

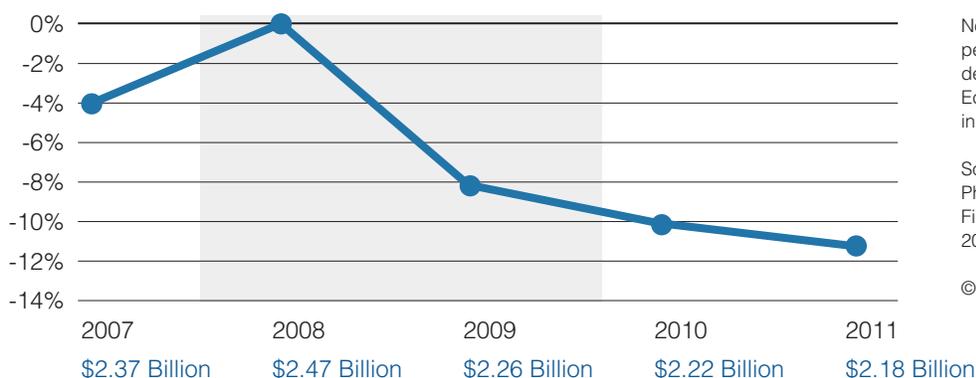
Phoenix

Fast-growing Phoenix was hit by sharp revenue declines

Two years after the end of the Great Recession, Phoenix's revenue was still dropping. Even as property tax receipts from new construction helped the city weather the collapse in existing real estate values, steep declines in intergovernmental aid and sales taxes led to a \$283 million drop in revenue between 2008 and 2011. (See Figure 1.) Deep spending cuts resulted in the smallest city workforce in 40 years.¹ That reduced workforce, together with a \$600 million pension reform, has improved Phoenix's long-term obligations picture.²

FIGURE 1

Phoenix Governmental Revenue, Percent Change From Pre-downturn Peak, 2007-11



Note: Shaded area indicates the period of the Great Recession as defined by the National Bureau of Economic Research. Amounts are in 2011 dollars.

Source: Pew calculations from Phoenix's Comprehensive Annual Financial Reports for fiscal 2007-11.

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Stable property tax receipts were unable to compensate for steep drops in intergovernmental aid and sales tax revenue

Phoenix's intergovernmental aid and sales tax—the city's two largest revenue sources—dropped \$131 million and \$87 million, respectively, after adjusting for inflation, from 2008 to 2011. These declines came in spite of an influx of American Recovery and Reinvestment Act funds and a 2 percent sales tax on food for home consumption approved for a period of five years in 2010.³

A half-billion dollars of new construction balanced falling home prices, resulting in \$5 million of growth in property tax revenue between 2008 and 2011.⁴ But these modest gains were not enough to offset the yawning declines in other revenue sources.

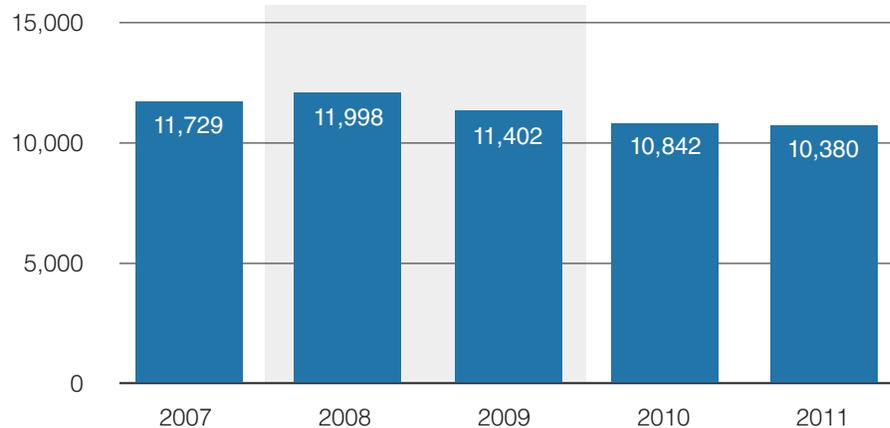
As revenue weakened, Phoenix created a task force to identify cuts and efficiencies

Between 2008 and 2011 as the effects of the Great Recession became evident, Phoenix decreased operating expenditures by 4 percent, or \$68 million.⁵ Almost all major operational areas declined, led by \$32 million in cuts to parks, recreation, and cultural facilities, forcing closures and reducing maintenance. Nonprofits have taken over some shuttered buildings, while the Parks and Recreation Department's charitable trust foundation has sought to raise money to support programs and physical assets.⁶

Across departments, the city eliminated more than 1,600 full-time equivalent positions during the same period, about 13 percent of the city's total workforce.⁷ (See Figure 2.) The city also negotiated wage and benefit concessions from public employees,⁸ and reorganized city departments as proposed by a task force on innovation and efficiency.⁹

FIGURE 2

Phoenix Full-Time Equivalent Employees, 2007-11



Note: Shaded area indicates the period of the Great Recession as defined by the National Bureau of Economic Research.

Source: Pew calculations from Phoenix's Comprehensive Annual Financial Reports for fiscal 2007-11.

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Managing the future: Phoenix managed its long-term obligations while addressing short-term deficits

Demand for services, investment decisions, and revenue performance driven by economic activity and demographic changes will shape Phoenix's fiscal future. Two long-term obligations which can be analyzed using the data available are pensions and retiree health care and other benefits.

Phoenix had assets covering 25 percent of retiree health care obligations in 2010, higher than many cities examined,¹⁰ but its pension fund had \$1.8 billion unfunded as of 2010—with assets covering 68 percent of liabilities. After years of deliberation, in March 2013, city voters passed pension changes directed at new city employees,¹¹ which are estimated to save \$600 million over 23 years and include larger employee contributions, a higher retirement age, and an increased number of years for eligibility. The reforms also provided the city with more flexibility in both investment options and contribution levels to the plan.¹²

See Pew's 30-city interactive at pewstates.org/City-Fiscal-Conditions-Interactive for complete data.

Endnotes

1 City of Phoenix, "Employee Count Per Capita Smallest in 40 Years Even as City Continues to Grow" (Nov. 4, 2010), <http://phoenix.gov/news/110410employees.html>.

2 See the full study methodology at pewstates.org/City-Fiscal-Methodology for a detailed explanation of the terms used in this profile and view the underlying data at pewstates.org/City-Fiscal-Conditions-Interactive.

3 Phoenix's American Recovery and Reinvestment Act receipts totaled \$429 million over the life of the legislation. City of Phoenix, "Phoenix Recovery," <http://phoenix.gov/citygovernment/recovery/index.html>; City of Phoenix, *Comprehensive Annual Financial Report, for the Fiscal Year Ended June 30, 2010* (2010), 214, http://phoenix.gov/webcms/groups/internet/@inter/@gov/@fin/@plan/documents/web_content/080339.pdf. The new tax contributed to a \$60 million rebound in sales tax receipts in 2011. City of Phoenix, *Comprehensive Annual Financial Report, for the Fiscal Year Ended June 30, 2011* (2011), 7 and 222, http://phoenix.gov/webcms/groups/internet/@inter/@gov/@fin/@plan/documents/web_content/069315.pdf.

4 City of Phoenix, *Comprehensive Annual Financial Report, for the Fiscal Year Ended June 30, 2009* (2009), III, http://phoenix.gov/webcms/groups/internet/@inter/@gov/@fin/@plan/documents/web_content/080340.pdf.

5 Moody's Investors Service, "Moody's Assigns Aa1 Rating and Stable Outlook to City of Phoenix, Arizona's General Obligation Bonds, Series 2012," new issue (May 10, 2012), https://www.moodys.com/research/MOODYS-ASSIGNS-Aa1-RATING-AND-STABLE-OUTLOOK-TO-CITY-OF--PR_245589; City of Phoenix, "City Manages Two Years of Budget Deficits; Zero Deficits Projected for 2012–13" (Jan. 17, 2012), <http://phoenix.gov/news/011712zerodeficit.html>.

6 Phoenix Parks Foundation, *Strategic Plan 2011-2013: Enhancing Phoenix's Fun Places and Great Spaces*, http://www.northstarinternet.com/phxparksfoundation/wp-content/uploads/Strategic_Plan_rev-7-5-2012.pdf.

7 City of Phoenix, *Comprehensive Annual Financial Report, for the Fiscal Year Ended June 30, 2011*, 250.

8 Scott Wong, "City-Employees Union Agrees to Concessions," *Arizona Republic* (March 4, 2010), <http://www.azcentral.com/community/ahwatukee/articles/20100304City-employees-union-concessions.html>.

9 "Organizational Review—the third year of city departments looking closely at organizational structure and operations has resulted in removal of supervisory layers, increased span of control and the elimination of management positions at twice the rate of positions overall; in the first two reviews, the city saved \$9.9 million." City of Phoenix, "City Connection" (Oct. 24, 2012), 1, http://employee.phoenix.gov/webcms/groups/extranet/@extra/@pio/@cityconn/documents/web_content/cc102412.pdf; David Cavazos, city manager, Phoenix, "Spending Less and Creating a Smaller, More Efficient Government," International City/County Management Association, http://icma.org/en/Article/101925/Spending_Less_and_Creating_a_Smaller_More_Efficient_Government.

10 For more information on and analysis of the state of retirement funding in the 30 cities, see The Pew Charitable Trusts, American cities project, *Cities Squeezed by Pension and Retiree Health Care Shortfalls* (March 2013), http://www.pewstates.org/uploadedFiles/PCS_Assets/2013/Pew_city_pensions_brief.pdf.

11 Police, firefighters, and elected officials are part of state-administered pension plans and are not covered by city employee plans. Lynh Bui, "Delay of Phoenix Pension-reform Vote Gets Mixed Reaction," *Arizona Republic* (June 22, 2012), <http://www.azcentral.com/community/phoenix/articles/2012/06/21/20120621timing-phoenix-pension-reform-vote-gets-mixed-reaction.html>; and Dustin Gardiner, "Early Returns Suggest Phoenix Voters Pass Pension Reforms," *Arizona Republic* (March 13, 2013), <http://www.azcentral.com/community/phoenix/articles/20130311phoenix-voters-pension-reforms.html>.

12 Monica Alonzo, "Pension Reform: Phoenix Voters Adopt Changes Expected to Save Taxpayers Nearly \$600 Million Over Next Two Decades," *Phoenix New Times* (March 13, 2013), http://blogs.phoenixnewtimes.com/valleyfever/2013/03/pension_reform_phoenix_voters.php.