**Alliance for Innovation Award Application**

Applicant: The City of Phoenix

Preparer: Laura A. Madson Brown, Management Assistant II

Address: 200 West Washington Street, 14th floor

 Phoenix, AZ 85003-1611

E-mail: laura.brown@phoenix.gov

Phone: 602.256.3551

**Introduction**

The Mayor and City Council, in partnership with labor unions and the community, eliminated 77% of a two year General Fund deficit of $277 million by using highly collaborative and innovative measure other than reductions in services (2009-10 through 2010-11). This was accomplished through new and innovative approaches to fiscal management and service delivery, leadership, collaboration, and extensive community participation. These efforts prevented the elimination or reduction of many vital services such as police, fire, senior services, libraries, after-school programs, youth sports, and public transit. Our comprehensive and innovative approach to solving the largest deficit in the city’s history, during the worst recession since the great depression, is summarized below:

* **Initiated** early identification and communication of declining revenue, and accelerated the budget process to allow for 15 months of savings rather than the normal 12 months.
* **Created** a new budget process that provided individual departments with an incentive to aggressively identify savings early in the budget setting calendar. Identified over $35 million in savings.
* **Capitalized** on ourexcellent credit ratings and low short-term interest rates. We used lease-purchase financing for critical fleet equipment replacement in lieu of cash, and conducted an extensive review of all our reserve funds to identify fund balances in excess of what was required to maintain our AAA bond ratings. Provided $91 million in savings.
* **Championed** creation and implementation of Innovation and Efficiency Task Force charged with identifying $10 million in savings from process improvements, revenue enhancements, right sourcing, and program consolidations. The task force has exceeded this goal and identified to date a projected $40 million in ongoing savings to occur over the next five years in the General Fund and $65 million to occur in other funds.
* **Fostered** a spirit of shared sacrifice among all employee groups. All seven employee labor groups agreed to a 3.2% wage and benefit concession for 2 years, saving $30 million annually in the General Fund. Executives and middle managers continued their freeze on pay increases for a second year, saving $1.3 million annually.
* **Engaged** the residents of Phoenix in the budget balancing process through 15 community budget hearings, and through demonstrated leadership brought the community together to reach agreement on:
	+ The passage of a temporary restoration of the sales tax on food, generating $35 million in new General Fund revenue.
	+ Identification of community priorities for which services to maintain.
* **Responded** to community input and created a public safety restoration plan to preserve additional police and fire positions through additional efficiency savings, a pre-booking facility pilot project, and the use of various sources of alternative funding. Saved the General Fund $10 million and an additional 80 police and fire positions.

**City of Phoenix Description**

The City of Phoenix is the sixth most populous city in the United States, state capital of Arizona, and center of the metropolitan area encompassed by Maricopa County. Phoenix has grown steadily since 1950. In 1950 the city occupied 17 square miles with a population of almost 107,000, ranking it 99th among American cities. The recent 2010 Census recorded Phoenix population at 1,445,632, and the city currently encompasses 519.1 square miles.

Due to the national recession, we had to make major General Fund budget reductions to balance the budget in 2008-09 ($72 million) and 2009-10 ($156 million). In early 2009-10, as the economic situation continued to worsen, we realized that our total budgetary deficit for 2009-10 and 2010-11 would likely be $277 million. Faced with the largest General Fund deficit in the city’s history, we knew that early and aggressive action would be required if we were to avoid major reductions to vital city services including public safety. We could no longer approach balancing the budget as had been done up to that point. We needed a new approach.

**Importance**

Saving vital city services from being eliminated or drastically reduced is of utmost importance to the community, the Mayor and City Council, and the entire City of Phoenix organization.

Our innovative and collaborative approach to balancing the 2009-10/2010-11 budget resulted in the preservation of public safety services such as funding for 466 sworn Police and Fire positions. This included six fire engine companies and officers assigned to the Crime Free Multi-housing Program, Property Crimes Bureau, Fugitive Apprehension Unit, and Patrol. We also were able to avoid eliminating five senior centers, five large community centers, 14 medium to small community centers, three branch libraries, 30 after-school activity and instructional sites that provide a safe place for children at drastically reduced rates as compared to the private market, and various youth sports activities. In addition, we were able to continue funding for street maintenance, home-delivered meals for seniors, homeless services, neighborhood code enforcement, graffiti removal, local bus service, and many other important services.

How we reduced the deficit was also important and has continued to pay dividends for both the community and our organization. Through our community budget hearing process and website, over 5,000 residents participated in the discussion. By actively listening to what our residents’ priorities were, we were able to achieve consensus on our overall approach. Partnering with the community in this way helps to develop good working relationships that we have continued to expand on through our ongoing efforts to provide services in the most efficient and effective manner possible. Collaboration with our employees and labor organizations has provided a clear example of what we can accomplish as an organization when we all work together. The innovation and creativity demonstrated by the new budget process, financial transactions, and Innovation and Efficiency Task Force have expanded the organization’s understanding of what is possible and this has led to the continued success of the task force, which has now identified a projected $40 million in ongoing savings to occur over the next five years in the General Fund and $65 million to occur in other funds.

**Creativity**

Large organizations can develop a significant amount of inertia often reflected in the phrase “this is how we’ve always done it”. In a single year, we revised a decades old budget process that resulted in over $35 million in savings. We did this by instituting a system whereby departments could achieve “credit” towards their required budget reductions by identifying savings early in the fiscal year. The department wins by reducing the services they’ll have to cut through the identification of efficiency savings and the community wins through the preservation of services. In addition, we made creative and effective use of multiple financial transactions that saved $91 million.

In a single year, we successfully brought about a new spirit of innovation throughout the organization that in two years has resulted in over $40 million in savings. The Innovation and Efficiency Task Force inspired employees at all levels of our organization to find new and better ways of doing business. This was accomplished through large efforts such as consolidation of departments and functions in order to reduce administrative costs and streamline operations. It was also accomplished through employee suggestions such as taking full advantage of our online payroll system by eliminating paper pay stubs and the mailing of open-enrollment documents (annual enrollment in healthcare plan).

Successfully carrying out this degree of change throughout the organization in such a short time took the creative efforts of many staff in many departments. Rapid institutional change can only happen when all levels of an organization are re-inventing how they do their work. Successfully embracing this spirit of innovation was our quantum leap.

**Champions, Planning/Development, and Benefits**

The innovative approach to balancing the budget was guided by four major champions: the Mayor and City Council, city management, employees and labor unions, and citizen groups, such as Citizens for Phoenix.

The Mayor and City Council proposed and adopted a temporary sales tax on food, which is always a political risk. Citizen groups like Citizens for Phoenix attended community budget hearings in support of the temporary sales tax on food in order to preserve important city services.

The City Manager and employee unions supported a 3.2% reduction to employee wages and benefits. This effort was vital to gaining public support for the temporary food tax because it demonstrated that employees were doing their fair share to help balance the budget and preserve services.

The City Manager championed the creation of the Innovation and Efficiency Task Force during a very difficult time given the recent history of previous budget cuts. Employees could have responded with skepticism and a lack of effort in the face of previous reductions in positions.

The largest benefactor of the innovation has been the citizens of Phoenix. By minimizing the impacts to service delivery, our community has more of the services it values such as public safety, youth and senior services, libraries, and public transit. These are the kinds of services that provide the quality of life our residents have come to expect and that make Phoenix such a great place to live and work. The City of Phoenix as an organization has also benefited by expanding our understanding of what we can achieve. Staff at all levels has learned the value of challenging assumptions and re-thinking our methods. This experience will continue to benefit the organization going forward as we continue to face new challenges.

**Initiation and Innovation**

Budget process: Budget and Research Department staff created a new system whereby departments could achieve “credit” towards their required budget reductions by identifying savings early in the fiscal year. The department worked closely with the City Manager’s Office and departments to achieve buy-in from staff. Budget and Research also provided written directions for the new process as well as one-on-one support to department staff.

Innovation and Efficiency Task Force: The task force is made up of both [city staff and members of the public. Private sector participation has been vital to bringing new perspectives and ideas for how best to deliver services. The task force members](http://www.phoenix.gov/citygovernment/efficiency/activities/ssLINK/1856/taskforcemembers.html) were initially organized into four action subcommittees: Department/function Consolidations, Right Sourcing and Service Cuts, Revenue Enhancements and Cost Recovery, and Process Improvement and Efficiency. A list of all city services was compiled and questionnaires were sent out to executives and managers seeking ideas for improvement in all of the categories listed above. Manager’s met with their staff to complete the questionnaires that were then returned to the task force. Task force members were also solicited for their suggestions and input. Ideas were selected for follow-up by staff and this information was provided to the task force members for discussion. The best ideas from these discussions were identified, proposed to City Council, and implemented.

Financial transactions: Finance Department staff evaluated our capacity to utilize short-term debt in lieu of cash to meet critical fleet equipment replacement needs. They took advantage of our excellent credit ratings and low short-term interest rates. Additionally, they conducted an extensive review of all our reserve funds to identify fund balances in excess of what was required to maintain our AAA bond ratings.

Employee concessions: City management worked with labor unions to develop a package of wage and benefit concessions. In part this was made easier by management’s leadership in freezing salary increases the previous year for all executives and middle managers, and committing to continue that freeze.

Community budget hearings: The foundation for developing the budget is community involvement. The first draft of the budget was presented at 15 budget hearings conducted throughout the community. Following a presentation describing the proposed budget, residents were invited to comment. At each of the hearings a Spanish language translator was available for citizens. In addition, the draft budget was made available at the hearings in English/Spanish, large print, and Braille format. It was also published in two local English newspapers, one local Spanish newspaper, and made available on the city’s website. Community members had an opportunity to comment in person, through e-mail, over the Internet through the city’s website, via mail, or by phone.

Public safety restoration plan: Staff looked for innovative ways to reconfigure current operations and save money. One such example was moving to a central booking facility versus booking directly at the County Jail. The city received settlement monies from a lawsuit regarding money wires. The money could only be used for law enforcement, and we used the funds as seed money for a central booking facility. The central booking facility was staffed with officers and administrative staff who could quickly book violators. Defendants would be held at the central booking facility and transported en masse to the county jail. This process allowed the arresting officer to quickly return to her beat versus the commonly occurring three hour wait time for processing prisoners directly at the county jail. Overtime usage was significantly reduced as a result.

**Innovation Environment**

Due to the national recession, we had to make major General Fund budget reductions to balance the budget in 2008-09 ($72 million) and 2009-10 ($156 million). In early 2009-10, as the economic situation continued to worsen, we realized that our total budgetary deficit for 2009-10 and 2010-11 would likely be $277 million. It was a high stress environment with employees worried about their jobs and everyone concerned with making more reductions to city services. One of the city’s policies that helped us to create and sustain our innovation efforts has been our commitment to placing staff, whose positions have been eliminated, into equal or lower positions that they are qualified to fill. This strong commitment on behalf of the city has greatly assisted with morale and our spirit of teamwork.

**Innovation Costs and Savings**

There were no significant additional costs associated with the execution of our multiple innovations. In total we were able to eliminate $213 million of the $277 million General Fund deficit using extensive innovation and collaboration to implement measures other than reductions to services.

**Lessons Learned**

The most important lesson learned is to involve each of the major affected groups in the solution to the problem. It seems basic; however, it is a very important lesson: involvement equals ownership in the process, which ultimately ensures the success of the solution. We brought together union and employee groups, city management, City Council and citizens to devise a solution to the problem of an historic General Fund deficit. There were many ways to balance our budget. Our solution had each group sacrificing something for the greater good of the whole group – the city of Phoenix as a whole.

This same lesson was also a key to the success of our Innovation and Efficiency Task Force. City staff at all levels of the organization were able to directly participate and thus this was not a “top down” process. We were able to achieve that kind of participation by in part showing our commitment to employees and the willingness of the management to make sacrifices along with staff. In addition, private sector participation not only brought new ideas but also brought credibility and public buy-in to the comprehensive nature of the effort.

Our success also expanded our understanding of the possible. We learned that even in an environment of shrinking resources, when we work together as a team, we can find new and innovative ways of doing business and improve the services we provide to our community.