<u>FY06 Projections</u>
City Sales Tax	\$ 48,216	\$ 52,166	\$ 55,654
State Shared Revenues	\$ 45,086	\$ 48,399	\$ 47,005
HURF	\$ 15,382	\$ 15,395	\$ 15,174
Primary Property Tax	\$ 3,595	\$ 3,588	\$ 3,803
All Other	<u>\$ 26,302</u>	<u>\$ 24,059</u>	<u>\$ 25,467</u>
TOTAL	\$138,581	\$143,607	\$147,103

The FY 2005-06 GF revenue projection of \$147.1M (\$147,103,000) is \$8.5M (\$8,522,000) more than the FY 2004-05 budget. However, because the FY 2004-05 revenue budget for 2 primary revenue sources, city sales taxes and state-shared revenues, is less than the actuals received in FY 2003-04, a comparison with the FY 2004-05 revenue budget is not the best measure.

A better comparison to use is the FY 2004-05 estimate of \$143.6M (\$143,607,000). The FY 2005-06 projection of \$147.1M (\$147,103,000) is almost \$3.5M (\$3,496,000) more than the FY 2004-05 estimate. The expected increase represents overall growth of just 2.4%, a conservative assumption when compared to the economic forecasts for the metropolitan area and the state as a whole.

The FY 2004-05 first quarter report was presented to the City Council on December 21, 2004.

The community benefits from periodic reports to the City Council on the General Fund's revenues and expenditures because it is a means to evaluate the city's financial stability.

This is a status report on the General Fund through the first two quarters of FY 2004-05, and no Council action is required on this part of the report. However, staff is seeking direction on the FY 2005-06 General Fund revenue projection.

Ms. Schurhammer reviewed with City Council the GF revenue actuals received through the 2nd quarter. Specifically, she covered the performance of city sales tax receipts, state-shared revenue receipts, HURF receipts, primary property tax receipts, and all other GF revenue receipts. The bottom line shows that actuals received through the 2nd quarter totaled \$72.4M, or \$3.1M or 4.5% ahead of budget.

Ms. Schurhammer then provided some details about the all other category of GF revenue. Specifically, Ms. Schurhammer reported that revenue from development permits and fees came in about 3% or \$70,000 ahead of budget. She reported that franchise fees, which represent revenue from natural gas, electric, and cable franchise agreements, are about \$12,500 ahead of budget through the end of the 2nd quarter.

Councilmember Clark asked why the chargebacks line item shows actuals coming in exactly as budgeted, stating, for example, that gasoline prices have increased. Ms. Schurhammer explained that the chargebacks line item represents revenue that comes from the enterprise funds, like sanitation, landfill, water, sewer, and transportation sales tax operations, to the General Fund in exchange for services provided by General Fund operations. If the General Fund operations did not provide these services, the enterprise fund operations would have to pay contractors to provide the services required. She stated that staff chargebacks are not impacted by increases in gasoline prices because most General Fund operations do not use those kinds of resources in large quantities.

Mr. Lynch reviewed the details of what has transpired with regard to the Northern Crossing Development. He explained the \$14.5M in total financing was comprised of the land purchase, demolition costs and other costs. He stated, to date, the sale of parcels has generated \$11.5M and city sales tax revenue totals \$1.16M (from the

opening of the center in FY03-04 through the 2nd quarter of FY04-05). He emphasized that the project was to be developed over a 5-year period, beginning November 29, 2001. He noted that the city has already received \$12.66M in revenue after only 3 years into the 5-year development period.

Councilmember Martinez asked if there are any pads that have not yet been sold. Mr. Lynch responded yes, stating that the revenue expected from the sale of those pads will depend on the use for which they are sold. He stated that some of the pads would be leased, noting that the city receives two-thirds of the lease revenue. Councilmember Martinez asked if it is safe to assume the city will receive at least the \$14.5M it invested in the project by the time all of the pads have been sold. Mr. Lynch responded yes, stating that the city is about \$920,000 ahead of expectations when viewed from a cash flow perspective.

Councilmember Clark asked if the proceeds from the parcel sales were used to pay off any indebtedness incurred by the city to prepare or develop the property and, if not, why. Mr. Lynch said Council previously directed staff to let those funds accumulate in the GF fund balance to provide the city with options as to when and how to pay off the debt related to the Northern Crossing development. He said this strategy also provides flexibility to respond to changing market conditions. He explained that the interest rate, when the money was borrowed, was at 1.8% and, as market conditions continue to improve on the investment side, the city could find itself earning more money on its investments than it is paying on its loans.

Ms. Schurhammer reviewed a year-to-year comparison for city sales tax receipts. Second quarter actuals of \$26.4M this FY are \$1.2M, or almost 5%, ahead of last FY's second quarter actuals of \$25.2M. She stated that the year-to-year comparison is a better measure of how this revenue source is performing. The budget-to-actuals comparison for the current FY is a less useful measure because the current FY's budget for city sales tax revenues, \$48.2M, is less than last FY's actuals of \$49.8M.

Ms. Schurhammer also reviewed a year-to-year comparison for state shared revenues. This FY's actuals of \$24.2M through the second quarter represent a \$1.3M, or 6%, increase over last FY's actuals of \$22.9M through the second quarter.

In response to Vice Mayor Eggleston's question, Ms. Schurhammer explained state shared revenue is comprised of state income tax, state sales tax, and the motor vehicle in lieu tax.

Ms. Schurhammer reported the city has been very conservative in its spending, noting the city has actually under spent its budget by slightly over \$8.1M through the end of the second quarter. Salary savings alone account for almost \$4M of the total savings.

Mr. Beasley explained to Council that the Human Resources Director, Alma Carmicle, and the Police Chief, Drew Kirkland, would provide information regarding Police Department vacancies and the efforts undertaken to fill those vacancies.

Ms. Carmicle reported the number of vacancies within the Police Department decreased from 44 in July 2004 to 34 in January 2005 to 16 as of mid-February 2005. She said staff reviewed the city's recruitment strategies for police officers in January 2005 and made a number of changes. For example, the starting pay for new hires was increased, a new step pay plan was created for officers, a signing bonus is now offered to new officers, a lateral transfer policy was established, and new partnerships were

developed. She said the City anticipates filling the remaining vacancies by the beginning of May and believes the partnerships that have been developed with other agencies will provide a steady flow of applicants in the future. She stated the Police Department continues to have a role in recruitment, but Human Resources acts as the primary recruiter.

Chief Kirkland stated the department also changed the process for doing background investigations to make it more efficient. With regard to the remaining 16 vacancies, he noted 17 applicants are in the final stages of the process.

In response to Vice Mayor Eggleston's question, Chief Kirkland explained a lateral transfer refers to police officers who work for another city and transfer to the City of Glendale. He said the department was not previously open to lateral transfers.

Ms. Carmicle said the city also has a partnership with Luke Air Force Base to attract recruits who are leaving the military. She said the city considers the program a partnership because the city does not ask police officers in other cities to forego the skills they have developed.

Councilmember Martinez asked if officers who laterally transfer to Glendale receive the same pay they received in their previous position. Ms. Carmicle explained the pay for lateral hires is now based on an officer's education and experience. Councilmember Martinez asked if the city stands to lose officers as a result of the partnership. Chief Kirkland said the partnership is more with non-law enforcement agencies, like Luke Air Force Base and the universities.

Councilmember Clark asked if officers transferring from another agency are still subject to the same hiring process and background checks. Chief Kirkland answered yes, stating the Police Department is required to maintain certain state standards.

Councilmember Goulet asked if the 17 people currently in the process represent new patrol officers. Chief Kirkland responded yes.

Councilmember Frate asked how many people are currently in the academy. Chief Kirkland stated that the largest class in the history of the Glendale Police Department will begin next month, noting it will have 13 candidates. He said 10 to 12 would come out of the academy over the next couple months. Councilmember Frate asked if staff looks at the number of officers expected to retire when determining future recruitment needs. Ms. Carmicle responded yes, stating staff looks not only at the age, but the tenure of current officers. Chief Kirkland said PD would typically lose between 10 and 17 officers annually between the DROP program, attrition and termination.

Councilmember Martinez asked if the department does ongoing recruitment. Chief Kirkland answered yes, noting PD will offer two tests per month on a continuing basis.

Chief Kirkland confirmed for Mayor Scruggs that the original 44 vacancies included the 23 new patrol officer positions that Council approved for the FY05-06 budget that began on July 1, 2004. He said the department's goal is to be fully staffed by the end of May. Mayor Scruggs asked Chief Kirkland if there has ever been a year when the department reached full staffing. Chief Kirkland said, historically, it is difficult for police departments to reach full staffing and, if full staffing is achieved, it typically does not last long. Mayor Scruggs referenced an article that said only eight of 112 applicants for the Chandler Police Department made it through all of the tests. She asked Chief Kirkland what he sees as opportunities for new hires in the upcoming fiscal year. Chief Kirkland said the

Glendale Police Department recently had an applicant pool of 304, with only 177 making it to the background portion of the screening process. He stated that only 10 of the 177 made it to the hiring step. He said, however, the Glendale Police Department is in a better position to attract new candidates because it offers opportunities that other agencies do not.

Councilmember Lieberman asked how many more officers would be needed to mitigate the impacts of growth and retirement. Chief Kirkland said he is still determining that figure. Mr. Beasley stated that the city is evaluating the impact of putting more patrol officers on the street, on the incidence of crime, and response times for calls for service. Mr. Beasley stated that it may take some time to complete this evaluation. He mentioned the possibility of returning to Council in the middle of next year (FY05-06) to talk about the value of increasing authorized officer staffing for the Police Department.

Councilmember Lieberman asked about the department's current ranking in terms of the number of officers per 100,000 residents. Chief Kirkland did not know the city's ranking amongst other cities, stating, however, it is lower than the national standard of two officers per 1,000 residents. Mayor Scruggs pointed out no valley city, except Tempe, has ever been at two per 1,000. Chief Kirkland agreed stating that the standard is per 100,000 residents.

Councilmember Clark said the city should keep in mind that it will be hosting the Fiesta Bowl, the NHL All Star Game, and the Super Bowl, and the fact that all of those events will be safety intensive. She said, in addition to daily calls for service, the department has to be prepared to respond to such extraordinary events. Chief Kirkland agreed, stating he hopes to address investigations as well.

Mayor Scruggs said the day-to-day events are the top priority because the city will partner with other agencies and communities to staff large scale events. Chief Kirkland agreed, explaining, in its current size, the department could not cover a Super Bowl type event and maintain its current level of service.

Councilmember Clark clarified her comments. She said they were aimed more at ongoing large-scale events, such as the Fiesta bowl. She said the department would also have to look at the impacts associated with annexation.

Councilmember Lieberman asked Ms. Schurhammer about the dollar amount for overtime in terms of the Police Department. Ms. Schurhammer did not have detailed information available, but offered to provide an answer to Council after she returned to her office. Councilmember Lieberman stated he has to balance overtime against the cost of new officers. Chief Kirkland reported that the Department has expended \$979,000 in overtime since July 1, 2004.

Mayor Scruggs asked if a lot of the overtime occurs at the arena. Chief Kirkland said the cost is spread between investigations, patrol, and the Westgate area. He stated that the \$979,000 covers scheduled and unscheduled overtime. He stated that callouts for the Bomb Squad, Swat Team and drug units account for a lot of the unscheduled overtime.

Ms. Schurhammer clarified for Mayor Scruggs that overtime costs through the second quarter are included in the second quarter actuals.

Mayor Scruggs asked if salary savings roll over into what is available for one-time uses. Ms. Schurhammer explained salary savings represent a one-time savings and become

part of the GF fund balance. Mayor Scruggs asked if the department's budget for next year will reflect the fact that not all officers are hired at the beginning of the year and that lateral transfers will not be hired at the entry level salary. Ms. Schurhammer responded by explaining how the 23 new police officers added in the FY04-05 budget were budgeted. She stated that the budget staff asked the Police Department to estimate when it thought the new officers would be brought on board. The Management and Budget Department then established a credit in the Police Department budget to account for the months when the new positions would not be filled.

For example, assume that the Police Department estimated the new positions would be vacant for 3 months, or 25% of the year. In this case, we started with a full-year's budget for the 23 new police officers and subtracted 25% of that amount to account for the funding not needed because the positions would be vacant. Mayor Scruggs asked what percentage of the salary savings could be attributed to the Police Department. Ms. Schurhammer said \$2.1M of the almost \$4M in salary savings comes from Public Safety, which includes the Police and Fire Departments, and the vast majority of that \$2.1M is attributable to the Police Department.

Ms. Schurhammer explained the non-personnel budget relates primarily to contractual items and many of the associated expenses come in during the third and fourth quarters.

Councilmember Martinez asked whether the non-salary expenses come relatively close to the amount budgeted by the end of the year. Ms. Schurhammer said she expects that to be the case unless unusual circumstances prevent contracts from being carried out.

Vice Mayor Eggleston pointed out that the non-personnel savings could be considered committed and therefore should not be viewed as a savings. Ms. Schurhammer agreed.

Ms. Schurhammer stated the city started the year with a General Fund fund balance, on a budget basis, of just under \$52M. She stated that the budget-basis fund balance has grown to about \$56.5M by the end of the second quarter of this FY.

Councilmember Lieberman pointed out that second quarter expenditures were over \$8M less than budgeted, however, the fund balance grew by less than \$5M. Ms. Schurhammer explained the \$8M reflects the difference between the amount budgeted and the amount spent. She said revenue generated beyond what was anticipated is accruing in the fund balance.

Ms. Schurhammer stated General Fund revenue projections are based on a variety of factors including a multi-year history of actuals, Arizona per capita disposable income, projected growth in the Arizona per capita disposable income, inflation and projected inflation rates, and projected population growth for Glendale. She explained the projections are then compared to calculations produced by other experts such as the University of Arizona's Business and Economic Research Center and a consensus projection produced by the State of Arizona. She said the consensus projection reflects expert advice from the Arizona State University, the Arizona Department of Economic Security, the Arizona Department of Revenue, and the Governor's Office of Strategic Planning & Budgeting. She noted the calculations were not compared to those produced by the Arizona League of Cities and Towns because the organization does not produce projections until the end of March. And the State of Arizona does not

produce city-by-city state-shared revenue projections until June or later.

Ms. Schurhammer stated the University of Arizona projects a robust 6.4% growth in 2005 that moderates to a still healthy 3.9% in 2006 for aggregate retail sales in metro Phoenix. She said the projection for the entire state is similar, with 6.4% growth estimated for 2005 and 4.5% for 2006. She noted the Governor's budget forecasts aggregate retail sales growth of 7.7% in FY 2005/06, a consensus forecast of many different experts. She said those projections helped shape staff's GF revenue projections for FY05-06.

Ms. Schurhammer presented a slide that showed historical information regarding city sales tax receipts since FY01-02. Specifically, the slide showed that city sales tax receipts have experienced strong growth since FY01-02. FY02-03 receipts of \$43.5M were 5.1% ahead of FY01-02 receipts of \$41.4M. FY03-04 receipts of almost \$49.8M represented a growth rate 14.4% from the FY02-03 receipts.

She stated that this FY's receipts are expected to be a bit less than \$52.2M, which would represent 4.8% growth over last FY's actuals of almost \$49.8M. She explained that this FY's estimate was based on the fact that collections through the first 6 months are running \$1.2M, or almost 5%, ahead of last FY's collections through the first 6 months. Given that city sales tax receipts come in almost evenly during the course of the FY, with about half of all receipts coming in during the first 6 months and half during the last 6 months, this FY's estimate assumes that the \$1.2M will double to \$2.4M by the end of the FY. In other words, this FY's estimate assumes collections will be \$2.4M ahead of last FY's collections of \$49.8M.

Ms. Schurhammer also discussed the city sales tax projection for FY05-06. The starting point is the FY04-05 estimate of almost \$52.2M. A conservative 3% growth rate is assumed; 3% growth equates to an additional \$1.6M, or $\$52.2M + \$1.6M$. Then \$1.9M in new city sales tax receipts, which are anticipated if voters approve new franchise agreements with Southwest Gas and Arizona Public Service, is added, for $\$52.2M + 1.6M + \$1.9M = \$55.7M$ [\$55.654M on the slide].

Ms. Schurhammer reviewed past, current and projected state shared revenues, stating actuals grew from FY01-02 to FY02-03, but declined in FY03-04. She stated that the decline in FY03-04 was expected and built into the FY03-04 expenditure budget.

She explained that the FY04-05 estimate of almost \$48.4M is about \$3.3M more than the FY04-05 budget of almost \$45.1M. She noted that the FY04-05 estimate of almost \$48.4M reflects the revised estimate received from the League of Arizona Towns and Cities and from the State of Arizona. She stated that this estimate is supported by the collections received through the second quarter of this fiscal year. She said collections for the first six months of this fiscal year are running about \$1.7M ahead of budget. This pace is anticipated to continue so that receipts are expected to be \$3.4M ahead of budget by the end of this FY, or $\$45.1M + \$3.4M = \$48.5M$, which is slightly more than the FY04-05 estimate of \$48.4M.

Ms. Schurhammer recommended going with a projection of \$47M for FY05-06, stating it is equal to the actuals received last fiscal year, in FY03-04. She said the FY05-06 projection of \$47M is \$1.4M less than this FY's estimate of almost \$48.4M. She reiterated that aggregate retail sales are expected to grow between 3.9% and almost 7% during 2005 and 2006. In addition, individual income tax collections this fiscal year are up 15% over last year, and the income tax collections received this year will be distributed to the cities in FY06-07, when the impact of the mid-decade census is expected to hit.

Councilmember Clark pointed out the increase in income tax collections will be impacted by the mid-decade census. Ms. Schurhammer agreed, but said it is certainly possible that state shared revenues will grow \$2M beyond the amount expected this FY, \$48.4M. So, $\$48.4M + \$2M = \$50.4M$. She said that the \$50.4 M minus the \$3.4M that MAG estimates the City of Glendale will lose as a result of the mid-decade census, brings the total down to \$47M.

Mayor Scruggs asked Ms. Schurhammer if she were 90% confident that state-shared revenues would come in at approximately \$48.4M this FY. Ms. Schurhammer said "yes," noting that this FY's collections through the second quarter support the \$48.4M estimate, and that the Arizona Department of Revenue and the League of Arizona Towns and Cities also estimate Glendale's collections to come in at about \$48.4M. Ms. Schurhammer acknowledged that unforeseen circumstances, such as an oil embargo or stock market collapse, could occur that would impact the City's chances of attaining the estimate of \$48.4M since it is based on what is known today.

Mayor Scruggs said headlines in the Arizona Republic newspapers, such as "City of Phoenix faces a \$68.7million deficit", "City of Chandler departments have been told to cut their departments 5% for FY05-06," "City of Tempe expects a deficit of \$7 million", and "City of Mesa is facing its worst budget crunch in years due to sliding sales tax growth" do not match staff's projections. She asked how Glendale could anticipate \$2M in growth in their state shared revenue when other cities are faced with such problems.

Ms. Schurhammer explained that most of the other cities projected higher growth in their revenue sources than was actually realized. She also said that part of the Phoenix problem is the number of new capital projects scheduled to come on line next year. For example, Ms. Schurhammer stated that Phoenix is expected to open several new fire stations, senior centers, libraries, and park facilities, and that revenue growth in Phoenix may not be enough to cover the additional costs of staffing and operating these facilities. She stated that Glendale has taken a much more prudent and conservative approach to spending and bringing new capital projects on line each year. Mayor Scruggs said she was surprised by Chandler's move to cut department budgets by 5%.

Mr. Beasley pointed out that many cities in the late 1990's increased their staffing levels in anticipation of upcoming projects and their projections were quite optimistic, whereas Glendale was very conservative in its staffing levels and projections.

Mayor Scruggs explained she is reluctant to accept significantly increased revenue projections for fear of what could happen.

Ms. Schurhammer reviewed HURF revenues, both in the past and the projection for FY05-06. She said growth occurred from FY01-02 through FY03-04, with growth expected to continue through FY04-05. She said the current year estimate is very close to the actual amount received last FY. Given that HURF revenues are based, in part, on a municipality's population, this revenue source is expected to be impacted by the mid-decade census. Therefore, the FY05-06 projection for HURF revenues was established using the same approach for the state-shared revenue projection in that the FY05-06 projection reflects the actual amount received in FY03-04. Ms. Schurhammer confirmed for Vice Mayor Eggleston that HURF revenues are based, in part, on population.

Ms. Schurhammer stated the FY05-06 projection for primary property tax receipts

reflect growth of about \$208,000 over this year's estimate.

She reported that the FY04-05 budget for the "all other" category includes \$1.7M in one-time sources, which will need to be removed to establish the projection for FY05-06. After looking at all of the revenue sources in this category, a moderate rate of growth partially offsets the removal of the \$1.7M in one-time revenue, with the FY05-06 projection coming in at almost \$25.5M, or about \$835,000 less than the FY04-05 budget for this category.

Ms. Schurhammer stated the FY05-06 GF revenue projection of \$147.1M reflects an overall growth rate of only 2.4% over the FY04-05 estimate of \$143.6M, which is actually a very conservative approach.

She explained staff will present the operating budgets and supplemental requests, and the preliminary Capital Improvement Program (CIP), including operating and maintenance supplemental requests for new capital projects coming on line in FY05-06, during the March and April budget workshops, with the final balancing scheduled to occur at the last budget workshop in April. In June, the third quarter General Fund report will be presented, and Council will adopt the preliminary and final FY05-06 budget for the operating and capital programs.

Mayor Scruggs pointed out that the projected FY05-06 GF revenue budget, while only 2.4% more than the FY04-05 GF revenue estimate, represents a 6.1% increase over the FY04-05 GF revenue budget. She asked if Council will be able to make adjustments to the FY05-06 expenditure budget if something has gone awry when Council reviews the third quarter report on the GF in June. Ms. Schurhammer answered yes. Mayor Scruggs asked staff to bring any third quarter information that might impact the budget to Council at the end of April or in early May, prior to Council's adoption of the FY05-06 budget. Ms. Schurhammer stated that access to third quarter revenue information would be available in April, except for city sales tax receipts, which lag by one month. Mr. Beasley stated that staff would apprise Council of any significantly adverse information about GF revenue collections prior to Council's adoption of the FY05-06 budget.

ADJOURNMENT

The meeting was adjourned at 3:15 p.m.