



City of Tempe  
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**LETTER OF TRANSMITTAL**

February 10, 2009

- Mayor Hugh Hallman
- Vice Mayor Shana Ellis
- Councilmember Ben Arredondo
- Councilmember Mark Mitchell
- Councilmember Joel Navarro
- Councilmember Onnie Shekerjian
- Councilmember Corey Woods

Charles W. Meyer  
 City Manager

The attached five-year Budget Balancing Proposal is presented to the City Council as a recommendation from the City Manager on how to chart a course for financial stability for the next four years and beyond. The plan is not the City's annual budget; it is a blueprint to guide us in preparing the FY 2009/10 budget and subsequent years.

**BACKGROUND**

Early last summer, we first experienced budget hits from state legislative decisions and fuel prices and we took immediate steps to address them within the FY 2008/09 budget. Soon thereafter, it became apparent that sales tax revenue was falling, and that the revenue shortfall would be significant *and* long-term. Staff prepared a broad strategy for financial sustainability through the fall and during a time when the economic forecasts was changing constantly. The strategy was intended to go beyond the current and next fiscal year, and recognized that long-term financial stability required a multi-year approach.

At the December 1 budget workshop, City Council gave direction to staff to prepare a plan, which included the following components:

- freeze increase in compensation and benefits
- reduce staffing levels by approximately 179 positions
- cut non personnel budgets by 18%
- increase revenue by \$1 million
- fund OPEB
- use reserved fund balance to create a "soft landing"
- develop a policy recommendation regarding fund balance tied to a *balanced* 5-year plan

This recommended proposal does all those things.

**PROPOSAL ASSUMPTIONS**

In the absence of taking action, the FY 2009/10 budget is projected to have a \$34.5 million deficit. This Budget Balancing Proposal uses \$27.3 million of reserved fund balance in FY 2008/09 through FY 2010/11, but would not require the use of fund balance in FY 2011/12 and FY 2012/13.

Letter of Transmittal  
February 10, 2009  
Page Two

While there is a great deal of detail in the attached proposal, there is a great deal more detail that supports the numerous recommendations. As always, staff will be available to provide detail upon request.

A major assumption in this proposal is that we have nearly hit bottom on sales tax revenue, and that by late FY 2009 and into early FY 2010, we expect start to see some rebound with an actual increase by FY 2010/11.

During the December budget workshop, there was an estimate provided of the cost associated with anticipated growth in compensation and benefits of \$6 million. It was not clearly known, at that time, how that \$6 million was broken down between pay and benefits. We now know, that about \$4.5 million per year is growth in compensation and \$1.5 million is growth in benefits cost. In order to accomplish a \$6 million per year savings, we would need to freeze pay, and actually reduce some benefits. I believe it is necessary to emphasize that a reduction in benefits was needed, as it may not have been clear.

#### **IMPLEMENTATION**

A significant consideration in preparing the recommendations is whether the individual decisions are at the sole discretion of City Council. For example, reductions in staffing or reductions to other base personnel budgets could be made solely by a decision of Council.

On the other hand, changes to compensation and benefits are subject to negotiation with our employee groups; a bed tax would be subject to referendum; and agency reductions are subject to negotiation with the agencies. Before any of those proposals could be implemented, we would need to involve other parties.

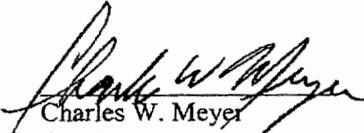
#### **FUTURE PROCESS**

Beginning with the February 19 workshop, the Budget Balancing Proposal will be revised to reflect changes the Council makes. It will probably be necessary to have one or two additional workshops in March to review revisions made to ensure they are consistent with Council's expectations.

Once Council consensus is achieved on a proposal, that plan will guide the preparation of the FY 2009-10 budget, which is scheduled to be discussed by Council on April 16. From that point on, the usual budget process should apply with a Truth in Taxation hearing on May 7, and tentative budget adoption on May 14.

I would like to express my sincere appreciation to all of the City personnel who contributed to this report. Given the difficult nature of the recommendations, City staff undertook the task with grace and professionalism.

Respectfully submitted,

  
Charles W. Meyer  
City Manager