TO: Honorable Mayor and Council
Members

FROM: Michael J. Ortega, P.E.
City Manager

SUBJECT: City Manager’s Recommended FY 19/20 Operating Budget

I am pleased to present to you the Fiscal Year 2019/2020 Operating Budget for the City of Tucson. For the consecutive year in a row, the budget is structurally balanced with projected expenditures equaling revenues. This memorandum provides a comprehensive overview of the budget, which was developed using the following general concepts:

1. Long Term Approach – Recommendations throughout the budget have been made with a focus on understanding the long term implications. We have tried to outline this approach, where appropriate, in the budget documents including this summary. Ultimately this long-term approach will be key to the implementation of our strategic goal of financial stability.

2. Flexibility – We are again placing emphasis on developing and enhancing our ability to provide services in our ever-changing world. This means all aspects of our service delivery must be challenged with an eye toward the future.

3. Continuous Review/Improvement – We must continue to challenge the way we do business, and during FY 19/20, we will expand our review to include budget line item analysis to assure alignment with strategic goals. The review will be exhaustive, and it is my expectation that it will take most of the year, if not longer, to complete. During the next 12 months, we will also embark on a strategic planning effort to develop actionable items that can further measure our progress.

4. Employee Centric – We have been focusing on our organization’s greatest asset, our employees, for the past several years. This focus will continue through the provision of additional training and development of our employees as we move towards an across-the-board performance evaluation system. Our plan is to develop the approach and instrument for performance evaluations during FY 19/20 for implementation during FY 20/21.

5. Capital Investment – Investing in our capital needs will continue to be a challenge for our organization. We have included $6.1 million in the General Fund budget for investment in capital needs including technology, but we must remain mindful that our needs far outweigh available resources. During FY 19/20, we will develop and establish a broader capital improvement program to assist us in planning and addressing our capital needs. This will include challenging our replacement strategies as well as exploring funding opportunities.
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This memorandum is broken into six sections: FY 18/19 Overview, FY 19/20 Budget Approach, General Fund, Special Revenue, Enterprise Funds, and Beyond FY 19/20. Please keep in mind this memo is intended to provide you with an overview of the various programs and initiatives we plan to explore or implement as a part of FY 19/20 and beyond.

I. FY 18/19 Overview

We continue to see an upward trend in Business Privilege Tax, our major revenue source, with retail and restaurant growth exceeding projections and one-time construction sales taxes playing a major role in the revenue increase. The federal tax package and regulatory reform has helped fuel consumer confidence, and indicators show that modest growth will continue absent a major financial shock.

The following table provides summary information on the FY 18/19 General Fund projections based on third quarter results with a comparison to the adopted budget. Included in the table is the amount assigned for the use of Cash Carryforward and the amount projected to be spent.

<table>
<thead>
<tr>
<th>Fiscal Year 2018/19 ($ millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Description</td>
</tr>
<tr>
<td>Revenues</td>
</tr>
<tr>
<td>Expenditures</td>
</tr>
<tr>
<td>Difference</td>
</tr>
<tr>
<td>Use of Cash Carryforward</td>
</tr>
</tbody>
</table>

FY 18/19 Revenues

The General Fund Adopted Budget revenues were estimated to be $534.7 million. The projected revenues based on third quarter results are $551.4 million; an increase of $16.7 million or 3.1% from the Adopted Budget. Listed below are the explanations for the major changes in our revenues:

- Business Privilege Taxes - The projected taxes are $220 million; an $8.6 million or 4.1% increase from the adopted $211.4 million. The economy continues to be strong, with low inflation and low unemployment. The sales tax categories which increased the most are retail, restaurant sales, and construction. Construction sales tax (one-time revenue) continues to increase due, in part, to the multiple large construction projects underway.

- Use Taxes - The projected taxes are $12 million; a $2.3 million or a 23.7% increase from the adopted $9.7 million. Out-of-state vendors do not generally charge sales tax, so when a customer buys goods or consumes tangible personal property, a use tax is paid at the same rate as the City’s sales tax. Use Tax, like sales tax, is dependent on local and national economic trends. As the economy improves, as it has in recent years, these revenues grow.
• Transient Occupancy Tax - The projected taxes are $13 million; a $1.8 million or 16.2% increase from the adopted $11.2 million. The increase in this revenue can be attributed, in part, to Visit Tucson aggressively marketing our city using different marketing strategies generating increased leisure travel and conference bookings. According to Visit Tucson data, local hotels are commanding a higher daily room rate than in prior years.

• State-shared Taxes - The projected income, sales and auto lieu taxes are $143.9 million; a $0.5 million or less than 1% increase from the adopted $143.4 million.

• Ambulance fees - The projected revenues are $12.8 million; a $2.6 million or 26.5% increase from the adopted $10.2 million. The adopted amount was based on a conservative estimate.

• Licenses and Permits - The projected revenues are $31.7 million; a $0.9 million or 2.8% decrease from the adopted $32.6 million. The majority of this decrease is from building permit and inspection revenues.

• Sale of Property - The adopted budget did not assume any sale of real property during the fiscal year. However, the City-owned property (15.49 acres) between the Santa Cruz River and La Cholla Boulevard, South of Prince Road and River Park Drive was sold for the amount of $0.9 million. This sale was approved by Mayor and Council on May 8, 2018.

**FY 18/19 Expenditures**

Ongoing expenditures exclude those costs covered by Cash Carryforward. The General Fund Adopted Budget recurring expenditures including transfers to other funds, is $534.7 million. The projected annual expenditures based on third quarter results indicate an increase of $8.6 million or $543.3 million. The explanations for the variance are listed below.

• Vacancy Savings - Last quarter’s vacancy savings are projected to be $4.6 million through the end of the fiscal year. Continued savings is an indication of employee turnover and the time it takes to fill positions.

• The Adopted Budget included reductions in costs due to department efficiencies ($3.3 million), City/County Court Consolidation ($1 million), Jail Board cost reduction ($2 million), and transit efficiencies ($2.0 million) for a total of $8.3 million. While we did achieve the transit efficiencies, we will need to revisit the potential departmental efficiencies in the coming year. The City/County Court consolidation did not occur and the Jail Board cost reduction will not occur until after the transition to Pre-Trial Services.

• As a result of increased transient occupancy and bed surcharge revenues, the City’s revenue sharing arrangement with Visit Tucson and the Arts Foundation for Tucson and Southern Arizona (AFTSA) is expected to generate payment increases. Visit
Tucson payment is projected to increase by $1.2 million above the Adopted Budget of $4.8 million. The Arts foundation second quarter projection is $0.7 million, an increase of $0.2 million over the adopted budget of $0.5 million.

- The General Fund contribution for the zoo is not expected to be spent; saving $1.5 million. Other expenditure savings include animal care ($0.3 million), transfers to other funds ($0.8 million), debt service ($0.3 million) and delay of the Communication Center renovation ($0.2 million).

Based on the outcome of previous lawsuits surrounding Senate Bill 1609, passed by the Arizona Legislature in 2011, the Public Safety Personnel Retirement System (PSPRS) Board of Trustees reached the conclusion that the creation of a Tier 1b member class with different benefits almost certainly would be found unconstitutional if challenged in court. The PSPRS Board decided to roll back the Contributory Deferred Retirement Option Plan (DROP) for the Tier 1b members. The City will be required to refund contributions plus interest to employees in the DROP. The refunds are projected to cost the City $0.9 million and are anticipated to be paid to employees by June 30, 2019. If the refunds are not paid by the end of the fiscal year, I will be setting aside Cash Carryforward to make these payments at the beginning of FY 19/20. As discussed with Mayor and Council, the payments will be funded by FY 18/19 net revenues.

As discussed at the January 28, 2019 Mayor and Council Retreat, the City has an opportunity to redeem the Series 2009, Water Revenue Bonds and the Series 2009, Rio Nuevo Certificates of Participation (COPs) by June 30, 2019. Funding to redeem the remaining principal amount of $3.7 million for the Water Revenue Bonds will come from the Water Utility Fund Cash Carryforward. This redemption will save $0.6 million in interest and will provide additional annual cash flow from $2.5 million to $0.2 million over the next 10 years. Funding to redeem the remaining principal amount of $6.6 million for the Rio Nuevo COPs will come from FY 18/19 net revenues. This redemption will save $1.2 million in future interest payments and will provide an additional annual cash flow of $1.3 million.

II. Fiscal Year 19/20 Budget Approach

The approach to crafting the FY 19/20 Recommended Budget was similar to what we have used in previous years. New to this year, the department directors presented on their budgets to the entire Executive Leadership Team (ELT) and other key staff. The resulting discussions identified successes and challenges on departments are facing and allowed ELT to collaborate on ways to address these challenges. Ultimately, this effort will lead to an exhaustive analysis over the course of FY 19/20, and beyond, to ensure resource allocation alignment with our strategic goals.

Employee Compensation

We began the discussion on the Employee Retention Plan three years ago and have, over the course of the years, through your leadership and support, implemented the Plan as designed. As an employee focused organization, it is vital that we compensate our employees commensurate with the market in order to hire and retain the best in order to provide excellent customer service
for our community. Since November 2016, we have employed various compensation strategies, including one-time distributions, 2.5% and 2% annual salary increases, decompression of public safety commissioned employees, and specific employee categories where recruitment and retention are challenging. We have expanded employee benefits to include additional vacation leave accrual, parental leave, and LifeCare, which helps employees with aging parent and child care needs.

For FY 19/20, we will focus on the lowest paid 40 classifications which do not include public safety commissioned officers, skill-based pay, or magistrates. The first step will be to bring those 40 classifications to market equivalency and to decompress those positions. The next step is to raise the wages of 28 employees to a new minimum of $13.20 per hour. Fire and Police command staff, along with all other non-commissioned classifications, will be decompressed. This decompression may not align with market and assumes that work performance is at least satisfactory to move through the pay scale. The total projected cost is $8.7 million, with the General Fund estimated at $5.1 million and all other funds at $3.6 million. I am also recommending a one-time distribution to employees in an amount not to exceed $1,500 per employee, as illustrated in the Employee Retention Plan. Since the amount will depend on the FY 18/19 year-end results, I will let you know the results before directing this payment to be made later this fall.

Health Self-Insurance Trust

On March 5, 2019 the ordinance amending the Tucson City Code for the purpose of establishing a Self-Insurance Trust Fund and Board of Trustees was approved. Under the self-insurance model the City retains full control of all funding decisions and plan design options including selection of the healthcare network and all investment decisions. CIGNA will remain the City’s service provider and third party administrator for claims. Mayor and Council also approved funding the employee’s portion of a 6.6% health increase in FY 19/20. The medical increase amount citywide is $2.5 million from the adopted budget of $45.8 million to $48.3 million for FY 19/20. The General Fund FY 19/20 amount will be $34.5 million, an increase of $1.8 million from the FY 18/19 amount of $32.7 million. The Health Insurance Trust Fund is an Internal Service fund much like the Self-Insurance Risk Management Fund. The revenues recorded in the fund mainly come from employee, employer and retiree payments, along with pharmacy rebates. The budget includes capacity for medical claims payments, stop loss premiums, Cigna administration fees, funding the reserve account, staff salaries and the City's new enrollment system. For FY 19/20, the Recommended Expenditure Budget for the fund is $72.8 million. Since this is the first year for this fund, the following table identifies the different components of the fund.
As you can see from the table above, depending on the amount of medical claims for the fiscal year, we are projecting to have a fund balance of $3.4 million to carry forward to future years.

**Use of Cash Carryforward**

We manage our funds for financial stability. One strategy that we successfully use is to assign cash carryforward to address one-time needs. The chart on the following page illustrates the cash carryforward assigned at June 30, 2018 as discussed during the budget process; the amount we are planning to spend during FY 18/19; the remaining balance from those assignments which will carryforward to FY 19/20; other amounts recommended to designate for use during FY 19/20; and the recommended total for assignment at July 1, 2019.

As shown in the table on the following page, I am recommending assignment of cash carryforward for the one-time items in the amount of $12.6 million. The Recommended Budget also includes the use of $0.5 million from the fuel contingency account and $1.0 million from the vehicle replacement/maintenance fund. During FY 19/20, the $0.4 million from the self-insurance medical plan set aside will be transferred to the new Employee Benefit Trust Fund increasing the potential reserve in this fund to approximately $3.8 million.
II. Cash Carryforward

<table>
<thead>
<tr>
<th>Cash Carryforward</th>
<th>Adopted as of June 30, 2018</th>
<th>FY 18/19 Projected to Spend</th>
<th>Amount to Carryforward to FY 19/20</th>
<th>CCF Recommendation FY 19/20</th>
</tr>
</thead>
<tbody>
<tr>
<td>Distribution to employees</td>
<td>2,700,000</td>
<td>(2,700,000)</td>
<td>0</td>
<td>4,000,000</td>
</tr>
<tr>
<td>Fire Fighter Recruit Class</td>
<td>1,087,080</td>
<td>(1,087,080)</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>ERP (accounting software)</td>
<td>1,500,000</td>
<td>(1,500,000)</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>IT Required Hardware</td>
<td>506,000</td>
<td>(506,000)</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>Permitting System</td>
<td>1,483,300</td>
<td>1,483,300</td>
<td>1,483,300</td>
<td></td>
</tr>
<tr>
<td>Time Keeping System</td>
<td>133,700</td>
<td>(133,700)</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>Fiber Optic (Ohio St)</td>
<td></td>
<td></td>
<td>0</td>
<td>500,000</td>
</tr>
<tr>
<td>City Hall Elevator (do over 2 fiscal years)</td>
<td></td>
<td></td>
<td>0</td>
<td>650,000</td>
</tr>
<tr>
<td>Temp Analysts for Compensation</td>
<td></td>
<td></td>
<td>0</td>
<td>379,600</td>
</tr>
<tr>
<td>Renovation for Business One-Stop</td>
<td></td>
<td></td>
<td>0</td>
<td>716,420</td>
</tr>
<tr>
<td>Parks &amp; Rec Equipment</td>
<td></td>
<td></td>
<td>0</td>
<td>179,800</td>
</tr>
<tr>
<td>Technology</td>
<td></td>
<td></td>
<td>0</td>
<td>1,315,860</td>
</tr>
<tr>
<td>Elections &amp; Campaign Finance</td>
<td></td>
<td></td>
<td>0</td>
<td>1,720,000</td>
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<tr>
<td>Census 2020</td>
<td></td>
<td></td>
<td>0</td>
<td>200,000</td>
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<tr>
<td>Fuel Contingency Account</td>
<td>500,000</td>
<td>500,000</td>
<td>500,000</td>
<td></td>
</tr>
<tr>
<td>Operating Contingency</td>
<td></td>
<td></td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>Vehicle Replacement/Maintenance</td>
<td>89,250</td>
<td>(89,250)</td>
<td>0</td>
<td>1,000,000</td>
</tr>
<tr>
<td>Building Maintenance</td>
<td>679,690</td>
<td>(420,000)</td>
<td>259,690</td>
<td></td>
</tr>
<tr>
<td><strong>Totals</strong></td>
<td>$8,679,020</td>
<td>$(6,436,030)</td>
<td>$2,242,990</td>
<td>$12,644,980</td>
</tr>
</tbody>
</table>

III. General Fund Overview

The following table provides a comparison of the FY 18/19 Adopted Budget, the FY 18/19 projections based on third quarter results and the FY 19/20 Recommended Budget.

<table>
<thead>
<tr>
<th>Description</th>
<th>FY 18/19 Adopted Budget</th>
<th>FY 18/19 Projected</th>
<th>FY 19/20 Recommended</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenues</td>
<td>$534.7</td>
<td>$551.4</td>
<td>$566.4</td>
</tr>
<tr>
<td>Expenditures</td>
<td>(534.7)</td>
<td>(543.3)</td>
<td>566.4</td>
</tr>
<tr>
<td>Difference</td>
<td>-0-</td>
<td>$8.1</td>
<td>-0-</td>
</tr>
<tr>
<td>Use of Cash Carryforward</td>
<td>$8.7</td>
<td>$6.4</td>
<td>12.6</td>
</tr>
</tbody>
</table>

Revenues

The General Fund Estimated Ongoing Revenues are $566.4 million, an increase of $15 million or 2.7% from the FY 18/19 Projected Year End Revenues based on third quarter results of $551.4 million. Listed below are the explanations for the major changes in our revenues:

- Business Privilege Taxes. The estimated taxes are $228.3; an $8.3 million or 3.8% increase from the FY 18/19 projected revenues based on third quarter results of $220 million. In June 2018, the U.S. Supreme Court overturned in South Dakota v. Wayfair prior rulings, which had held that only businesses with a physical presence (“nexus”) inside a state be required to collect that state’s sales tax. The Wayfair ruling paved the way for states to start collecting sales tax from out-of-state (“remote”) sellers. Prior to this ruling, buyer of goods from remote vendors were legally required to pay use tax
on such purchases. In practice, however, the use tax compliance among consumers was low. We do not have a clear projection as to the impact this will have for the City, but the State estimates 0.7% increase from its base revenues. If we use this same estimate, the business privilege tax could increase by $1.5 million. However, it is unclear what legal actions the State must take before tax from remote sellers can be collected. Due to this uncertainty, the revenue projections do not include any increases from the Wayfair ruling.

• State Shared Income Taxes. The estimated income taxes are $71 million, a $6.1 million or 9.4% increase from the FY 18/19 Projected Year End Revenues based on third quarter results of $64.9 million. Fifteen percent (15%) of the combined Individual Income and Corporate Tax Revenue base is shared with cities on a two year lagging basis (two years after the year the state collects the funds). FY 19/20’s expected distribution to the City of Tucson is therefore based on the State's final tax collections in FY 17/18. Per the JLBC, tax collections in the Individual category grew in FY 17/18 by 10% over the prior year, while the Corporate category grew by 1.3%. As the Individual category represents over 90% of the total collection amount, the rate of growth in this category drives the overall tax collection growth of 9.4% over FY 16/17’s collection level.

• State shared sales taxes. The estimated sales taxes are $55.4 million, a $1.9 million or 3.6% increase from the FY 18/19 Projected Year End Revenues based on third quarter results of $53.5 million.

• As allowed by the Arizona State Constitution, I am proposing to increase the Primary Property Tax to an amount not to exceed 2% greater than the maximum allowable levy from the preceding year plus new construction. As we have done in the past and per ARS 42-17102, I am also proposing to include in the Primary Property Tax levy the involuntary torts or claims paid in FY 17/18. The proposed tax rate is $0.4555 per $100 of assessed valuation, a decrease of $.0756 due to the decrease of the tort liability claims from $2,555,580 to $265,140. The total amount of Primary Property Taxes is projected to be $16,296,200 of which $16,031,060 would be General Fund revenue and $265,140 (the tort liability assessment) would be deposited in the Self-Insurance Fund. The FY 18/19 Primary Property Tax rate was $0.4562 and the involuntary torts amount allocated to the Primary Property Tax was $0.0749 for a total of $0.5311 per $100 of assessed valuation. The total FY 19/20 Primary Property Tax rate will be $0.4555 including $0.0074 from involuntary torts.

• Licenses and Permits - The estimated revenues are $32.7 million, a $1.2 million increase or 3.5% change from the FY 18/19 Projected Year End Revenues, based on third quarter results of $31.7 million. The majority of this change is due to expected growth in building permits, inspections, and cable television licenses.

• Hotel/Motel Surcharge - The estimated revenues are $7.9 million, which is flat from the FY 18/19 Projected Revenues based on third quarter results. The projection assumes retaining the $4 per room per night fee and no increase in the number of room nights over FY 18/19. As Mayor and Council directed, $2 million of this
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revenue will be set aside to transfer to the Environmental Service Fund. It is likely
that this revenue will increase as new hotels are built throughout the City.

Expenditures
I have had several conversations with Mayor and Council on the strategies to balance the General
Fund budget since the retreat on January 28, 2019. As we have done in prior fiscal years, we will
continue to review and change when necessary the organizational structure of the City to ensure
that we are working as efficient as we can to provide necessary services to the community. We
will continue to monitor requests for additional staff in order to manage ongoing costs for the
future.

Expenditure changes are discussed further in this memorandum.

General Government
One-Time Distribution of $4.0 million General Fund – along with the increase in minimum wage
and decompression for our lowest paid employees, I am also recommending a one-time
distribution using the same criteria for the distribution as in prior years. The amount will be up to
$1,500 per employee, depending on FY 18/19 year-end results.

Economic Development
Economic development will continue to be an important focus area for our organization and
community. Although the proposed budget for economic development did not change, the
emphasis based on Mayor and Council direction will be to review all of our economic
development incentives and make adjustments as needed to address or take advantage of market
forces. Specifically, we will be looking at the expansion and possible creation, of infill incentive
areas/districts. This economic development work will go hand-in-hand with our efforts to update
our Comprehensive General Plan, known as Plan Tucson.

Annexation
We will continue to focus on annexations throughout the region, including working with the
Arizona State Land Department on the annexation and ultimate development of its vacant land.

Visit Tucson $6,125,480 Million
Per Arizona Revised Statute 9-500.06, the City must allocate one-third of Transient Occupancy
Tax (TOT) collections exclusively for the promotion of tourism. The agreement with Visit
Tucson provides for additional funding once the City’s share of the Transient Occupancy Tax
(TOT) and half of the hotel/motel room surcharge revenues combined are greater than $9.4
million. Including projected additional funding, the FY 19/20 budget is $6 million. The actual
amount of TOT and room surcharge collections will be determined with the completion of the
City’s FY 18/19 audited financial statements. The table on the following page illustrates the
amounts we have invested in Visit Tucson over the past five years.
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<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>34% TOT</th>
<th>Additional Funding</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015/16</td>
<td>$3,517,518</td>
<td>$549,387</td>
<td>$4,066,905</td>
</tr>
<tr>
<td>2016/17</td>
<td>$3,767,079</td>
<td>$843,044</td>
<td>$4,610,123</td>
</tr>
<tr>
<td>2017/18</td>
<td>$4,200,999</td>
<td>$1,278,833</td>
<td>$5,479,832</td>
</tr>
<tr>
<td>2018/19</td>
<td>$4,431,414</td>
<td>$1,544,598</td>
<td>$5,976,012</td>
</tr>
<tr>
<td>2019/20*</td>
<td>$4,493,460</td>
<td>$1,632,020</td>
<td>$6,125,480</td>
</tr>
</tbody>
</table>

* Recommended Budget – actual amount may change depending on FY 18/19 year-end results

**Arts Foundation for Tucson and Southern Arizona (AFTSA) $660,000**

The Financial Participation Agreement amount for AFTSA is $350,000. Included in this agreement is a provision which provides AFTSA with additional funding. The formula is as follows: once the City’s share of the TOT and half of the hotel/motel room surcharge revenues combined are greater than $9.4 million, the City will share 10% of the combined increase with AFTSA paid in the following fiscal year. AFTSA sets aside 15% of the additional revenues for City public art maintenance. For FY 19/20, the total amount designated for AFTSA is $660,000; of which $350,000 is the FPA amount and $310,000 is the additional funding. The actual amount of additional funding may change depending on FY 18/19 year-end results.

**Jail Board $4,900,000 Million**

We had anticipated that Pima County would have instituted Pre-Trial Services, which would control/reduce jail costs by conducting release screenings prior to the booking of defendants. Unfortunately, the construction was delayed. These efforts are underway and we continue to project $2 million in savings to the City through reduced Jail Board costs.

**Pima Association of Governments (PAG) $298,000**

No changes to the funding of PAG are proposed as a part of the FY 19/20 budget. The total member contribution is $298,000 with the funding split between the General Fund ($98,420), the Water Utility Fund ($99,000), and the Highway User Revenue Fund ($100,580). Please note $200,000 to support the Census campaign will appear in the budget under PAG but is projected to be funded from Cash Carry Forward (CCF) as it is a one-time expenditure.

**Census Support $200,000**

The upcoming 2020 Census is very important because the Census population numbers are used in formulas which determine how funding is allocated to the City. We are working with our regional partners on a strong marketing campaign to ensure everyone is counted. As mentioned above, I am proposing $200,000 from CCF for FY 19/20 in support of this campaign.

**Community Outreach $200,000**

I am recommending a General Government budget of $200,000 to cover the costs of community outreach and to support community events not already in the budget. One example of this is an annual $60,000 to maintain Davis-Monthan Airforce Base advocacy efforts.

**Funding Support is Provided for Certain Civic Events:**

There are no funding changes proposed to Outside Agencies or certain civic events in the FY 19/20 Recommended Budget. As in years past, the amounts proposed are for Veterans Day Parade, $8,000; Martin Luther King Jr.Walk, $8,000; and Cesar Chavez Walk, $8,000.
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Animal Care $4,800,000 Million

The City continues to be an active member of Pima Animal Care Center Partners (PACC). Beginning in FY 19/20, the methodology to calculate the City’s contractual commitment for animal care services will change. Previously, the City paid for animal care service based on program cost assignments using allocations based on cost drivers, such as number of licenses issued, number of animals received at PACC, number of field service calls, and population of animals spayed or neutered. For FY 19/20, we are proposing the City pay Pima County a flat fee of $4.8 million. The Intergovernmental Agreement (IGA) has not yet been finalized. Additional information will be provided to you prior to the presentation of the IGA. Approximately $1.1 million annually is collected from animal license fees and $16,540 is collected from animal control fines which offset a portion of the City’s cost.

Outside Agencies

The Recommended FY19/20 Budget includes funding support for specific services provided by other agencies. No changes to funding for outside agencies are proposed as a part of the FY 19/20 budget. The following table lists the Recommended Contracts for Services or Funding for your information.

<table>
<thead>
<tr>
<th>General Fund Contracts for Services or Funding Support</th>
</tr>
</thead>
<tbody>
<tr>
<td>General Fund</td>
</tr>
<tr>
<td><strong>Adopted FY 18/19</strong></td>
</tr>
<tr>
<td><strong>Recommended FY 19/20</strong></td>
</tr>
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<td>Arts Foundation for Tucson and Southern Arizona</td>
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<td>Veterans Day Parade</td>
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<td>Martin Luther King Jr. Walk</td>
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<td>Cesar Chavez Walk</td>
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<td>Victim Witness</td>
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<td>Human Services Requests for Proposals</td>
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<td>Metropolitan Education Commission</td>
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<td>Economic and Workforce Requests for Proposals</td>
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<td>Tucson Downtown Partnership</td>
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<td>Visit Tucson</td>
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<td><strong>Total Contracts and Funding Support</strong></td>
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Mayor and Council

General Fund $3,639,590
Civic Contribution Funds $46,300

The Recommended Budget includes an additional $45,000 for the Mayor and each ward office to provide constituent services.
TO: Honorable Mayor and Council Members  
SUBJECT: City Manager’s Recommended FY 2019/2020 Operating Budget

**City Clerk**

General Fund $2,766,160

No significant changes from FY 18/19 to FY 19/20. The $1.7 million for the primary and general elections is reflected in the General Government Recommended Budget and is funded by CCF.

**City Court**

General Fund $11,399,930
Other Federal and Grant Funds $1,316,020

City Court recently requested to become an Arizona Court Automation Project (ACAP) court. They are the last court using the Arizona Judicial Automated Case System to do so. This change will provide better service to the public along with improved efficiencies for court staff. Also, City Court is the recipient of two grants. The goal of the Regional Municipalities Veterans Treatment Court (RMVTC) is to improve responses to all aspects of the civil and criminal justice system for veterans and address the needs of defendants for such items as housing and medically assisted drug treatment. The goal of the second grant, Domestic Violence (DV) is to improve responses to all aspects of the civil and criminal justice system for families impacted by domestic violence. The DV grant is a continuation of the DV grant which began Oct 1, 2018 and goes for three (3) years. Funding is for improved responses to all aspects of the civil and criminal justice system to families with a history of domestic violence, dating violence, sexual assault, stalking, or in cases involving allegations of child sexual abuse.

**Public Defender**

General Fund $3,155,730

The Recommended Budget includes the salary and benefit adjustments plus the addition of one Public Defender Full Time Equivalent (FTE).

**Tucson Police Department (TPD)**

General Fund $164,080,030
Federal and Non-Federal Grants $16,842,170
Civic Contributions $7,830

In February 2019, Chief Chris Magnus provided Mayor and Council with an update on police officer retention rates since the Recruitment/Retention Pay Adjustment for police officers and sergeants went into effect at the end of June 2018. The department had been struggling with an unacceptably high attrition rate between eight to nine officers a month. As many as three of these eight to nine officers were leaving to take jobs in other police agencies while the others were retiring or leaving for reasons related to such things as medical disabilities, etc. From July 1, 2018, through April 1, 2019, the attrition rate dropped significantly, averaging four officers per month. Using September 2018 through April 1, 2019 data, the attrition rate was 2.85 per month. This represents a significant improvement.
As in prior years, we will continue to add an additional 20 police officers. The FY 18/19 Adopted Budget authorized sworn police positions were 866. During the fiscal year, a sergeant position was eliminated and two detective positions added for total of 867. The detective positions are grant funded for three years specific to the investigation of domestic violence crimes. The funding for the positions will end on September 30, 2021. The plan is to eliminate these positions at this time. With the addition of 20 new positions in FY 19/20 the total authorized sworn police positions will be 887. The budget amount for these positions in FY 19/20 is $1.5 million for salaries, training and equipment.

I am also recommending an increase in Community Service Officers (CSOs), adding 10 new positions exclusive of the 10 CSOs for the Park Ranger Program. These professional staff members play an extremely valuable role in handling low level calls and quality-of-life issues within our community, freeing up sworn officers to address emergency calls for service. The cost for these additional positions is $580,000. TPD currently has 57 authorized CSO positions. With this addition of 10, TPD will have 67 authorized CSO positions.

Our crime lab is considered the go-to agency when it comes to analyzing and fighting crime through science. Beginning in FY 19/20, the crime lab’s budget will increase by $66,750 for DNA analysis processing. I am also including in the budget one-time funds for the upgrade of the laboratory information management system ($72,850) and for a firearms microscope ($80,000).

**Tucson Fire Department (TFD)**

General Fund $101,136,290  
Federal and Non-Federal Grants $1,093,710  
Civic Contributions $48,470  
Self-Insurance Internal Service Fund $301,540

I continue to challenge departments to provide customer service in the most effective and efficient way. Last year, I appointed an individual to work with TFD staff to review the operations of the department. Several suggestions have been presented, including some organizational changes to help manage the department’s challenges.

Major challenges for TFD are the high emergency call volume and the ever changing community service demands. TFD developed a plan to incorporate civilian Emergency Medical Technicians (EMT) into the department. The goal is to expand service delivery, help stabilize cost, increase flexibility, and provide for peak staffing during high call volume times. This plan is still evolving and is expected to be implemented by the end of the calendar year. Another challenge with the current organizational structure is that deputy and assistant chiefs are assigned to administrative functions on a two-year cycle. This creates a learning curve and momentum is lost in these functional areas until the new individual is brought up to speed. I recommend hiring civilians to fill these administrative positions in an effort to provide efficient administrative support. To set up the EMT new program and to provide a consistent administrative support group, I am recommending 17 new civilian FTEs: one Emergency Medical Service Manager, seven Emergency Medical Technicians, one Paramedic, one Logistics Administration and one Prevention Administrator. The estimated cost for the 17 positions is $1.2 million.
Filling vacant firefighter positions will help reduce overtime. I am recommending holding a recruit class and authorizing $1 million of one-time funding for this effort. Recruits who graduate from the academy will fill the vacant positions and the remaining will overfill existing positions until a new position becomes vacant. My intent is to continue this practice in the future. The department has been instructed to move forward with initial hiring for the new class in FY 18/19.

**Public Safety Communications Department (PSCD):**

General Fund $13,947,520

The Recommended Budget includes salary and benefit adjustments. There are no other significant changes from FY 18/19 to FY 19/20.

PSCD continues to move forward with the approved plans for service integration and facility improvements that will ultimately lead to the development of a 311 customer service center to include Tucson Water and Environmental Services Utility Account Representative Specialists. The planned facility improvements will result in a one-time cost to the City estimated at $5.1 million, with funding provide from Enterprise and General Funds.

**Mass Transit**

Mass Transit Fund $94.1 million funded with a General Fund investment of $47.4 million

Sun Link Fund $6.1 million funded with a General Fund investment of $3.6 million

Self-Insurance Internal Service Fund $1,420,000.

The Mass Transit Fund includes Sun Tran, Sun Van, and Transit Services. The financial plan for FY 19/20 maintains current service levels. Staff will collaborate with the Planning and Development Service Department to support transit-oriented development and promote the Universal Access Program. Along with this work, focus will be on transit safety, security, and beginning the electric bus pilot project. Included in the financial plan is $0.2 million for the lease payment on the electric bus. The financial plan also includes the purchase of 23 Sun Van vehicles. Sun Tran is ordering 15 buses in FY 19/20, but these will not be received or paid for until FY 2020/21.

The Mass Transit Fund for FY 19/20 is forecast to require a transfer from the General Fund that will be higher than the amount transferred in FY 18/19. The transfer in FY 18/19 is projected to be $44.6 million and will increase to $47.4 million. Contributing to the increase is a projected reduction in farebox revenue from the FY 18/19 estimated actual of $13.5 million to $12.6 million in FY 19/20. Farebox revenue correlates to ridership, including both cash and prepaid fares. The FY 19/20 projection is anticipating the continued trend of declining ridership, the potential for ridership loss from the relocation of service from the Ronstadt Transit Center during possible redevelopment construction, and from change of revenue allocation to Sun Link and other modes using the automated passenger counter data. Additional expenditures are programmed in FY 19/20 for wage, benefit, and maintenance cost increases.

A subsidy reduction of $0.2 million is forecast for the Mass Transit Sun Link Fund. This reduction is due to projective higher farebox revenue from the FY 18/19 projection of $0.9 million to $1.3 million. The $0.4 million increase is due to the reallocation of revenues to
Sun link from Sun Tran using the automated passenger counter data. The Regional Transportation Authority (RTA) contribution is projected to be $1.2 million, the same as last fiscal year. The RTA funding will end after FY2022/23.

The Mass Transit – Sun Link Fund for FY 19/20 is forecast to reduce the subsidy from the General Fund for operations of $0.2 million. The decrease is due to projected higher farebox revenue from the FY 18/19 projection of $0.9 million to $1.3 million. The $0.4 million increase is due to the reallocation of revenues to Sun Link from Sun Tran using the automated passenger counter data. The Regional Transportation Authority (RTA) contribution is projected to be $1.2 million, the same as last fiscal year. The RTA funding will end after FY 2022/23.

**Parks and Recreation Department (P&R)**

General Fund $27,469,550  
Federal and Non-Federal Grants $560,150  
Civic Contribution Fund $1,388,800

The Parks and Recreation department continues to focus on the priorities of the Parks and Recreation System Master Plan along with planning for the implementation of the initial phase of the voter approved 2018 parks bond and Reid Park Zoo capital projects. Staff has been actively engaged in redesigning how department operations, with the focus on core services and improved standard service delivery through internal efficiencies and partnerships. The previous “geographic district” concept has been replaced with a single “one department” structure and perspective, in keeping with the One City, One Team philosophy. It is anticipated that all redesigning efforts and changes in priorities will be done within the same allocated budget amount.

Currently, and moving into FY 19/20, Parks and Recreation has funding to reopen three facilities (Ormsby Center, Estevan Center and Oury Pool) and upgrade fitness equipment in eight high-use recreation centers. Parks and Tucson Police Department will introduce ten Park Rangers (Community Service Officers) to enhance safety, and respect for park rules and the public landscape. We will also introduce Park Ambassadors (B Shift park maintenance workers), splitting the week into two halves with overlapping coverage of the busier weekend days and evenings. Park Ambassadors will team with Park Rangers for increased visibility and a friendly, neighborly presence while tending to park maintenance needs during the late afternoon hours to dusk. The department continues to be creative with the introduction of the "Fun On The Run" mobile recreation vehicle for quality recreation programming outreach into under-served neighborhoods. Parks staff also will create a Tucson Neighborhood Landscape Design Center, advance the Community Landscape Maintenance Standards and Practices program, and initiate the implementation of Organic First Tucson weed management program in Tucson parks.

**Transportation (TDOT)**

General Fund $656,240

TDOT administration functions receive funding from the General Fund for the storm water program. The Recommended Budget includes salary and benefit adjustments.
Environmental and General Services Department (EGSD)

General Fund $51,255,170

The Energy Performance Contracting (EPC) is expected to be completed near the end of FY 18/19. If contracting work is not completed by June 30, 2019, then the remaining amount from the $2.5 million will carry forward to FY 19/20. Of the three initial projects selected, energy efficient lighting is being installed at Udall and Liggins parks, while a more efficient cooling system is being installed at the Donna Liggins Center. Preliminary estimates are that the modifications should yield almost $200,000 per year in energy savings over the projects’ 15-year life. Based on the outcomes of these pilot projects, the City may move forward with more aggressive and widespread investment using this contracting model.

The department is also leading the City’s solar installation initiative that ultimately will install production arrays at up to 46 sites across the city with production generating capabilities of up to 13.7 megawatts. Four sites have been completed so far: Udall Park, Donna Liggins, Freedom Park, and Quincie Douglas Park. Six additional sites are either under construction or will begin construction during the spring of 2019. These include the following: Lighthouse YMCA, Randolph Golf Course, Golf Links Sports Complex, Edith Ball Adaptive Recreation Center, Reid Park, and Parks & Recreation Administration Building.

City Attorney

General Fund $8,103,880
Federal and Non-Federal Grants $248,600

The Recommended Budget includes the salary and benefit adjustments plus the addition of a legal secretary to support the litigation unit in Risk Management.

Planning and Development Services Department (PDS)

General Fund $7,687,180
Federal and Non-Federal Grants $31,920

PDS plays an essential role in the City’s economy through regulation of land development and associated building construction. Over the last three years, the department has improved customer service through culture change, updated technology, and continuous process improvement. The department’s current focus is on rebuilding professional staff, implementing a new permitting system and, creating a One-Stop Development Center to better serve the community. The Recommended Budget includes three FTE’s at a cost of $300,000 to manage the volume of complex development applications. These additional resources will help meet statutory review timelines and respond to the recent building demand. I have also included an additional $235,000 in their budget to cover the increasing costs for temporary labor required to help with the overflow.
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Business Services Department (BSD)
General Fund: $12,573,300
Self-Insurance Internal Service Fund $11,318,880
HURF Fund $1,273,340
Water Utility Fund $730,250

Aside from salary and benefit adjustments, BSD eliminated one vacant FTE as a result of the consolidation of TFD and TPD logistics.

Human Resources (HR) Department
General Fund $4,994,920
Self-Insurance Internal Service Fund $11,413,220
HURF $351,880
Water Utility Fund $401,050

I am recommending funding for a new Performance Evaluation and Onboarding System, to include a Learning Management System (LMS), which tracks and provides a platform for employee training and development. A Request for Proposal process is underway for an integrated software platform that will bring technology to areas that are currently handled manually or for other reasons not effective.

Information Technology (IT) Department
General Fund $24,762,690

In the upcoming fiscal year, IT will explore insourcing existing outside-hosted applications to provide more reliable services which should result in cost savings. Software maintenance costs continue to increase an average of 5% a year. To address this issue, IT is working with the Water department on consolidation of citywide applications as part of the IT Business Operations Plan. These efforts will reduce future costs. The City has invested approximately $12.5 million in network equipment and $32 million in fiber infrastructure. The Recommended Budget includes $500,000 for improvements to the fiber network.

I am also recommending setting aside $1.3 million for technology upgrade efforts over the fiscal year. This amount will be set aside in General Government and will be funded by CCF.

IV. Special Revenue Funds

Tucson Delivers, Safer Streets
Better Streets Improvement Fund $28,907,700
Safer City Improvement Fund $24,929,800

We have made significant progress over the past 18 months since implementation of the Tucson Delivers Safer City Program. Public safety acquisitions and projects are progressing consistent with the voter approved plan. Each acquisition and project outlined for the second year is being actively managed by an internal leadership team. Since inception of the program, $21.5 million has been spent on Fire and Police, and $1.5 million has been spent on road improvements. We
have several projects completed such as the training academy driver training track replacement, Police headquarters and Rincon substation security upgrades, and replacement of the HVAC at Fire Station 14. In the upcoming years, Fire Station 11 and the Logistics facility will be remodeled and Fire Station 9 will be rebuilt. The removal of the underground fuel storage tank for the emergency generator at Police headquarters will occur and several maintenance projects will be underway.

Under the Tucson Delivers: Better Streets Improvement Program, the Bond Oversight Commission approved a local roadway improvement plan, a schedule has been developed, and the first package of construction work will begin during the summer of 2019.

**Gene Reid Park Zoo Improvement Fund**

Zoo Capital Improvement Fund $9,221,000

The estimated sales and use tax revenues for FY 19/20 are projected to be $11,089,100. The expenditure budget is $9.2 million, which includes $4.5 million for operations and $4.7 million for capital improvements. The operating costs are increasing from FY18/19 due to additional staffing and increasing maintenance and repair costs. The capital projects include an expansion of the Asia exhibits ($2.6 million), a new entry ($0.3 million), new habitats ($1.5 million), a treetop playhouse ($0.1 million), and an office expansion ($0.2 million). The net revenue of $1.9 million will be CCF into the next fiscal year.

The City will also continue budgeting $1.5 million in the EGSD and Parks and Recreation departments to support the Zoo in order to cover the costs of utilities, maintenance items, and project management. Remaining funds will be CCF to the following year.

**Parks and Connections Bonds**

Parks and Connections Series 2020 $11,743,800

On November 6, 2018, the voters approved Proposition 407, a $225.0 million General Obligation bond package for capital improvements dedicated to City park amenities, connections for mobility, and greenways. The issuance of the bonds will not occur until the spring of 2020. Until that time, Mayor and Council approved an accelerated implementation and design plan where the General Fund will provide a cash loan in the amount of actual expenditures to fund early construction and design of specific Phase 1 projects. We have begun spending on the projects and intend to reimburse the General Fund through the future bond proceeds. Parks projects recommended for accelerated implementation include the improvement of two pools by summer 2019 and improvements to seven pools and the construction of three new splash pads prior to summer 2020. For Connections projects, the design process has started for the select Phase 1 projects in order to be shovel-ready once the first bond issuance is completed. For FY 18/19, an estimated $1 million will be spent for the accelerated implementation and for FY 19/20 a total of $11.7 million will be spent, with $10 million for Parks and $1.7 million for Connections.
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**Tucson Convention Center (TCC)**

Tucson Convention Center Fund $11,155,920

The TCC has experienced steady growth in all of the venues, with several concerts and events selling out. The largest growth has been in concession sales and banquet business which has significantly increased food and beverage revenue. The addition of indoor football is complementing yet another successful Tucson Roadrunners season. SMG is projecting to beat budget, with a General Fund subsidy of $2,764,328 which is $356,525 less than the budgeted amount of $3,120,853 in FY 18/19. Several improvements have been made, including new hand rails and light poles for Ekbo Plaza and replacing the Zamboni door. The arena will be going through a major renovation this summer, with the replacement of the ice plant and floor, a significant improvement for ice related events.

**Highway User Revenue Fund (HURF)**

Highway User Revenue Fund $51,839,510
Street and Highway Bond and Interest Fund $12,143,750

HURF for FY 19/20 is forecast to have a $0.9 million increase in State-Shared HURF from the FY 18/19 projection of $52.9 million to a FY 19/20 amount of $53.8 million. HURF continues to be discussed during this legislative session. We are monitoring legislative activity and will make appropriate changes to this projection. Other recurring revenues are projected to slightly decrease from the FY 18/19 projections. For FY 19/20, we are projecting one-time revenues of $2 million from the sale of Broadway-related properties, the County contribution to the Houghton project of $2 million, and use of fund balance of $3.1 million. The Transportation Department will be increasing the pavement maintenance program by $0.8 million and the landscape maintenance program by $0.4 million. An investment of $0.5 million will be made to the connected vehicles efforts and other smart technology to enhance communication equipment and connectivity for safety. Approximately $0.7 million will be invested in the maintenance program for streetlight wiring and traffic signal replacements. The $3.1 million of the CCF (fund balance) will be used for the design and construction of the roads from the Swan/Valencia annexation and for the design and construction of the Santa Cruz River Park bank repairs.

**Park Tucson**

Park Tucson Fund $6,594,240
General Government $114,280

Working with stakeholders, Park Tucson is evaluating the expansion of metered parking in the Mercado District (200 spaces), extending enforcement hours to evenings and weekends, and implementing a potential rate increase. There are also plans to continue technology upgrades for a parking guidance system at Centro Garage, a license plate recognition system to aid enforcement and a merger with the GoTucson Transit app (GoTucson Parking). New programs include partnerships with private lot owners to manage parking facilities, an enhanced booting program, and a City employee commuting program.
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The Park Tucson fund for FY 19/20 is forecast to have an increase in both revenues and expenditures. The metered parking revenue is projected to increase $0.5 million from the FY 18/19 projection of $1.5 million to $2.0 million in FY 19/20. This is mainly due to expanding the metered parking. Park Tucson is anticipating spending $0.1 million for the new pay stations serving Mercado on-street parking and other parking lots. The fund projects a $0.3 million transfer to the General Fund from citation collection efforts.

**Housing and Community Development (HCD):**

- General Fund $2,705,850
- Community Development Block Grant (CDBG) $13,923,550
- HOME Investment Partnership Program (HOME) $8,706,720
- Public Housing Section 8 Fund $41,903,000
- Public Housing AMP Funds $14,321,040
- Other Miscellaneous Federal Funds $4,777,250
- Non Federal Grants $ 262,930
- Non-Public Housing Assistance Asset Management $2,491,250

The U.S. Department of Housing and Urban Development (HUD) awarded the City $1.3 million for the Choice Neighborhoods program. This program promotes a comprehensive approach to transforming neighborhoods struggling to address the interconnected challenges of distressed housing, inadequate schools, poor health, high crime, and historic disinvestment. Along with this award, the City received $950,000 in additional funding for “Action Activities.” The funds will help build momentum and attract additional investments. Eligible uses of these funds include recycling vacant property into community gardens, pocket parks, or farmers markets; beautification, place-making and community arts projects; homeowner and business façade improvement programs; neighborhood broadband or Wi-Fi; fresh food initiatives; and gap financing for economic development projects.

**V. Enterprise Funds**

**Environmental Services Department (ES)**

Environmental Services Fund $66,193,070

Environmental Services operates as an enterprise fund supporting the City’s provision of refuse and recycling services to residents; landfill disposal services to internal City customers as well as to private haulers; and, commercial refuse, roll-off and recycling services to business and multi-family customers throughout the city. In FY 18/19, the department expanded its Brush & Bulky service to coordinate with the Transportation Department crews to provide a more holistic approach to areas where crews were working. Twice a year while ES crews are picking up large bulk trash, they are now also trimming weeds and removing overgrown brush in the right-of-way. Additionally, as they notice street issues, they are alerting Transportation of these needs so they can be coordinated. Savings from producing and mailing inserts enabled the department to fund additional Department of Correction, work crews to help in the effort.
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The department is in the process of responding to challenges and additional processing costs incurred due to global recycling market disruptions. Processing costs for recyclables have caused the program’s costs to rise dramatically. Department staff has prepared service and program options to consider in mitigating the additional costs, but will need Mayor and Council’s input on program changes. The spike in recycling costs is a primary, but not the only driver in the department considering rate adjustments after nine years of rate stability. While the matter is not currently an emergency, we want to take proactive steps to ensure the fund remains on stable financial footing to address both its near-term and long-term financial obligations.

**Tucson Water Utility (TW)**

Tucson Water Utility Fund $273,900,960

Tucson Water is operated and maintained as a self-supporting utility where the costs of providing goods and services to its customers are financed primarily by user charges. It provides safe drinking water and non-potable recycled water to residents of the community. The recommended budget for Tucson Water focuses on controlling both operating and capital expenditures while maintaining service levels. The 6.5% rate adjustment for FY 19/20 approved by Mayor and Council on May 22, 2018 will meet the revenue requirements. The department is leading an Information Technology Business Operations Plan (ITBOP) to update and modernize its technology business processes. The ITBOP will also identify similar needs and systems citywide, suggest efficiencies, and eliminate redundancies. Tucson Water is also in the midst of a project to upgrade the SCADA system used to control wells, boosters, and reservoirs to meet customer water demands. An Integrated Water Master Plan is in the works and will focus on achieving full use of our Central Arizona Project allocation and making strategic decisions about the future use(s) of recycled water. The Plan will investigate water quality issues, and utilize population projections to identify infrastructure needs to support economic development, and incorporate additional water resources, such as rain/storm water, into the long term planning.

**Tucson City Golf**

Tucson Golf Enterprise Fund $7,660,870

For the third year in a row, Tucson City Golf is projecting a positive net operating income, and therefore a reduction in the General Fund loan of approximately $550,000. Projected FY 18/19 revenues are $7,616,000, and expenses are projected to be $7,066,000. OB Sports continues to manage expenses while still maintaining course conditions and making improvements. The golf cart fleet was replaced in FY 18/19 with Randolph Golf Complex golf carts that were converted to electric carts.

Rounds are expected to be flat for FY 18/19, projecting 208,000 rounds compared to 207,955 in FY 17/18. However, this will mark the first year rounds have not declined in three years. OB Sports continues to focus efforts to attract and introduce golf to a new, broader, and more diverse group of players via golf programming and social media advertising. This includes Facebook and Instagram advertising to introduce young adult, to golf programs and family golf activities.

For FY 19/20, OB Sports is projecting a net operating income of $598,250 and 214,500 rounds of golf. The long term challenge continues to be deferred maintenance. Golf has been able to
make repairs within the current operating budget, but does not have reserves to handle major replacements of entire irrigation systems or significant infrastructure improvements to parking lots, cart paths, and restroom facilities.

VI. Beyond FY 19/20

Pensions
The City’s unfunded liability in the PSPRS system increased $8 million from $947 million to $955 million, a trend that we anticipate will continue into the foreseeable future. We are making full contributions to PSPRS over a 29-year schedule to minimize our short-term funding requirements. Stronger revenues from improving economic conditions should allow us to fund this obligation without sacrificing other priorities. Ultimately, the only relief will be from legislative changes and the time for implementation of any changes. We continue to pay TSRS more than just the minimum annual required contribution (ARC) which, combined with recent above-average portfolio returns, will also allow us to reduce this obligation over time.

IT
We must continue to modernize and optimize the technology staff uses to serve the community toward our goal of being a Smart City. We have many antiquated systems throughout the organization that need upgrading and replacement and we are making modest investments in our highest priority needs. We will have to continue to challenge ourselves to review technology utilization and system efficiencies to drive internal productivity and potentially identify funds that can be leveraged for further improvements. Our attention will be focused on the basic assumptions behind our technology systems and processes that have evolved over many years. This will be a big effort and will affect all aspects of city government, but is necessary to ensure the value of our IT services is maximized.

Facilities and Vehicles
The recent approval of Proposition 101 gave us much needed relief for public safety facilities, vehicles, and equipment, along with increased funding for road maintenance. Unfortunately, we have many other non-public safety needs throughout the organization, and existing resources only allow us to address the highest priority needs in the short-term. In terms of our vehicle fleet, we are undergoing an extensive review of our light-duty size and utilization requirements with the goal of fleet optimization. We aim to identify efficiencies in this area that will reduce the level of funding requirements while still meeting our needs. In terms of non-public safety facility needs, we are attempting to direct limited resources to the highest priority needs of both City staff and publicly utilized facilities. We are implementing energy-efficient solutions to ensure that aging facilities are operated more cost-effectively. These needs must be strategically addressed in order to support the services residents expect from their City government.
In Summary

As the Arizona economy remains optimistic and revenue growth is still strong, we do need to be aware of managing future financial risks. The length of the current national economic recovery is approaching the record for the longest recovery post-World War II expansion. If the economy makes it through FY 18/19 without a recession, it would tie the record at 120 months. Many leading economists are predicting the onset of a recession by the end of calendar year 2020. It is imperative that we manage our funds by taking incremental steps and adjusting as necessary. One way that we are managing is by focusing on our current employees, through the Retention Plan, and limiting the number of new full-time equivalents reintroduced into our budget. We also continue to challenge the way we do business to ensure value to the taxpayers. This requires critical analysis of the internal structure and corresponding policies that govern our daily work.