



Fiscal Year 2014:
Overview of City Manager's Recommended
Budget, including Capital Improvement
Program

***Mayor and Council
Study Session
April 16, 2013***



Recommended Budget

- Legally balanced: revenues = expenditures
- Assumes moderate economic and revenue growth
- Maintains City services and pursues alternative service delivery models, partnerships, and efficiencies
- Continues additional investment in streets maintenance
- Continues General Fund structural deficit



Next Steps

- April 23
 - Mayor and Council Study Session discussion and direction
 - Public hearing
- May 7
 - Mayor and Council Study Session discussion and direction
 - Regular agenda adoption of tentative budget (i.e., ceiling)



Next Steps

- May 21
 - Public hearing (truth in taxation) on primary property tax rate
 - Public hearing on budget as tentatively adopted
 - Special meeting to adopt final budget
- June 11
 - Regular agenda adoption of FY 2014 property tax levies

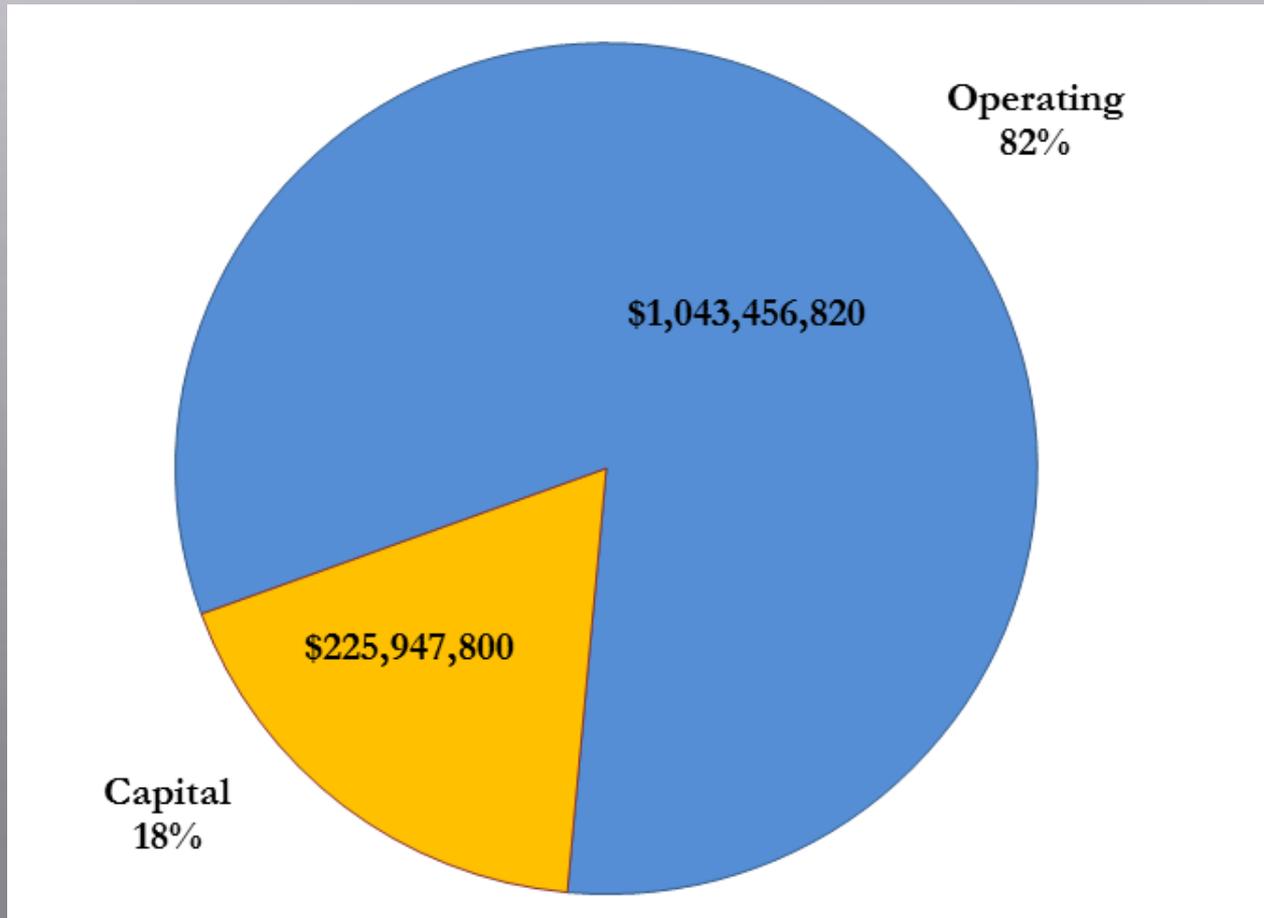


Next Steps

- Ordinance to form “task force/bond committee” of internal/external stakeholders to prioritize City infrastructure needs and formulate a comprehensive plan to address
- November 2013 – Update on FY 2013 Year-end Results and Preliminary FY 2014 Revenue Update (same as provided in past fiscal years)



Recommended FY 2014 Citywide Budget: \$1.269 billion

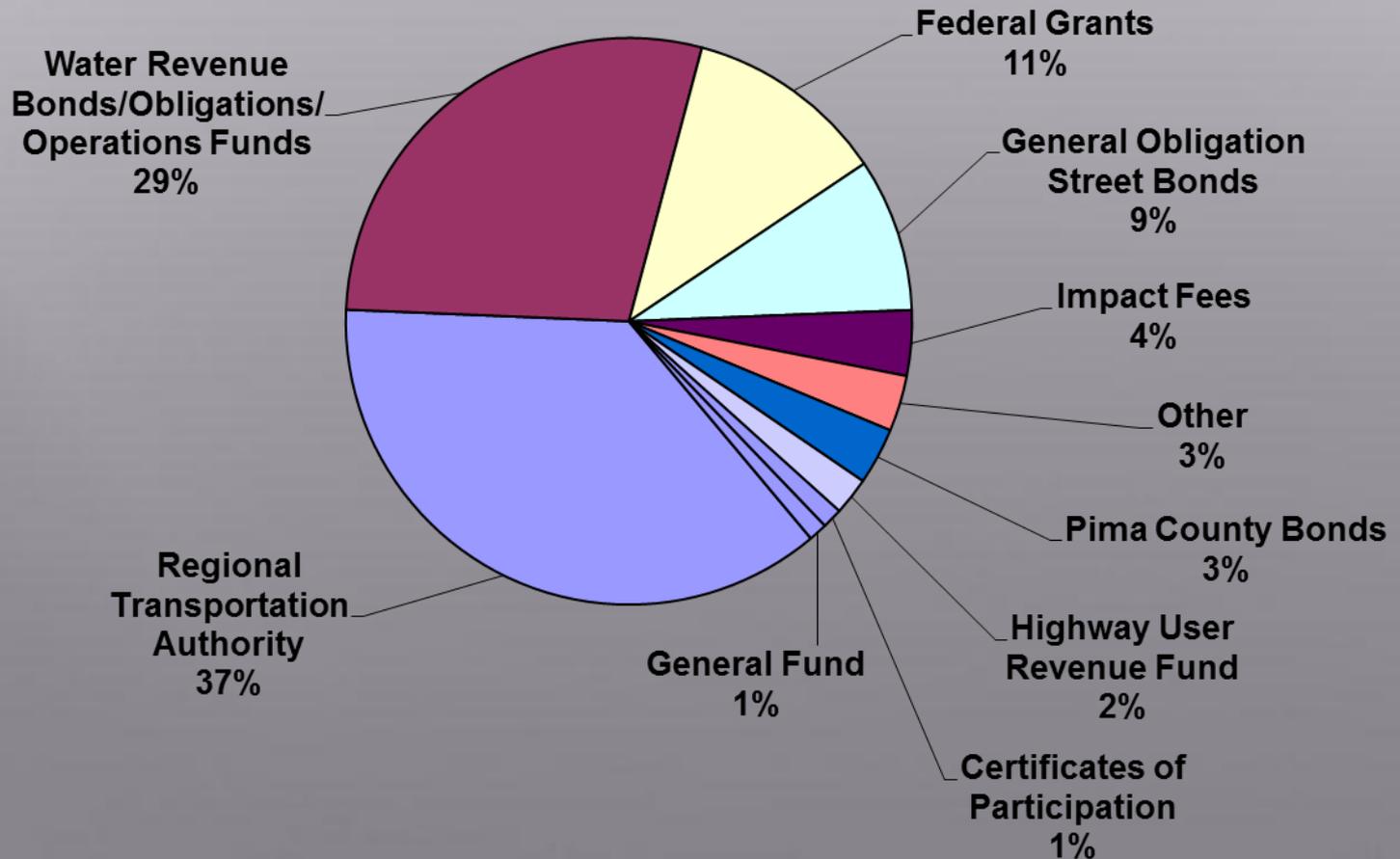




Capital Improvement Program (CIP)

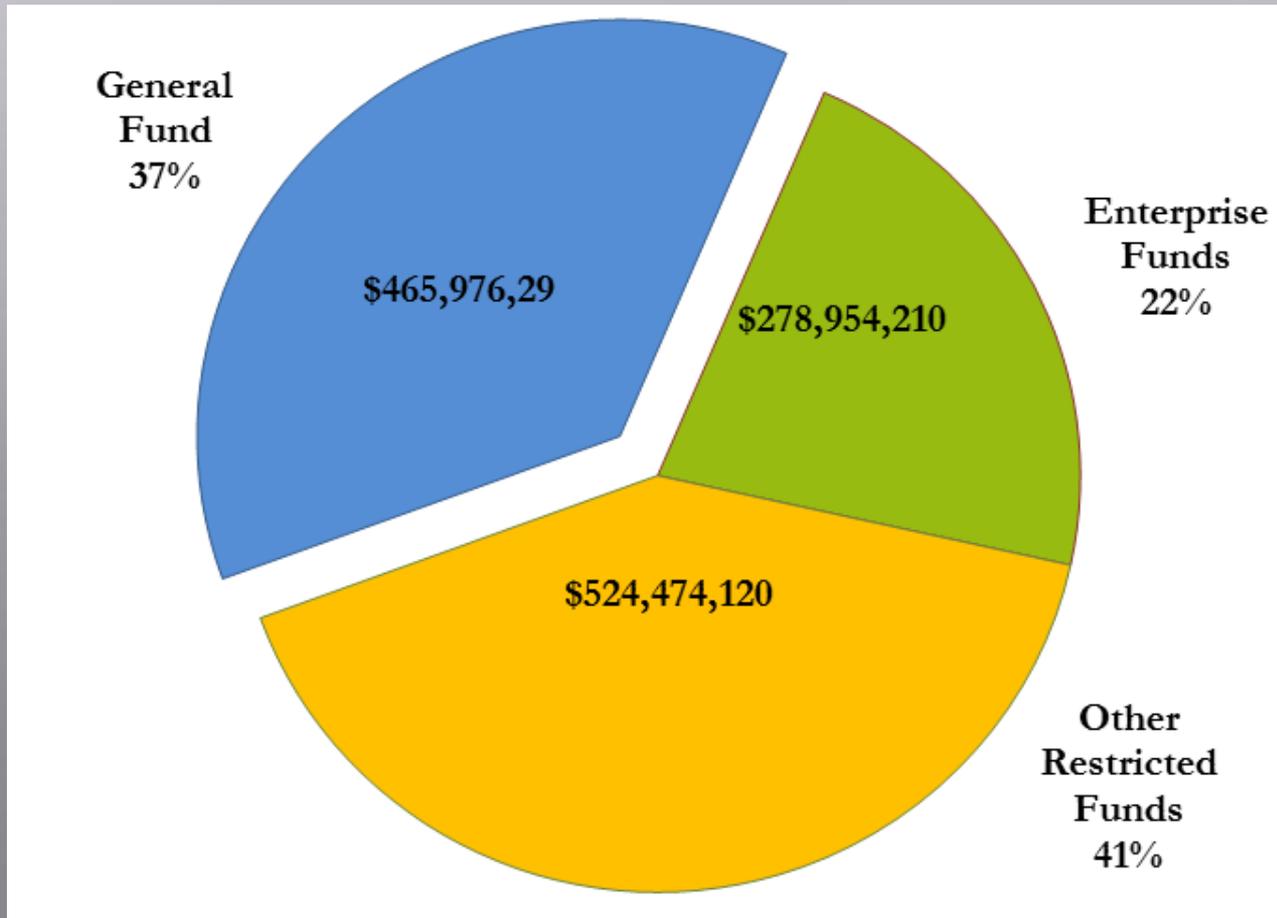
FY 2014 = \$226M

- Carryforward from FY 2013 - \$64.3M
 - New FY 2014 Funding - \$162M



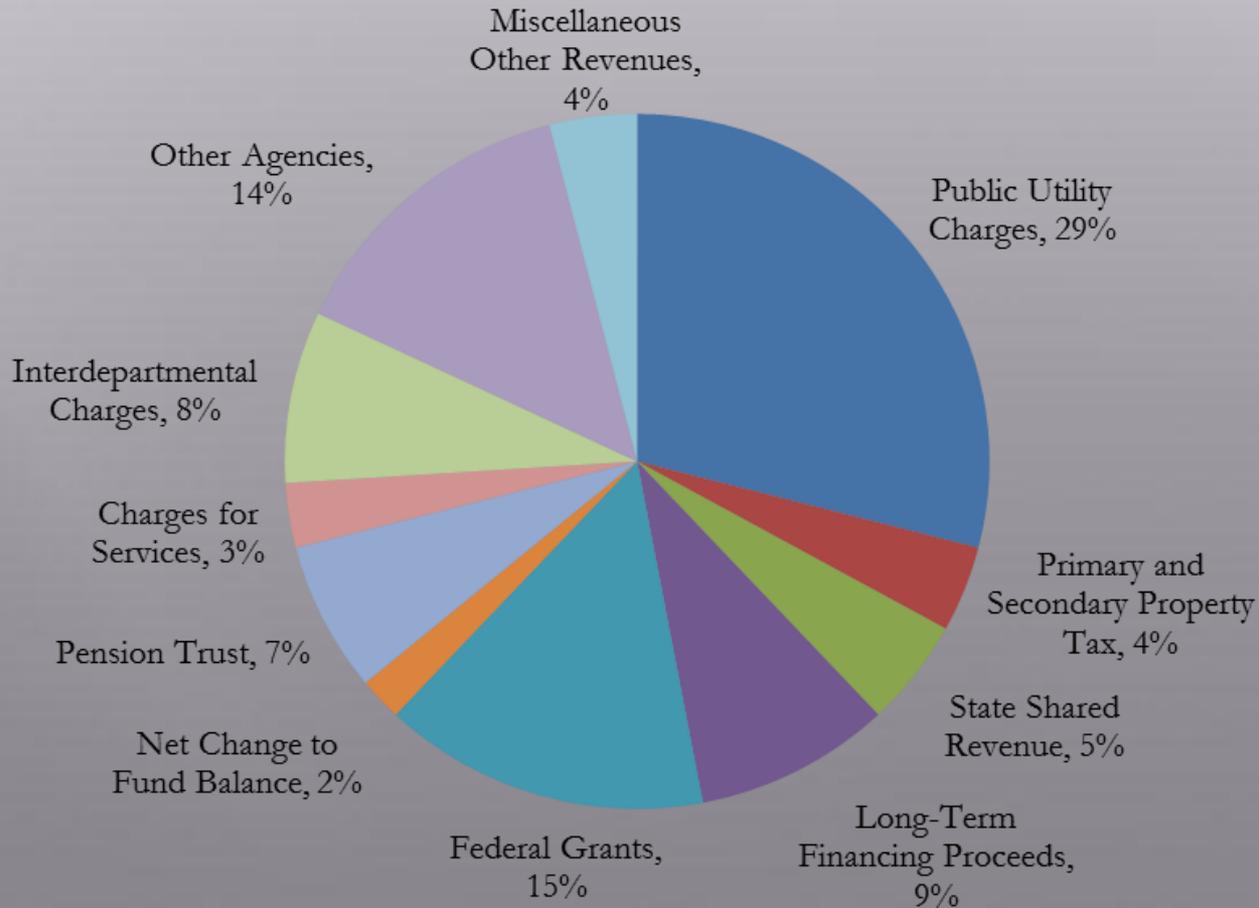


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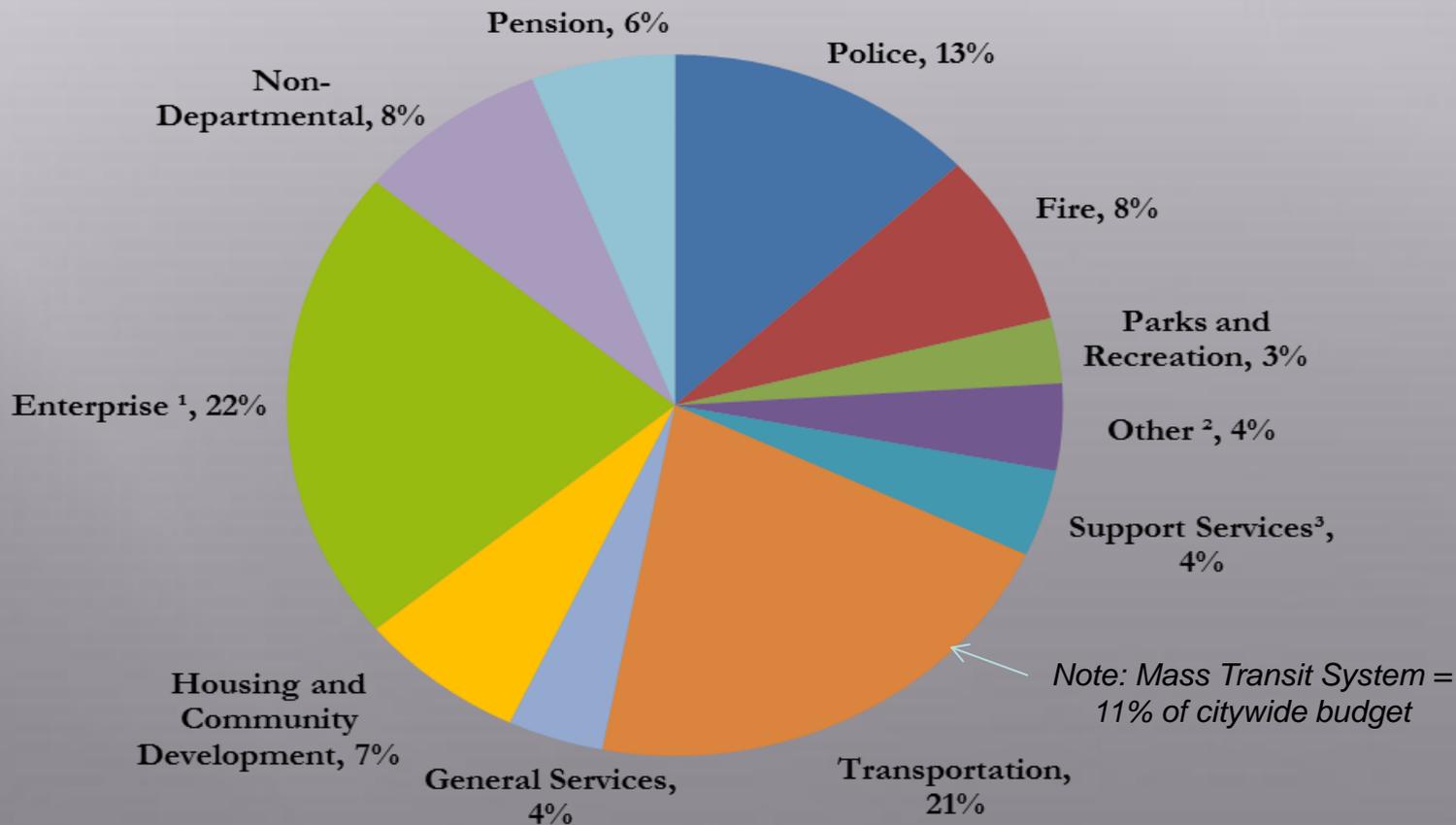


Enterprise/Other Restricted Funds: \$803 million





Recommended FY 2014 Expenditures \$1.269 billion



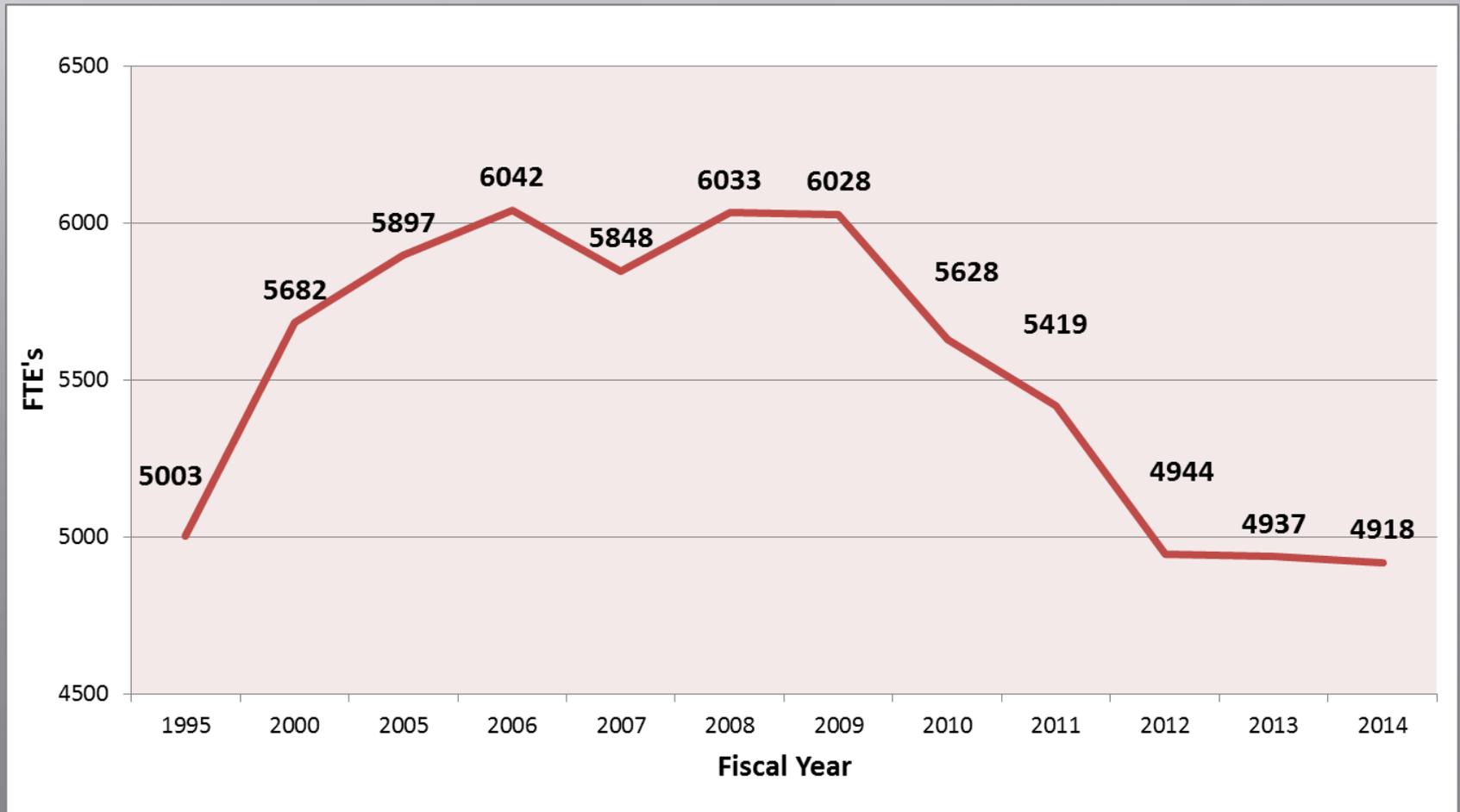
Enterprise = Tucson Water 17%, Environmental Services 4%, and Tucson City Golf 1%

Other = Mayor and Council, City Clerk, City Manager's Office, City Attorney, City Court, Equal Opportunity Programs, Public Defender, Planning and Development Services

Support Services = Budget and Internal Audit, Finance, Human Resources, I.T., and Procurement



Historical Staffing Levels





City Staffing Levels

- Citywide FTEs
 - 4,918; net reduction of 20 vacant positions, primarily in Environmental Services
 - 9.6 per 1,000 population
 - 1.9 Police
 - 1.2 Fire
 - 1.7 Enterprise Operations
 - 4.8 Other (e.g., Parks – 1.0, Transportation – 0.5)
 - Reduction of 1,110 in past 5 years (since FY 2009)



City Staffing Levels

- General Fund FTEs
 - Drop of 909 from FY 2009 adoption: 4,154 to 3,245
 - Elimination of vacant positions due to lack of funds
 - End of Service Program: approximately 230 personnel left in calendar year 2012



Investment in City Employees

- Medical Insurance
 - New contract effective July 1
 - No premium increase for employees or City
 - Emphasis on wellness strategies
- TSRS Pension
 - M&C adopted change lowers variable rate employee contribution requirements
 - Does not negatively impact System funding level
- PSPRS Pension
 - Task Force to look for ways to scale back on future costs



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Enterprise Funds and Other Restricted Funds



Environmental Services

- New fees for curbside collection of household hazardous waste and commercial recycling-only service will be proposed to Mayor and Council on May 14.
- No residential fee increases are being proposed.





Tucson Water

- Proposed rate increase:
 - Additional 8.3% in revenue: \$12M
 - Scheduled for public hearing and Mayor and Council approval on May 21
- CAP water cost has increased by 5.2%.
- Cash level exceeds M&C policy; resulting in lower interest rates.





Tucson City Golf

- Courses will continue to operate within current parameters until Mayor and Council direction is given on alternative operating structures and/or changes in use at one or more courses.
- Any revenue surpluses will reduce the amount due to the General Fund.
- RFPs have been solicited for lease/management, maintenance and operation of courses.





Street Improvements



- \$19.8M in capital budget to restore, repair, and resurface streets from 2012 G.O. Road Bond authorization (funded with secondary property tax).
- 85% major streets already identified and approved by voters; 15% high priority neighborhood streets.



FY 2014 Recommended General Fund

37% of citywide budget; 66% of FTEs (3,245)

Maintains core services

Revenues not keeping up with expenditures

One-time resources used to balance budget

– \$15M in FY 2014 recommended



General Fund Budget Balancing

The recommended budget includes:

- Moderate local and state-shared revenue growth offset by reduced commercial lease sales tax due to State legislative actions .
- Delay in debt principal payment (\$13.2M) unless funding is available in Spring 2014.
- Potential revenue from one-time land sales (\$2.1M).



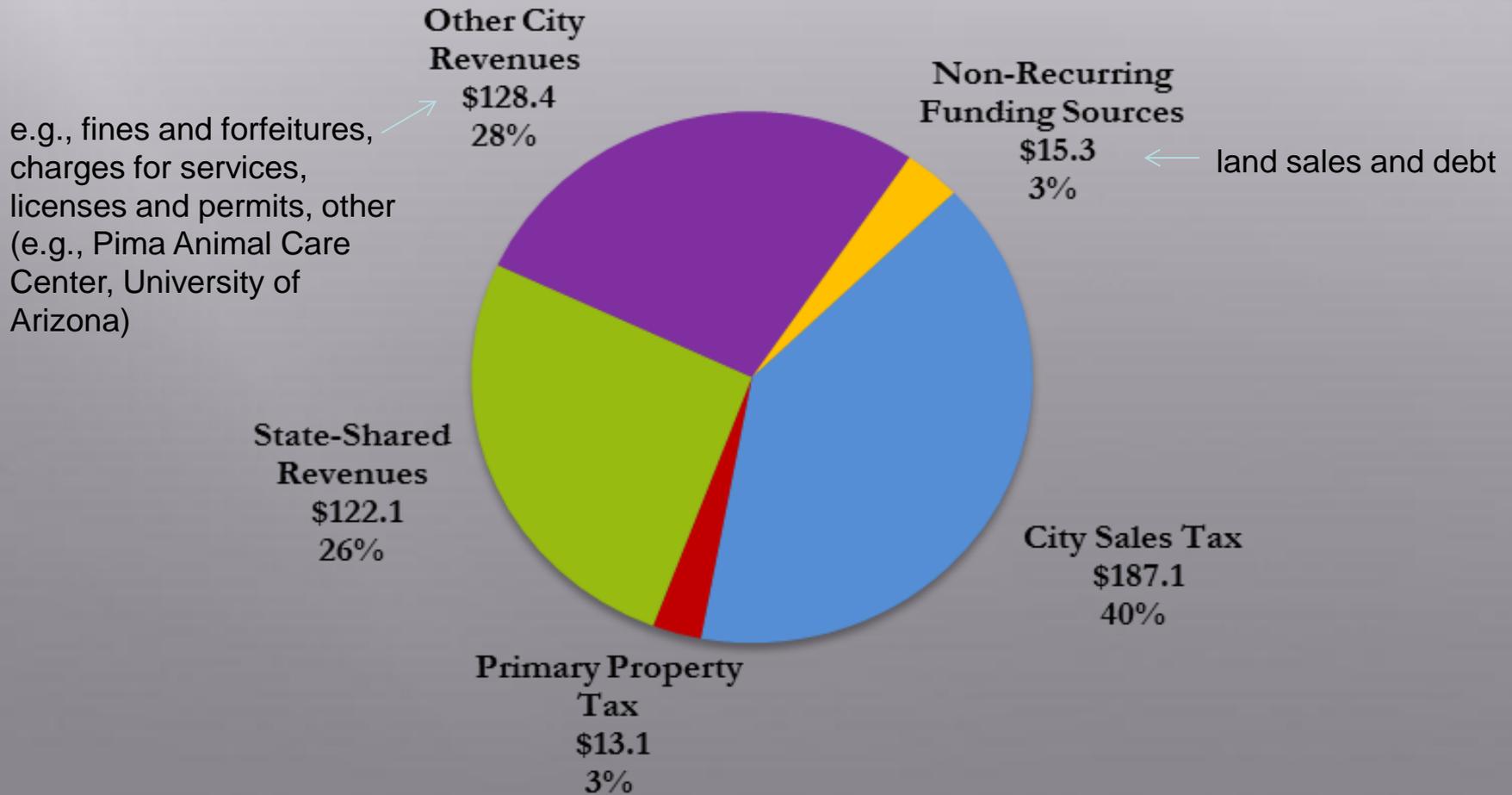
General Fund Budget Balancing

The recommended budget includes:

- Increased administrative charge (\$1M) to Tucson Water and Environmental Services.
- Suspension of departmental surcharge payments (\$1.6M) to the self-insurance fund.
- No reductions in contract for services/funding support (“outside agencies”).
- No reductions in employee pay or premium pays.

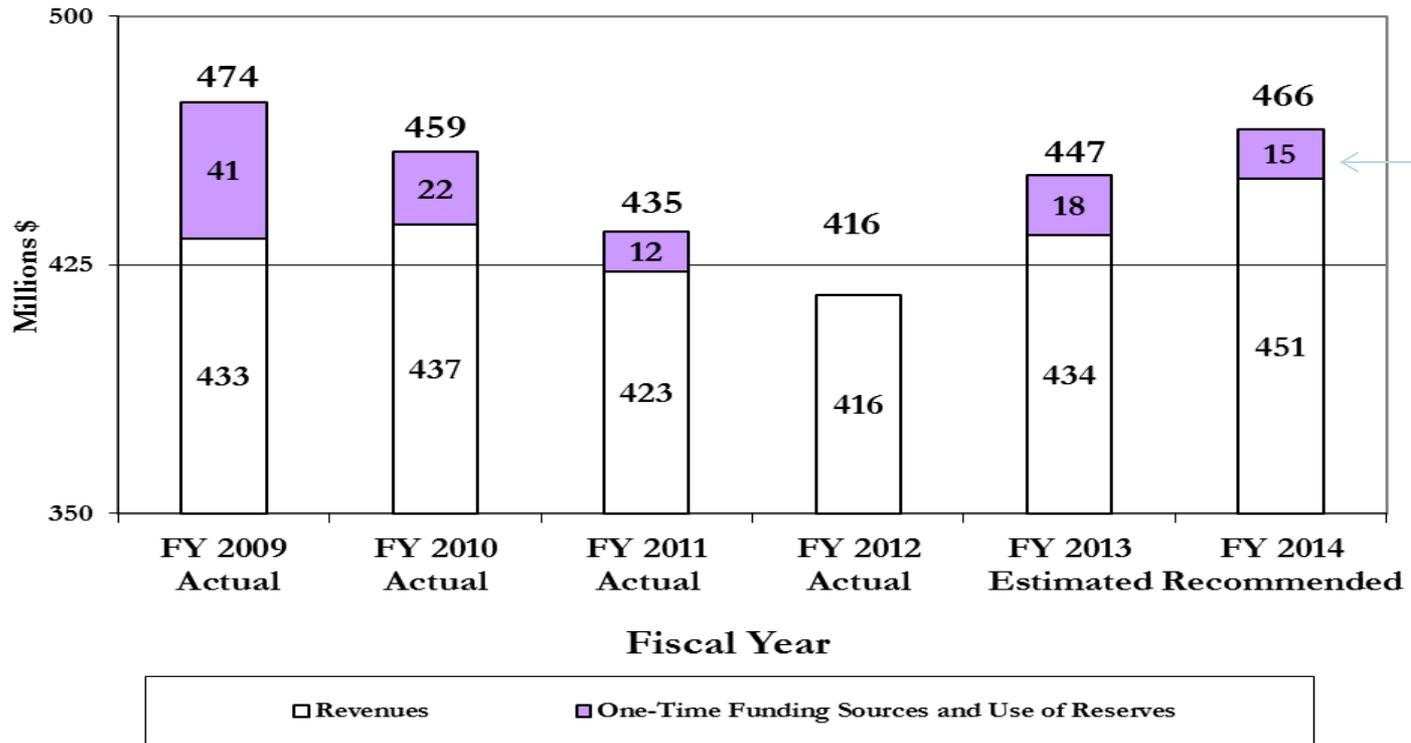


Fiscal Year 2014
General Fund Revenues
\$466.0 million





General Fund Financial Resources



← debt restructuring and land sales



General Fund: Recommended Tax Revenue Highlights

Sales (Business Privilege) Tax - \$187.1M

- 40% of budgeted revenue
- projected at 1.3% more than FY 2013 estimated

State-Shared (sales, income, auto lieu) - \$122M

- 26% of budgeted revenue
- 7% increase from FY 2013 estimated due to increase in income tax



Risks to Sales Tax Revenue Projection

- HB 2111 (effective 1-1-15)
 - Contracting loss
 - Loss of ability to audit most businesses
 - Unknown loss – over \$3 million collected YTD in audit revenue
 - Possible increase costs for audit and portal
- HB 2324 Commercial rentals
- Reduced spending from income losses as a result of sequester



Sales Tax

- The Recommended Budget includes a reduction of Sales Tax of \$4 million as a result of the passage of HB2324.
- The \$4 million reduction to the total sales tax estimate was included as a “placeholder”. Now that the bill has been passed/signed staff is preparing a more detailed analysis of the impacts including the delayed effective date.
- Due to the timing of the passage of the bill, printing of the recommendation budget, distribution of agenda materials, and the analysis being conducted the estimated loss number will be refined and discussed as part of the presentation.



Sales Tax

- \$750k increase in FY 2014 as a result of increased revenues in FY 2013

Sales Tax	Revenue (3-5-13)	\$ Change	% Change	Revenue Adj (4-16-13)	Revised % Change
2009	\$ 169.7				
2010	\$ 166.6	\$ (3.1)	-1.8%		
2011	\$ 168.1	\$ 1.6	0.9%		
2012	\$ 176.8	\$ 8.6	5.1%		
2013 Revised Estimate	\$ 183.9	\$ 7.1	4.0%	\$ 184.6	4.5%
2014 Budget	\$ 190.3	\$ 6.4	3.5%	\$ 191.1	3.5%

Comparing against FY Actual	% Change	Addl \$ for FY 13	Addl for FY 14 with higher
Cash Basis Collections (8 Months July-Feb)	4.69%	\$ 1.16	\$ 1.20
YTD Collections (6 months Aug-Feb)	4.45%	\$ 0.74	\$ 0.76
Last 12 months vs prior 12 months	5.29%	\$ 2.23	\$ 2.30
% to date compared to total based on FY12	4.26%	\$ 0.41	\$ 0.42



State Shared: Income Tax

- The FY 2014 State Shared income tax is a known number.

State Shared Income Tax		\$ Change	% Change
2009	\$ 77.5		
2010	\$ 65.6	\$ (11.9)	-15.3%
2011	\$ 50.3	\$ (15.3)	-23.3%
2012	\$ 45.4	\$ (4.8)	-9.6%
2013 Revised Estimate	\$ 53.1	\$ 7.7	16.9%
2014 Budget	\$ 57.8	\$ 4.7	8.8%



State Shared: Sales Tax

- An increase of \$400K in FY 2014 as a result of higher estimated revenues in FY 2013.

State Shared Sales Tax	Revenue	\$ Change	% Change	Revenue Adj (4-16-13)	Revised % Change
2009	\$ 41.6				
2010	\$ 38.8	\$ (2.8)	-6.7%		
2011	\$ 40.6	\$ 1.8	4.5%		
2012	\$ 40.8	\$ 0.2	0.6%		
2013 Revised Estimate	\$ 42.3	\$ 1.5	3.6%	\$ 42.6	4.5%
2014 Budget	\$ 44.2	\$ 1.9	4.5%	\$ 44.6	4.5%

Comparing against FY Actual			% Change	Addl \$ for FY 13	Addl for FY 14 with higher FY 13 Base
Cash Basis Collections (8 Months July-Feb)			4.00%	\$ 0.18	\$ 0.19
YTD Collections (6 months Aug-Feb)			4.50%	\$ 0.38	\$ 0.40
Last 12 months vs prior 12 months			1.60%	\$ (0.80)	\$ (0.84)
% to date compared to total based on FY12			4.30%	\$ 0.30	\$ 0.31
FY 13 League Estimate			6.58%	\$ 1.23	\$ -
FY 13 Revised League Estimate based on State			4.55%	\$ 0.40	\$ -
FY 14 League Estimate			10.13%	\$ -	\$ (0.09)



State Shared: Vehicle License Tax

- Vehicle License Tax (Auto Lieu) is revenue paid based on the value of the vehicle.
 - The value is generally the MSRP or “Sticker Price” not what is actually paid
 - The value is reduced 16.25% annually as the vehicle ages
 - An older fleet of vehicles results in less revenue
- Statewide the total fleet is \$6 million vehicles
- At the peak, 400k new vehicles were being added to the fleet, some replacing vehicles, some adding to the fleet.
- Vehicle sales are now 150k
- Car sales are strong on a percentage basis statewide. Pima County is lagging by 2%.
- The timing and strength of the impact is not known yet.
- Revenue estimates could be revised by as much as \$1.5 million but no actual distributions support that at this time.



State Shared: Vehicle License Tax

	League Estimate	Actual	\$ Diff	% Diff
FY 2012	\$ 20.6	\$ 19.7	\$ (0.8)	-4.1%
FY 2011	\$ 21.1	\$ 19.7	\$ (1.4)	-6.6%

- League estimate was a decline of 1.9% for FY13 and flat for FY14. League bases estimate on % of population only.
- Revenue is distributed based on % population plus the county the vehicle is registered.
- According to the State, the Pima County number of vehicles was 13% and now is 12.8%. This represents a 1.5% reduction.
- Current trends of revenue received show large declines over the prior year.
- The timing and strength of the impact from improved car sales is not known yet.
- Revenue estimates could be revised by as much as \$1.5 million but no actual distributions support that at this time.



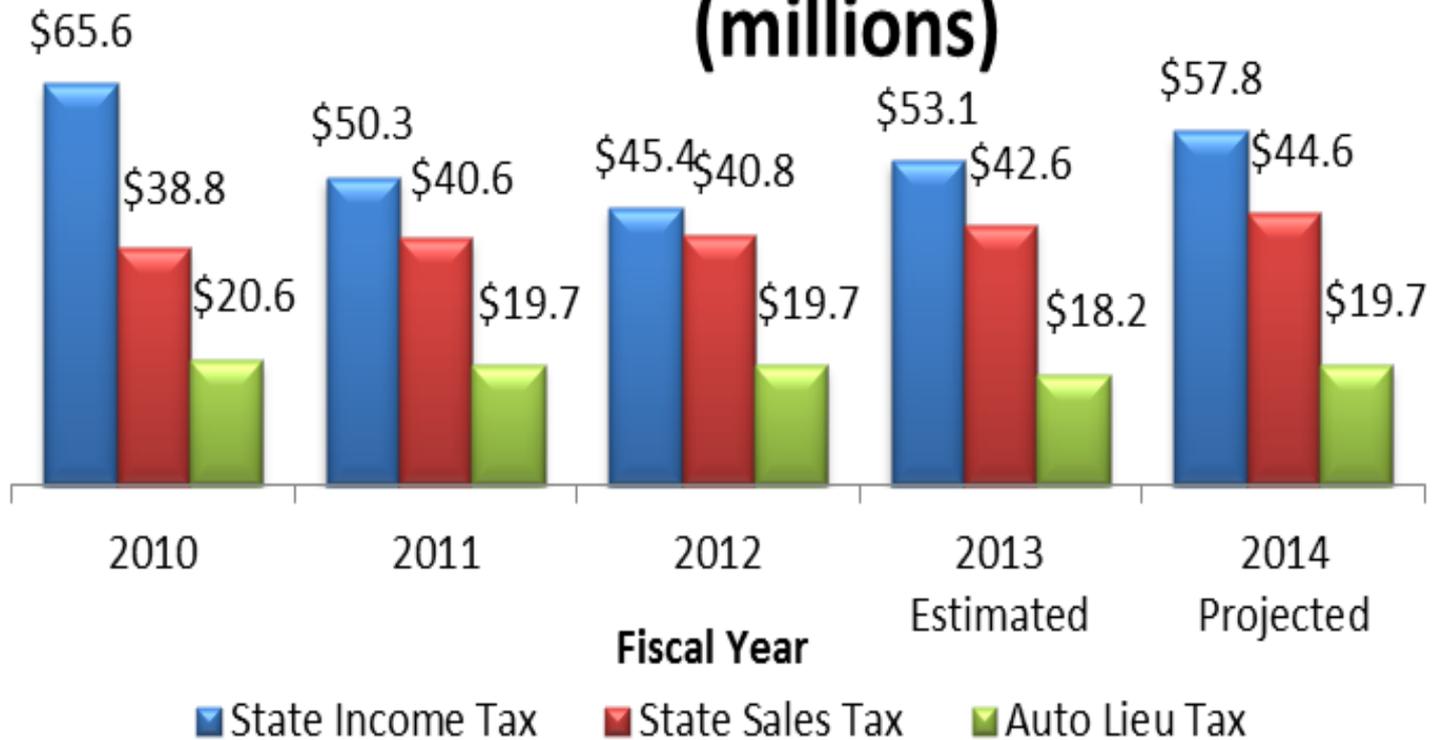
State Shared: Vehicle License Tax

State Shared VLT	Revenue	\$ Change	% Change	Revenue Adj (4-16-13)	Revised % Change
2009	\$ 22.1				
2010	\$ 20.6	\$ (1.5)	-6.8%		
2011	\$ 19.7	\$ (0.9)	-4.4%		
2012	\$ 19.7	\$ 0.0	0.1%		
2013 Revised Estimate	\$ 18.2	\$ (1.5)	-7.8%	\$ 18.2	-7.8%
2014 Budget	\$ 18.2	\$ (0.0)	0.0%	\$ 19.7	8.2%
Comparing against FY Actual			% Change	Addl \$ for FY 13	Addl for FY 14 with higher FY 13 Base
Cash Basis Collections (8 Months July-Feb)			-6.29%	\$ 0.31	\$ 0.31
YTD Collections (6 months Aug-Feb)			-8.21%	\$ (0.07)	\$ (0.07)
Last 12 months vs prior 12 months			-1.18%	\$ 1.32	\$ 1.32
% to date compared to total based on FY12			-8.94%	\$ (0.22)	\$ (0.22)
FY 13 League Estimate			0.01%	\$ 1.55	\$ -
FY 14 League Estimate			-1.07%	\$ -	\$ 1.34



Total = \$122M, 26% of General Fund revenues

STATE SHARED REVENUES (millions)





General Fund Revenue Projections

- The adopted budget is a projection done 15-17 months prior to the end of the projection period based on 6-8 months prior year actual data.
- The revised budget is a projection done 3-5 months prior to the end of the projection period based on 7-9 months of actual data.
- Required accounting entries and timing can have material impacts.

General Fund Total Revenue excluding Debt Issuance Items and Use of Fund Balance				
	2010	2011	2012	2013
Adopted Budget	\$ 448	\$ 409	\$ 413	\$ 436
Revised Budget	\$ 437	\$ 412	\$ 419	\$ 437
Actual	\$ 423	\$ 422	\$ 418	

The depth of the Great Recession and Timing and Strength of the Recovery were difficult to project. FY 2012 reflects the stabilization of the economy.



Summary FY 2014 Estimates

(included in recommended budget subsequent to Mayor and Council 3/5 and 3/27 discussions)

- Assuming no impacts from legislation or sequester
 - Sales Tax increase \$750K
 - State Shared Sales Tax increase \$400K
 - State Shared Income Tax – no change
 - State Shared Vehicle License Tax increase \$1.5 million



City of Tucson Property Tax Comparisons

	Actual FY 2013	Recommended FY 2014	Change
Rate Changes			
Primary	\$ 0.4125	\$ 0.5245	\$ 0.1120
Secondary	0.8514	0.9059	0.0545
Total	\$ 1.2639	\$ 1.4304	\$ 0.1665

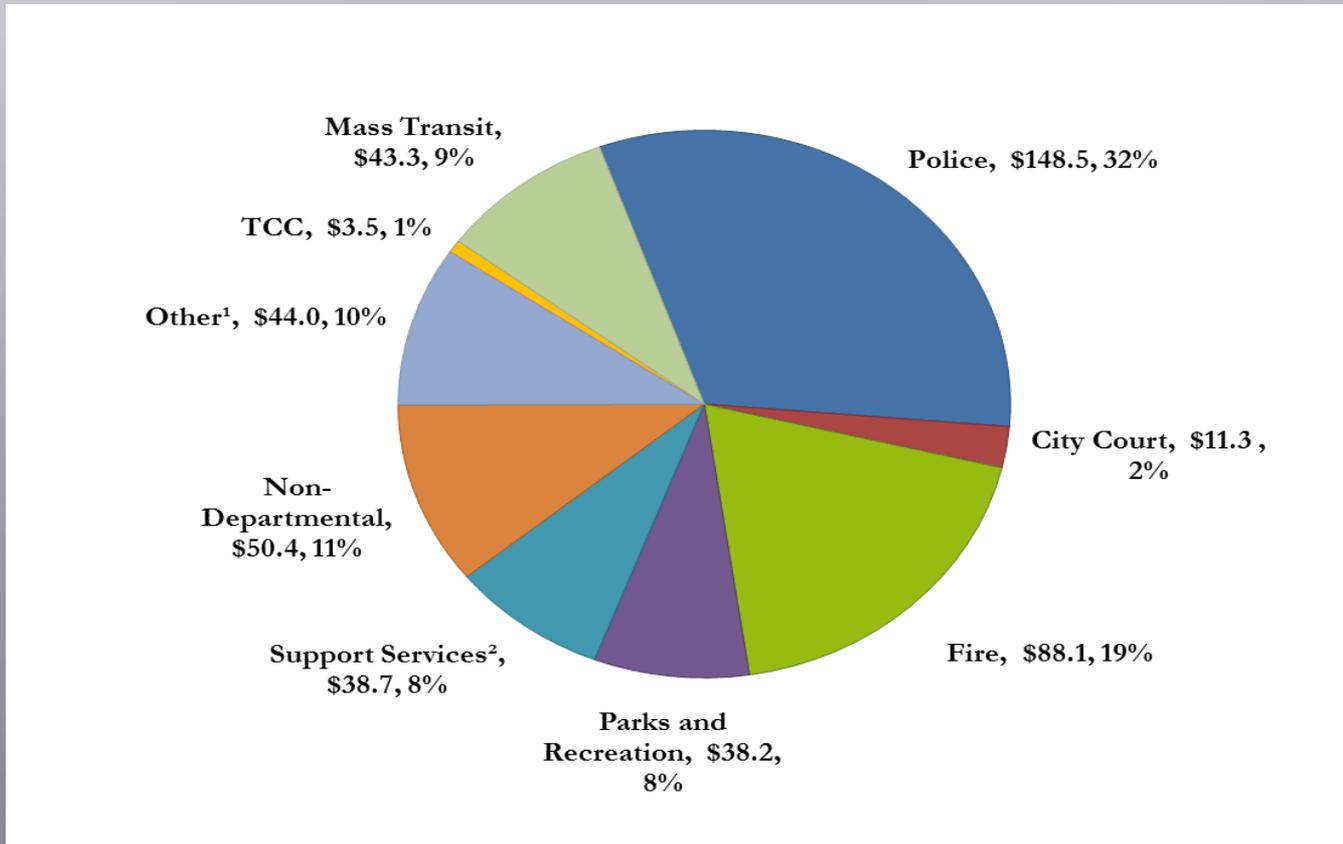


Fiscal Year 2014 Property Taxes

- **Primary** - Includes tort revenue reimbursement of \$3.2M which increases rate by \$0.1032 per \$100 of assessed valuation
- **Secondary** - Increase primarily due to GO bond authorization for roads; \$20M issuance in FY 2014
- **Combined** - Increase of \$16.65 annually on \$100,000 actual valuation home
- Public hearing on primary tax rate: May 21
- Adoption of property tax levies: June 11



General Fund Expenditures by Department: \$466 million



¹ Mayor and Council, City Clerk, City Manager's Office, City Attorney, Equal Opportunity Programs and Independent Police Review, General Services, Housing and Community Development, Public Defender, Planning and Development Services, and Transportation.

² Budget and Internal Audit, Finance, General Services, Human Resources, Information Technology, and Procurement.



Employees = Services and Programs

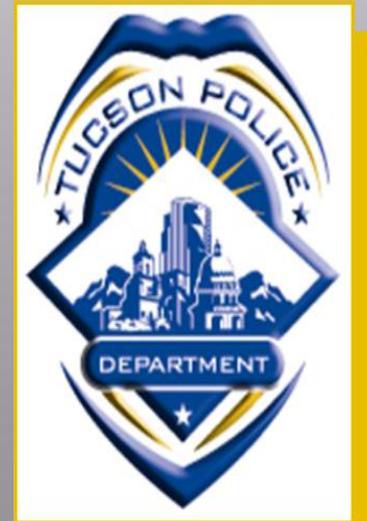
Approximately 65% of the recommended General Fund operating budget is programmed toward staffing costs (salary, wages, pension, medical, etc.)





Tucson Police

- Two COPS hiring grants fund 75 commissioned police officers; 998 authorized total, same as FY 2013
- 15 new vehicles purchased in FY 2013; aging fleet continues to add to increased maintenance costs
- Overtime budgeted to cover current trends.
- Alternative response call back unit for lower priority calls.





Tucson Fire

- Alternative service delivery provides for more efficient call load distribution and improved response times.
- 911 communications center piloting shift schedule change to increase supervisory oversight; system administrator to oversee technical aspects.
- 619 authorized commissioned, same as FY 2013, with recruit class graduated in February.





Parks and Recreation

- Maintaining programs at existing service levels.
- Public-private partnerships (e.g., 7 seasonal summer pool openings).
- NC Dinos, Korean pro baseball, using Reid Park Annex.
- CDBG funds used for parks/ADA improvements.
- Expedition Tanzania elephant habitat resulting in increased attendance and revenues.





Mass Transit System



- \$43.3M General Fund investment in \$134.7M transit system budget.
- Increase of \$2.1M over \$41.2M estimated FY 2013.
- Options being discussed to a) reduce General Fund investment via combination of revenue and cost measures, and b) provide long-term predictability of costs.



Contracts for Services/Funding Support (a/k/a “outside agencies”)

- Arts and cultural enrichment, civic/special community events, payments to other governments, human services, economic and workforce development RFP
- \$9.9M recommended General Fund
 - In alignment with Fiscal Year 2013 allocations
 - Detailed listing on page D-213 of budget document



Investing in Deferred Maintenance

On 4/9, Mayor and Council endorsed GSD's recommended actions.

- Implementation Plan:
 - Being formulated
- No funding has been identified for:
 - Additional building maintenance, repair, and renewal efforts other than what is in recommended departmental budgets
 - Vehicle replacement program
 - Computer and equipment replacements



General Fund: Surplus Expenditure Capacity

There is \$2.3M budgeted in Non-departmental General Expense with no designated purpose (at this time).

Staff has developed the following potential options for Mayor and Council consideration and direction prior to budget adoption.



General Fund: Surplus Expenditure Capacity (cont'd.)

\$2.3M in non-departmental General Expense

Potential Options:

1. Fund self insurance surcharge (\$1.6M).
2. Project revenues more conservatively and eliminate expenditure capacity.
3. Decrease other departmental expenditures and add to capacity to fund other options.



General Fund: Surplus Expenditure Capacity (cont'd).

Potential Options:

4. Fund Compensation Plan
5. Use for partial payment in paying debt principal in spring 2014.
6. Fund infrastructure/vehicle needs.
7. Contribute to reserves.



Future Fiscal Challenges: Planning Efforts Underway

- Ongoing General Fund structural deficit and ongoing and potential deficits in other funds.
- Annual employee benefit cost increases and any compensation adjustments
- Reliance on State funds and susceptibility to their legislative actions



Future Fiscal Challenges: Planning Efforts Underway

- Expiration of police hiring federal grant funds
- Balancing investment in transit services while providing for predictability in funding level.
- Ongoing operating and maintenance costs for modern streetcar and PCWIN
- Impact of ongoing federal sequester.

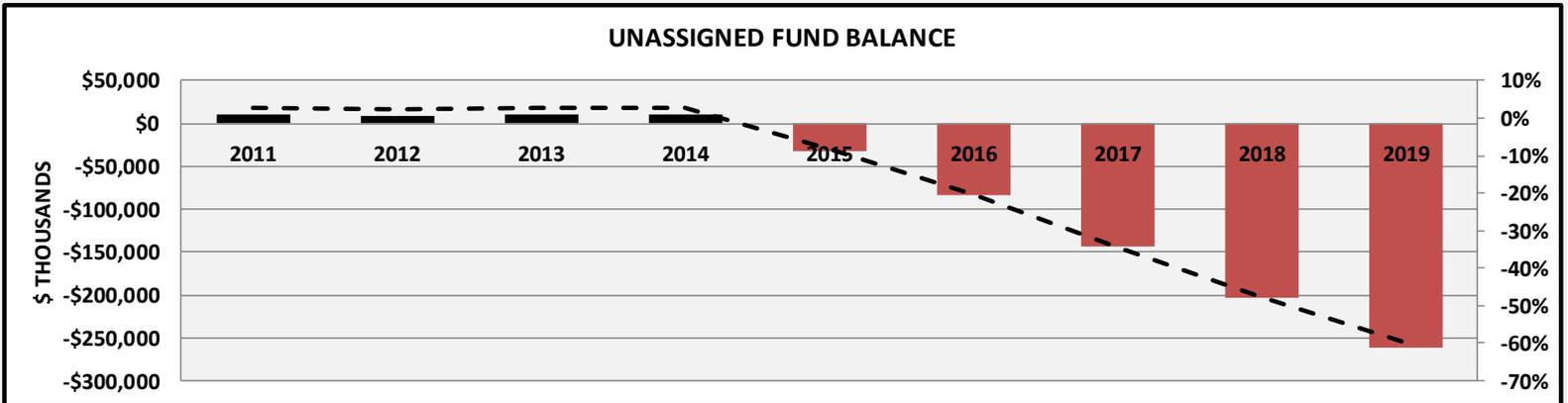
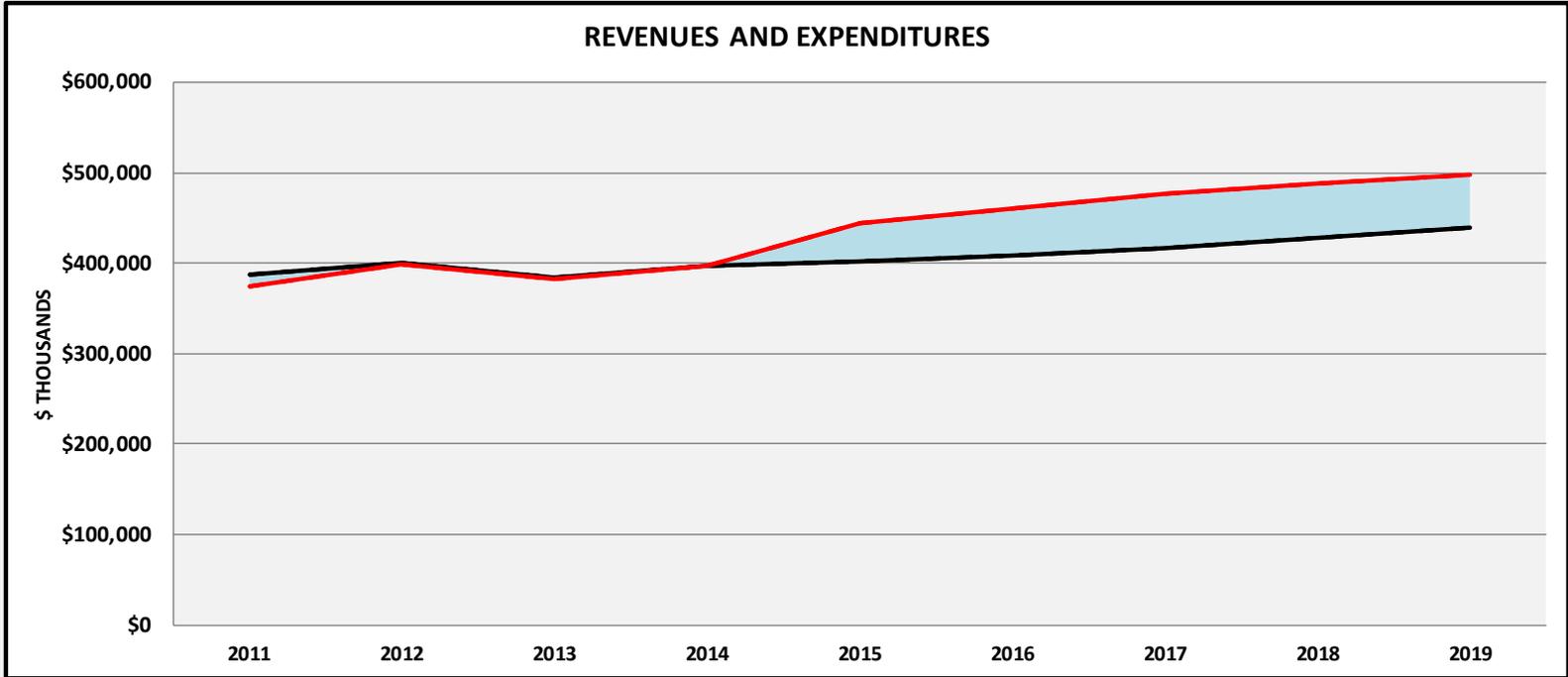


Future Fiscal Challenges: Planning Efforts Underway

- Self-sustaining program to address aging infrastructure, replace old vehicles and equipment
- Potential costs to convert golf courses to alternative uses and provide for operating and maintenance
- Building and maintaining adequate financial reserve levels



Five Year Financial Model





Future Fiscal Opportunities

- Renewed focus on economic development
- Annexation makes sense from economic and municipal service perspective
- Transportation corridor improvements will incentivize property revitalization
- Strategic planning for future years
- Strong policy framework resulting from recent Mayor and Council visioning process and Plan Tucson



Arizona State Budget Law

ARS §42-17105.C. requires that after tentative adoption of an annual budget (May 7 for FY 2014 per current budget calendar) total appropriations cannot be increased.



Budget Document Online Effective 4/16/13

City of Tucson “Hot Topics” and “Budget and Internal Audit Office” websites:

[http://cms3.tucsonaz.gov/files/budget/
14Book-rec.pdf](http://cms3.tucsonaz.gov/files/budget/14Book-rec.pdf)



Staff is available to meet with you and your aides to clarify and answer your questions, as necessary. E-mailed questions will be responded to as quickly as possible.

Questions, Discussion, and Direction Today

What does Mayor and Council want staff to explore or explain further at the April 23 meeting?