


MEMORANDUM

To: Honorable Mayor Romero and Council Members

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

Subject: Fiscal Year 2025 (FY25) City Manager's Recommended Budget

I am pleased to present the City Manager's Recommended FY25 Operating and Capital Budget. This memorandum provides a comprehensive overview of the budget. The recommended budget is built on several key concepts: long-term financial sustainability, strategic investment, staffing and compensation plan, and service delivery.

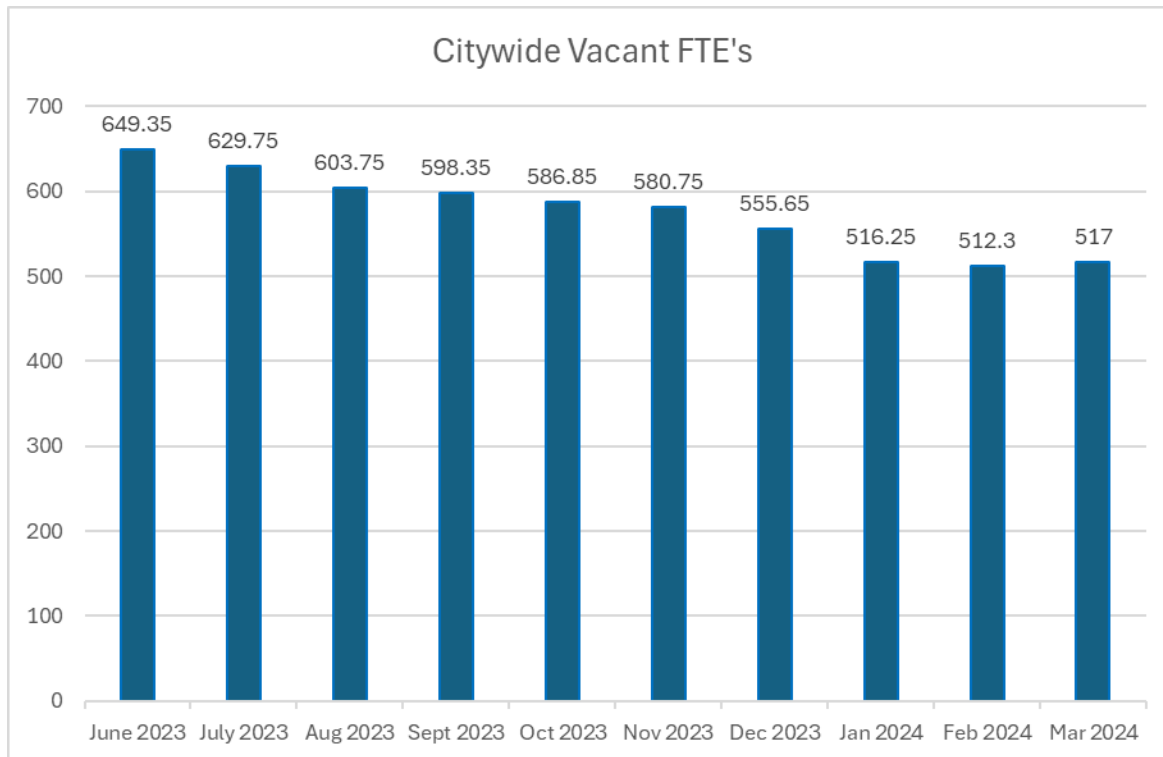
Long-term Financial Sustainability - The Mayor and Council's leadership and strategic focus on ensuring the operations and corresponding revenues are sustainable in the long-term has resulted in the City's strong financial position. In the current economy, this requires an increased focus on aligning ongoing expenditures with ongoing revenues and the intentional management of one-time dollars through strategic planning and investment. The work of the past several years has given us the flexibility to plan proactively, respond intentionally to a changing environment, and adjust our current year's expenditures and future investments accordingly. The 5-year outlook and plan is a critical component of both our current year and future year financial planning.

Strategic Investment - The Mayor and Council developed a 5-year General Fund Investment Plan that commenced with the adoption of the FY23 budget. The intention was to spend down available fund balance to address many of the city's needs and achieve strategic investments in the community. The FY25 budget includes some continuation of this plan; however, as you will see, future years have been significantly impacted by our need to respond to current budget challenges. The adjustments are necessary due to forecasted decreases in available fund balance due to the State's new flat income tax policy and projected decreasing revenues. This change reduces the city's shared income tax collections for FY25 & FY26 by a greater amount than was initially estimated by the State during our FY24 budget and forecast development. The Investment Plan will continue to outline the City's funding of public safety equipment and facilities and collector streets as a part of our Proposition 411 voter commitments. Additionally, added to the investment plan is our \$6 million local match requirement for the Housing Choice grant award. More Investment Plan details are provided later in this communication.

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Staffing and Compensation Plan - Employee recruitment and retention remains one of the city's top priorities. We continue to invest in our employees as our greatest asset. Over the past year, we have seen increased success in filling positions and retaining workers in the organization, with the number of vacant positions steadily declining since June 2023.



My FY25 Recommended Budget keeps the FY24 compensation structure intact. And, consistent with our commitment to evaluate vacancies and re-think our work, it has been updated and improved with a number of career series (ladders) and updated job descriptions. The plan offers fair and competitive wages and aligns with our budget and current economic realities.

We will continue to focus on evaluating every vacancy; rethinking our positions, our work, and the community's needs; and providing flexibility for innovative solutions around our vacancies and service delivery.

I am recommending we address compensation in December of this year or January of next year based on the uncertainty of the FY 26 budget and the uncertainty of our ability to sustain base salary increases. Included in this recommendation is a minimum of a one-time distribution. Base salary adjustments will be a function of revenue and expenditure projections for FY 26 and beyond.

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Service Delivery – The FY25 recommended budget continues to fund our service programs at levels similar to FY24. The most notable adjustment is the change in our Investment Plan spending, which will reduce the amount of equipment, capital projects, and replacements that can be completed in numerous areas. This is discussed in more detail throughout this memorandum.

Internal Services – Internal Services are the backbone of our organization, and FY24 began a focus on the teams and business processes that move our entire organization forward; most notably our Business Services (BSD), IT, Human Resources (HR) Departments. FY25 will continue our efforts in strengthening these systems and teams to provide a strong foundation and ensure the organization is in the best position to serve our community. Funding is provided in the FY25 budget to allow BSD, IT, and HR to continue securing software licenses and implementing programs that will enhance the city's internal service systems.

Partners in Service Delivery – For the past several years the City has been intentionally shifting from isolated department-based services to an integrated service delivery model. My FY25 Recommended Budget reflects the culmination of many of the programs the Mayor and Council have established in recent years to provide seamless, effective service to the community.

Investments in Housing Services. The City continues to invest in community housing and supporting individuals experiencing homelessness. Over the past year, we have continued to deploy resources in a multi-departmental and multi-agency manner, and with our community partners, serving Tucsonans. With the Mayor and Council's leadership, Housing & Community Development (HCD) will continue to purchase property and rehabilitate housing units to prioritize affordable low barrier housing and will respond to homeless encampments with humanitarian aid and services, site clean-up, and addressing health and safety risks.

In July, the City of Tucson was awarded a \$50 Million Choice Neighborhoods Implementation grant for the Thrive in the 05 reinvestment initiative by the US Department of Housing and Urban Development (HUD). The award supports the full rehabilitation of the 17-story Tucson House and develop mixed-income housing on three (3) additional sites in the Thrive in the 05 area. The grant will also support on-site services for Tucson House residents and increase access to high-quality health and educational services to all neighborhood residents. In addition, the grant supports homeowner preservation efforts, a community food hub, a public plaza, and improvements for businesses and storefronts, as well as 15th Avenue. In FY23/24, \$5 million was allocated from General Fund one-time funding

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for construction support (approved in FY23 & 24) for Tucson House. Of the \$5 million, \$500k is projected to be spent during FY24, the remaining \$4.5 million will be included as one-time carryforward in the FY25 budget. The FY25 recommended budget and investment plan provide for a \$6 Million (\$1M/year) local grant match for services to cover the Choice Neighborhood Grant commitment.

Through our Housing First staff and community partners, we have been finding innovative ways to meet the needs of our unhoused residents. The Arizona Department of Housing (ADOH) has been the City's primary funding partner on Housing First. These services range from the homeless protocol, street outreach, and our new mobile shower program to emergency shelters, housing navigation services, and operating permanent supportive housing. The FY25 recommended budget includes \$692,000 to operate Housing First.

We are also actively working with Pima County to assure the community is managing through the asylum seeker crisis. No FY25 funding is allocated to this purpose, as these activities are funded through the federal government via Pima County. Please note Pima County has been awarded funding to continue providing services through July 1, 2024.

We also maintain an increased focus on the creation and preservation of our housing stock by purchasing new properties and rehabilitating existing units. We have broken ground and are under construction on Milagro on Oracle, the City's first Low-Income Housing Tax Credit project in over 10 years. HCD currently has approximately 1,200 affordable housing units in 9 different development projects in various stages of planning that we expect to move forward.

And, for the first time in years, the City was able to open our Public Housing and Housing Choice Voucher waitlist, assisting eligible low-income families and individuals in obtaining affordable and safe housing. This past year, we were able to add 334 Housing Choice Vouchers and over \$800,000 in Housing Assistance Payment (HAP) contracts to our housing program. We also continue to work with the HUD-Veterans Affairs Supportive Housing program to provide rental assistance for homeless veterans. In February we received 75 additional housing vouchers for homeless veterans, bringing our total vouchers for veterans to over 700.

Fare Free Transit Program. For three years, the City's transit system has been fare-free. This was made possible through federal funding for two years during the pandemic and continued through one-time General Fund funding in FY23 through FY24. Although we will be discussing strategies for addressing transit fares at the April 9 Mayor and Council meeting, the recommended budget has included

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a few assumptions. Our partnership with TMC through the AHCCCS agreements will benefit the transit system by \$900K. We will continue to explore different funding opportunities to allow the fare-free transit to be sustained.

Climate Plan – Tucson Resilient Together. The City uses a multi-department approach to address climate adaptation and resiliency, and to implement the Tucson Resilient Together (TRT) plan. The Climate Action Team is led by our Chief Resilience Officer and is made up of 16 members that bring together talents from our technology, equity, forestry, water, energy, transportation, and health & safety teams.

We continue to have success in obtaining grant funding for TRT plan items, including \$4.2M in Water Infrastructure Finance Authority of Arizona (WIFA) grants to upgrade water fixtures and appliances in City-owned public housing, \$2.6M Reconnecting Communities and Neighborhoods Grant to create an east-west bicycle boulevard connecting Oracle Road to Columbus boulevard, and \$1M from the same program for the Nebraska Bridge. We have also secured \$1.5M from WIFA to implement our Turf Removal program, and an \$830,000 FEMA grant for resilience hub planning. In addition to these recent awards, the team has nearly \$180 Million in additional grant requests underway through the Environmental Protection Agency (EPA), WIFA, and the US Department of Transportation. Funding partnerships such as these are critical to our ability to deliver the TRT plan.

Equity – The City's Equity Budget Analysis (EBA) uses an equity lens for departments to critically assess the impacts of program delivery and budget decisions on marginalized populations. The EBA is designed to support departments and decision-makers in better understanding key points and opportunities to advance equity for all Tucsonans. EBA is a tool and process that analyzes how departmental requests benefit and/or burden underserved communities. This is year three of the City's use of the EBA and departments are progressing in their understanding and use of the tool. The following are five main priorities of the EBA:

- Assess existing policies, programs, and practices to identify any disparities or biases.
- Develop new policies, programs and initiatives that are more inclusive and equitable for all residents.
- Allocate resources equitably to ensure that programs are accessible to all residents.
- Engage communities to gain their input and ensure that programs meet their needs.
- Measure and evaluate the impact of these programs to make necessary adjustments to ensure continued progress towards equity.

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The remainder of this memorandum is broken into seven sections: FY24 Overview, FY25 Budget Introduction, FY25 Overview, General Fund, Special Revenue Funds, Enterprise Funds, and Beyond FY25. 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 FY25 Budget and beyond.

I. FY24 Overview

The status of our current budget is an important component of the City's financial picture as we prepare our budget for the coming year. As in prior years, the current year unrestricted General Fund projected recurring revenues are on pace to exceed projected ongoing expenditures by \$23.1 million. The city continues to experience higher than anticipated sales tax revenues that have been exceeding the rate of growth assumed in the budget. We are, however, seeing growth in our recurring spending and I will be making adjustments for this in the FY 25 recommended budget.

FY 24 Revenues

Overall unrestricted General Fund revenues are anticipated to be higher than the budget. FY24 recurring revenues are projected to be \$756.5 million, a net increase of \$5.6 million from the adopted budget of \$750.9 million. The following are major revenue changes from the adopted budget.

- Business Privilege Taxes: Excluding \$3 million in state adjustments, the year-to-date growth rate stands at 3.8%. Anticipating a 3% growth rate for the remaining half of the year, we project a total surplus of \$4 million.
- Other Local Taxes: We've experienced a \$1.4 million budget deficit on Use Tax, including a \$3 million deduction for state adjustments. Anticipating no significant increases in the second half of the year, we expect a total deficit of \$4.3 million. The TEP electricity rate increase, effective September 1, 2023, has led to an increase in public utility tax collections. The budget surplus on other local taxes is projected to be \$0.6 million.
- State Shared Revenue: The collections are aligning with the budgeted amount except for State Shared Auto Lieu tax which is affected by elevated interest rates on borrowing for vehicle purchases. The budget deficit is projected to be \$0.7 million.
- License and Permits, Fines and Forfeitures and Charges for Services: We anticipate a total deficit of \$1.5 million due to lower collections on permit fees, a \$1.4 million deficit due to reduced collections on court-based fines, and a surplus of \$2.6 million driven by higher allocated Administration Fees from non-General Funds and an increased Franchise fee.

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- Use of Money and Property: Interest earnings have been improving due to rising interest rates. A cumulative total of \$2 million in interest is projected to be received in the General Fund from earnings on ARPA cash balances.

FY 24 Expenditures

The city's spending continues an upward trend as well. FY24 ongoing expenditures are projected to be \$733.4 million, an increase of \$12.3 million from the budget of \$721.1 million.

- Tucson Police and Tucson Fire: Spending is projected to exceed budgets on overtime and extra time for both departments and cell phones and uniform costs with a total deficit of \$9 Million. We are working with the Chiefs to manage this projected shortfall.
- Parks and Recreation: Spending is projected to exceed budgets by \$3.3 Million for the fiscal year on non-permanent seasonal workers along with the expansion of the Aquatics programs and spending on ward office discretionary funding projects.

The FY24 budget includes an assignment of \$68.9 million for the Investment Plan and \$39.6 million for one-time items. Projections reflect \$44.6 million will be spent on Investment Plan items and \$29.5 million in one-time items. Any unspent funds from the Investment Plan will be carried forward for public safety and collector streets items.

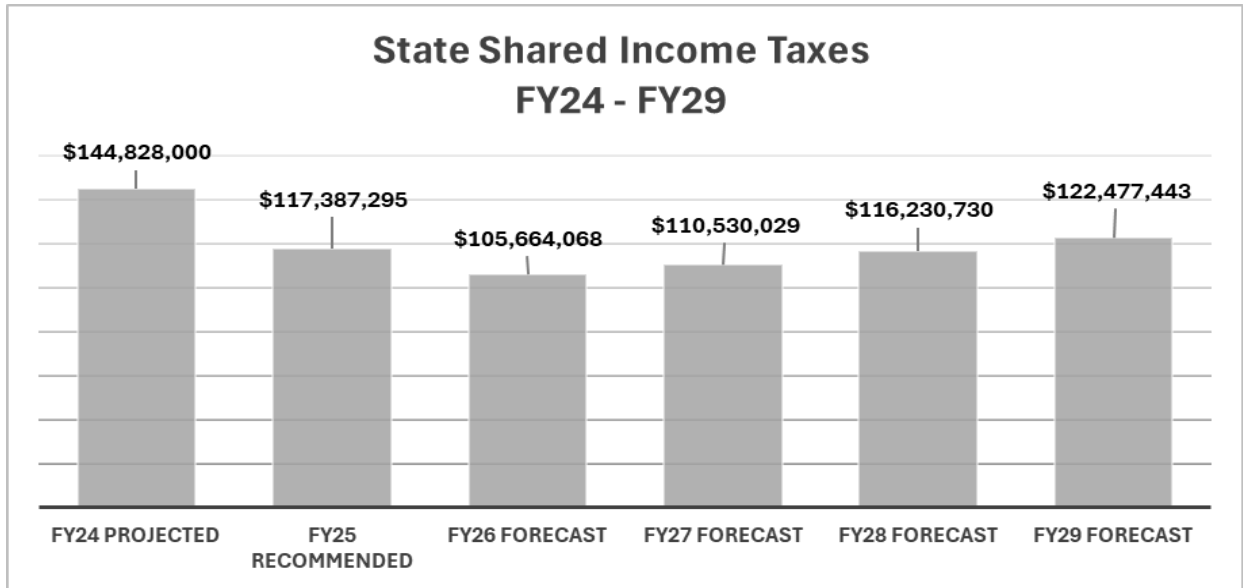
II. Fiscal Year 2025 Budget Introduction

The FY25 Recommended Budget as presented is structurally balanced where proposed expenditures meet revenues sources for all funds.

State Shared Income Taxes

The city will be receiving significantly less in State Shared Income Taxes in FY25 than previously anticipated. In February 2024, we received updated information regarding estimated State Shared Income Tax revenue for FY25 through FY29. The following chart shows how the FY25 distribution decreases from this year's amount of \$144.8 million to approximately \$117.4 million, a \$27.4 million reduction. Beyond FY25, we have been told to expect another sizable reduction for FY26 and then, starting in FY27, the distributions are expected to increase at a modest rate.

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Employee and Retiree Health Insurance Benefits

For a number of years, we have been analyzing our health benefits program and its projected cost increases. Because of its significant cost escalation each year, we have been looking for strategies that lower the budget impact of this important employee benefit. This year an Employee Benefits Committee met more than a dozen times to investigate and discuss possible changes to the health benefits program. I was able to craft a recommendation for the FY25 health benefits program that incorporated many of the strategies that were investigated by the Committee.

During the March 5 Study Session, the recommendation for changes to city-provided health insurance benefits was approved and has been included in the budget. Our total health insurance benefit increases will require an additional \$4.1 Million for the coming year. Table 2 lists the increase equally shared between the employees and the city as follows:

Table 2 - Health Insurance Increase Funding Sources

Health Benefits Funding Source	Amount
City - Increase in Costs (Medical & Dental)	\$ 1,446,920
Employee - Premium Increases	1,249,831
Employee - Decreases in Claims from Copay Changes	739,892
City - Use of Fund Balance	646,602
Total	\$ 4,083,245

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Tucson Supplemental Retirement System (TSRS) Pension

During the March 5, 2024 Study Session, Mayor and Council approved increases to employee contributions to the Tucson Supplemental Retirement System pension program in the coming year for Tier 1 and 2 participants. These increases were unanimously recommended by vote of the TSRS Board of Trustees to ensure that the pension plan continues to make progress towards adequately funding its pension liabilities. Last year, our funded status slipped from 76.5% in FY22 to 75.0% in FY23. We have been working towards a goal of being fully funded (nearly 100%) by FY34. These increases are necessary in order to achieve that goal.

Below on Table 3 are the number of employees participating in each Tier, the current contribution rate and the new contribution rate (highlighted in grey). Employees hired prior to July 1, 2006 (5% rate) will not see a change to their contribution. The new contribution rates will take effect on paychecks issued in mid-July 2024.

Table 3 – Employee/Employer Contributions Rates & Participant Count

Hire Dates/Tiers	FY24 Employee Contribution Rate	FY25 Employee Contribution Rate	FY24 & FY25 Employer Contribution Rate	Participant Count
Hired Prior to July 1, 2006	5.0%	5.0%	27.5%	654
Hired July 1, 2006 to June 30, 2011 (Tier I Variable)	6.75%	7.25%	27.5%	180
Hired on or after July 1, 2011 (Tier II Variable)	5.25%	5.75%	27.5%	1970

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Public Safety Personnel Retirement System (PSPRS)

The City contributes to PSPRS for Fire and Police employees who are eligible to participate in the plan. Over recent past years, employee raises, changes in PSPRS actuarial assumptions, along with reduced investment earnings have resulted in increases to the city’s required pension contributions and a growing pension liability. There have been significant increases to the city’s annual required contributions to PSPRS. Table 4 below reflects the year-over-year increases, with \$35.8M coming from the 115 Trust Fund each year.

Table 4 – Employer Contributions (in millions)

PSPRS Contributions, in millions	FY23 Actuals	FY24 Budget	FY24 Projected	FY25 Recommended
General Fund - Fire	\$19.5	\$38.5	\$38.5	\$36.5
General Fund - Police	37.3	49.6	49.6	52.3
Total General Fund	56.8	88.1	88.1	88.8
115 Trust Fund	35.8	35.8	35.8	35.8
Grand Total	\$92.6	\$123.9	\$123.9	\$124.6

Proposed Fee Increases

During the Mayor and Council November and December Study Sessions, proposed fee adjustments were submitted for consideration for Parks and Recreation, Reid Park Zoo, Tucson City Golf, Park Tucson, and Planning and Development Services. Approval to proceed with required notices, public hearings and outreach to the community was granted. Notices of intent were published, and we continue to conduct public and stakeholder outreach. Public hearings and Mayor and Council action are scheduled for this spring, with new rates, if approved, taking effect on July 1, 2024.

Once adopted and implemented, the proposed fee adjustments are estimated to increase General Fund revenues by \$704,390 in FY25. The fees adjustments will add \$1,053,367 to the Golf fund, \$200,000 to the Park Tucson fund, and \$147,355 to the Zoo fund in FY25.

Proposition 407 Projects – We have seen cost estimates for a number of Prop 407 projects push well beyond our original estimates. Staff meets regularly to review funding estimates and completion status on all of the scheduled projects. The funding gap (difference between identified resources and project costs) for Parks Projects is estimated

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at \$23 Million and for Streets Projects is estimated to be \$26 Million. We are working to bridge these gaps with federal grants, the use of Impact Fees (where allowable), and re-scoping of certain streets projects to include only the initial features committed to the voters during the proposition public education. In addition, last year we recommended that \$22.4 Million in one-time money be set aside in the General Fund for Prop 407 Parks projects. This money will assist with the funding gap for Parks Projects.

As part of the city’s commitment with the passage of Proposition 407, \$1.3 million (\$250k annual amount) has been added to Parks and Recreation’s recurring budget from FY20 - FY24 to cover operating and maintenance costs related to completed Park’s improvement projects. FY25 budget also includes \$250k applied towards the Parks and Recreation recurring budget increase. The amounts that have been added to the Parks & Recreation recurring budget from FY20-FY25 now exceed the total Proposition 407 commitment for increased maintenance funding.

IV. General Fund Overview

Revenues

FY25 Recommended Budget revenues are \$761.4 million, \$4.9 million more than the FY 24 revenue projection of \$756.5 million. Major revenue source detail is listed on the following Table 5.

Table 5 - FY25 Recommended Revenue Budget (in millions)

Revenues	FY24 Budget	FY24 Projection	FY25 Recommended	\$ Increase (Decrease)	% Change +/-
Property Taxes	\$17.7	\$18.2	\$18.3	\$0.1	0.5%
Business Privilege Tax	302.5	306.6	318.9	12.3	4.0%
Other Local Taxes	67.5	67.9	73.3	5.4	8.0%
State Shared Sales Tax	81.8	81.8	85.2	3.4	4.2%
State Shared Income Tax	145.8	144.8	117.4	-27.4	-18.9%
State Shared Auto Lieu	29.3	28.6	29.9	1.3	4.5%
License and Permits	34	32.5	33.3	0.8	2.5%
Fines, Forfeitures & Penalties	5.9	4.5	5.1	0.6	13.3%
Charges for Services	56.8	56.4	61.8	5.4	9.6%
Use of Money & Property	1.2	2.7	4.3	1.6	59.3%
All Other Revenues Combined	10.5	12.5	13.9	1.4	11.2%
Total	\$753.0	\$756.5	\$761.4	\$4.9	0.6%

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The proposed Primary Property Tax rate is 0.4311 per \$100 of assessed valuation, a decrease of \$0.015 due to the decrease of the tort liability claims from \$1,098,500 to \$806,120. The total amount of primary property taxes is projected to be \$19,586,770 of which \$18,780,650 would be General Fund revenue and \$806,120 (the tort liability assessment) would be deposited in the Self-Insurance Fund. We plan to hold the necessary public hearing on taxation on the same night as budget adoption June 4, 2024.

Business Privilege Tax - FY25 budget amount is \$318.9 million, a \$12.3 million or 4% increase from FY24 projected. The city continues to experience growth of 1% to 4.6% in retail and restaurant sectors and most recent data shows 13.9% growth in the construction contracting sector.

State-Shared Income Tax - FY25 reflects a full year of the 2.5% State flat tax law change. According to the Arizona League of Cities and Towns, the city's preliminary distribution for FY25 is estimated to be \$117.4 million, a decrease of \$27.4 million or 18.9% from FY24.

Other local taxes include Transient Occupancy Tax, Hotel/Motel Surcharge, Use Taxes, and Public Utilities. FY 24/25 budgeted total is \$73.3 million up by \$5.4 million from FY 23/24. The increase is primarily generated by a rebound in Use Taxes, utility rate increase, and hospitality revenues.

Charges for services - includes parks facility and recreation fees, planning and development review fees, ambulance transport fees, and franchise fees. The recommended budget total is \$61.8 million, an increase of \$5.4 million from FY 24 budget. The increase is generated from liquid fuel and CNG charges to non-general fund departments. In addition, proposed fee increases were added to the budget for parks facility rental and recreation fees and plan review fees.

Expenditures

While in recent years the City has seen a lot of programmatic and personnel growth, FY 24/25 will continue to focus on service and program delivery.

The single largest expense for the general fund is personnel. The FY25 Recommended Budget reflects an increase in Salaries, Wages and Benefits of \$13.3 million, or 2.8% above our FY24 projection for compensation and benefit increases to employees. Services, Supplies, Capital, and Debt Service categories will see overall decrease. A significant increase is to the Transfers, primarily generated by the effect of the fare free Transit program. Table 6 details the ongoing expenditures included in the FY 25 Recommended Budget.

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Table 6 - FY 25 Recommended Budget Expenditures (in millions)

Expenditures	FY24 Budget	FY24 Projection	FY25 Recommended	\$ Increase (Decrease)	% Change +/-
Salaries, Wages and Benefits	\$464.0	\$474.0	\$487.3	\$13.3	2.8%
Services	101.6	102.0	103.5	1.5	1.5%
Supplies	29.9	31.8	33.4	1.6	5.0%
Capital Outlay	0.2	0.2	2.8	2.6	1300.0%
Capital Projects	2.2	2.2	0.8	(1.4)	-63.6%
Debt Service	55.1	55.1	54.5	(0.6)	-1.1%
Transfers	68.1	68.1	75.4	7.3	10.7%
Total	\$721.1	\$733.4	\$757.7	\$24.3	3.3%

Supplementals

As previously noted, the overarching goal of the FY 25 Recommended Budget is service and program delivery within our available resources. Based on the reductions that have occurred to our ongoing revenues, fewer supplemental requests are recommended this year.

I am recommending \$395,290 for the creation of five new positions in Planning and Development Services to assist with the workload brought about by the increase in development activities throughout the city. Further, I am recommending swapping out several vacant positions across departments to fund requests for essential positions from City Court, City Clerk, Public Defender, Business Services, Public Safety Communications, and Information Technology. Included in the swap is a data analyst I position in the city Manager’s office to accommodate a previously grant-funded position equipped to work across public safety departments data. Also recommended for approval in the supplemental requests is \$6.5M set aside to fund any further need to accommodate overtime costs during the fiscal year. I have also provided \$895,510 to fund non-permanent employees/needs in the Parks and Recreation department, and \$30,151 for an intern in the office of the Public Defender.

Economic Development – Economic Development remains an area of focus for our organization and community. The FY25 budget includes one-time funding of \$2.7 million for primary jobs and site-specific business incentives. The five year forecast also includes the estimated amounts necessary to fund existing commitments for future year business incentives.

Outside Agency Requests – The Recommended FY25 Budget includes funding for the continued support for specific services provided by other agencies, such as Visit Tucson

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and the Arts Foundation for Tucson and Southern Arizona. Details of the City's support for these services follow.

Pima Early Education Program (PEEPs) – The City has provided funding for the PEEP program for three years. In FY22 and FY23, \$1 million was contributed each year from the General Fund. In the FY24 budget, we are providing funding of \$750,000 to the program, from General Fund one-time funding. The reduction was made in FY24 to allow a \$250,000 funding contribution for the city's employee childcare center projects. The County has requested a 3-year ongoing funding commitment for \$750,000 each in FY25, FY26, and FY27. We have included \$750,000 for PEEPS and \$250,000 for the employee childcare center projects in the FY25 General Fund recommended budget.

Visit Tucson

The FY25 Recommended Budget includes \$7.6 million for Visit Tucson, up from the FY 23/24 budget of \$6.8 million, a \$0.8 million increase driven by growing Transient Occupancy taxes (TOT) and bed surcharge collections. Per Arizona Revised Statute 9-500.06, the proceeds of any increase (after April 1, 1990) above the existing discriminatory transaction privilege tax shall be used exclusively by the city or town for the promotion of tourism. The current agreement with Visit Tucson provides for additional funding once the City's share of the TOT and half of the hotel/motel room surcharge revenues combined are greater than \$9.4 million.

In FY24, Visit Tucson agreed to rebate 10% of the funding provided by the city to support free transit initiatives. In the case Visit Tucson's previous year financial position ends in a surplus, additional funds will be allocated so that the amount of the contribution to free transit initiative reaches \$1 million. Discussion on the renewal of the annual agreement for FY25 is in motion.

Arts Foundation for Tucson and Southern Arizona (AFTSA)

The agreement with AFTSA provides for additional funding as follows: once the 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. Including the projected additional funding, the FY25 budget is \$917 K.

Jail Board

We continue to work with Pima County to decrease costs related to jail boarding and those efforts continue to result in decreased costs to the city. Current year costs continue to reflect those efforts and therefore we anticipate a decrease of

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\$500k from the adopted budget of \$5.6 million. The FY25 Recommended Budget will hold flat at \$5.1 million from this year's projection based on continued declining spending trends.

Pima Association of Governments (PAG)

No changes to the funding of PAG are proposed as a part of the FY25 budget. The total funding of \$199K is split between the General Fund (\$98,420) and the Highway User Revenue Fund (\$100,580).

Other Funding Support:

There are no funding changes proposed to civic events in the FY25 Recommended Budget. As in years past, the amounts proposed are:

- Veterans Day, \$8,000
- Martin Luther King Jr., \$8,000
- Cesar Chavez, \$8,000
- Tucson Clean & Beautiful, \$173,940
- Victim Services Program, \$24,900
- Downtown Tucson Partnership, \$550,000
- Economic Workforce Requests for Proposals (RFP), \$600,000
- Human Services, \$1,400,000

FY25 Departmental Budget Recommendations

Mayor and Council

- General Fund \$6,439,455
- Civic Contribution Funds \$6,000

In the past three years, the Mayor's Office and each Ward Office have had \$250k of discretionary capacity (along with \$300k of ARPA) budget allocation for use in their Wards and/or for city-wide needs. Over these years, if offices did not use their discretionary allocation, it was rolled to the next year for use. FY25 budget includes unused balances of discretionary funding for use during the year, but it does not include new discretionary allocations.

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City Manager's Office

- General Fund \$13,975,263
 - Investment Plan FY24 Carryforward - \$410k
- Civic Contributions \$12,000

The City Manager's Office budget includes the following nine programmatic divisions: City Manager's Office proper, Communications, Internal Audit, Zoning Examiner, Economic and Workforce Development, Capital Planning, Independent Police Review, Equal Opportunity Program, and the Equity Office.

City Clerk

- General Fund \$5,607,769
 - \$1,865,000 One-time funding

The City Clerk's recommended budget includes one-time funding for the election cycle as well as voting machines and campaign finance reporting software.

City Court

- General Fund \$12,962,488
- Other Federal and Grants \$833,797

City Court's recommended budget includes an increase to FTE count by 1.0 to assist with caseloads.

Public Defender

- General Fund Unrestricted \$4,639,260

Public Defender's budget includes an increase to the operating budget for a non-permanent intern to work with body worn camera disclosure in order to prevent the delay of court proceedings.

Tucson Police Department (TPD)

- General Fund \$228,402,627
 - \$17,386,830 in Investment Plan funding for public safety equipment, vehicles, apparatus, and facilities. \$14,123,000 from FY 24 carryforward
- Civic Contributions \$15,000
- Safer City Improvement Fund \$17,488,673
- Federal and Non-Federal Grants \$17,915,282

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Recruitment and retention of qualified police officers and use of the alternate response initiative proposal remain high priorities. We hope to leverage our non-commissioned support with the Analysis Division making cutting edge strides in evidence-based policing and setting the standards for the rest of the nation with the launch of CSARC and new efficiencies utilizing research and data analysis. The Grants Division also will play a key role in FY25, as we focus on applying for grants to bridge operational need and aid in community involvement and inclusion. As committed to the public with the passing of Proposition 411, Investment Plan funding will be used to meet many of the Department's equipment, vehicle, and other mission-critical needs.

Tucson Fire Department (TFD)

- General Fund \$134,195,338
 - \$11,098,920 in Investment Plan funding for public safety equipment, vehicles, apparatus, and facilities. \$5,575,250 from FY 24 carryforward
- Safer City Improvement Fund \$28,117,076
- Federal and Non-Federal Grants \$3,587,699
- Self-Insurance Internal Service Fund \$470,896

TFD has maintained capacity to work within the city's emergency response infrastructure and capabilities amidst the busiest year in the department's history, with more than 103,000 distinct calls for service. This achievement was made possible through leveraging of diverse funding sources such as Prop 101-Tucson Delivers, Investment Plan dollars, federal, state, local, and regional partnership grants. As committed to the public with the passing of Proposition 411, Investment Plan funding will be used to meet many of the Department's equipment, vehicle, and other mission-critical needs.

City of South Tucson (COST) Fire Service Agreement – We have been working on a draft intergovernmental agreement (IGA) to provide fire and emergency medical services in the City of South Tucson. This is intended to be a budget neutral proposal; total revenues are expected to cover direct costs. Once the IGA is finalized, it will be brought forward to Mayor & Council for consideration and approval. Nothing is contained in this recommended budget for this agreement.

Public Safety Communications Department (PSCD)

- General Fund \$20,801,198
 - \$1,473,880 in Investment Plan funding for public safety equipment, vehicles, apparatus, and facilities. \$223,870 from FY 24 carryforward
- Federal and Non-Federal Grants \$3,743,840

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Partnering with the Fire and Police departments to reduce calls requiring a response continues to be major challenge that PSCD has undertaken. Sending calls to the right resource, right place and right time is key. The program that PSCD is currently working on and will continue to improve this fiscal year and beyond is a regional 3-1-1- system. Most major cities provide access to government services through a single community request process, using the Federal Communications Commission (FCC) assigned three-digit dial string of 3-1-1. The intent of this access is to improve the community experience in accessing and requesting these government services by reducing confusion about who and what number to call. The establishment of a regional 3-1-1 system furthers that effort, offering like services to all callers while appropriately directing incoming requests to the responsible agency for resolution. In the past year, steps were taken to establish permanent staffing for 3-1-1 and begin training. FY25 budget includes an increase to staffing by 5.0 FTEs. As committed to the public with the passing of Proposition 411, a portion of the \$18 million set aside for public safety will be used to meet many of the Department's equipment, vehicle, and other related needs.

Mass Transit

- Mass Transit Fund \$123,590,900
 - General Fund Transfer - \$63,051,800
- General Fund Investment Plan Funding - \$4,075,000. \$1,200,00 from FY 23/24 carryforward
- Sun Link Fund \$7,165,340
 - General Fund Transfer - \$5,989,240
- Risk Management Fund - \$5,457,230
 - General Fund Transfer - \$2,000,000

For four consecutive years, the City's transit system has been fare-free. This was made possible through federal funding for two years during the pandemic and continued through one-time General Fund funding in FY 24. FY 25 includes funding for fare-free in the General Fund Transfer recurring budget. Community partnerships will enable this program to continue through FY25: our partnership with TMC through the AHCCCS agreements contributes \$900K and \$2 million from the hotel/motel surcharge arrangement with Visit Tucson. In addition, staff is working on extending the current year Visit Tucson agreement to continue support of a 10% rebate from funding provided by the city to go towards free transit initiatives in FY25.

The FY25 General Fund Investment Plan includes an allocation for Transit Capital of \$4.1 million to fund Bus Rapid Transit/Streetcar consultant, CNG Plant upgrade, and Federal Transit Administration local match requirement for vehicle purchases.

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Parks and Recreation Department (P&R)

- General Fund Unrestricted \$39,362,285
 - \$2,000,000 Investment Plan funding
- Civic Contribution Fund \$1,169,060
- ARPA \$20,175,937
- Federal and Non-Federal Grants \$5,941,684
- Parks and Connections Prop 407 Fund \$36,808,321
- Gene Reid Park Zoo Improvement Fund \$31,052,520
- Development Fees Fund \$9,742,960

Parks and Recreation's FY25 budget includes an increase of \$1,756,510 for non-permanent employees, aquatics and groundskeeping programs, pool chemicals supplies, security guard services, lifeguard certification training, uniforms and other supplies.

As part of the city's commitment with the passage of Proposition 407, \$1.3 million (\$250k annual amount) has been added to Parks and Recreation's recurring budget from FY20 - FY24 to cover operating and maintenance costs related to completed Park's improvement projects. FY25 budget also includes \$250k applied towards the Parks and Recreation recurring budget increase of \$1.8 million. The amounts that have been added to the Parks & Recreation recurring budget from FY20-FY25 now exceed the total Proposition 407 commitment for increased maintenance funding.

Transportation & Mobility (DTM)

- General Fund \$5,820,957
 - \$5,000,000 Investment Plan funding, \$1 million from FY 23/24 Carry forward
- ARPA \$13,870,000
- Prop 101 \$18,020,800
- Proposition 411 \$75,000,000
- Parks and Connections Prop 407 Fund \$19,688,280
- Capital Improvement \$73,514,000
- Regional Transportation Authority (RTA) Fund \$43,808,000
- Development Fee Fund \$17,469,200
- Federal and Other Non-Federal Grants Fund \$37,905,000

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DTM has multiple major programs for delivery in FY25 and into the future. Programs funded with recurring General Fund dollars include stormwater quality, landscape and maintenance. Collector Streets program (funded through the investment plan) supports the city's commitment to fund streets under the Prop 411 voter approved initiative. Streets and Sidewalks (funded through ARPA), and Propositions 101, 407, and 411. RTA, Development Impact Fees, Inter-Governmental Agreements with regional partners, and federal and state grant funding are also used to fund the city's roads, traffic lighting, pedestrian crosswalks, and bicycle paths.

Environmental and General Services Department

- General Fund \$70,853,078
 - \$500,000 in One time funding
 - \$2,330,000 in Investment Plan funding for facilities and \$430k for Climate Action

Environmental and General Services recommended budget includes increases for fleet services and facilities maintenance ongoing cost increases, and city-wide abatement and demolition program is budgeted to be in alignment with current year spending.

City Attorney

- General Fund \$12,925,201
 - \$1,800,000 in One time funding
- Federal and Non-Federal Grants \$372,827

The City Attorney's recommended budget includes increases for Westlaw licensing costs, a tool used for law research and one time funding for a new case management software system.

Planning and Development Services Department (PDSD)

- General Fund \$12,223,863
 - \$400,000 in One time funding

PDSD's recommended budget includes an increase to the operating budget for additional staffing. The department is continuing the work to right-size its blend of outside contractors and hired staff. The department's one-time funding supports the ongoing projects to digitize historical building records and update Plan Tucson.

Business Services Department (BSD)

- General Fund Unrestricted: \$17,564,275
 - \$200,000 in One time funding
- Risk Mgmt. Fund: \$28,556,799
- Enterprise Funds: \$1,592,477

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- Special Revenue Funds: \$2,436,021

The FY25 budget includes one-time funding to support the transition of the city's banking, merchant services, purchasing cards, and/or online purchasing vendors.

Human Resources

- General Fund Unrestricted: \$10,030,350
- Enterprise Funds: \$842,572
- Special Revenue Funds: \$263,522

The recommended budget for Human Resources includes funding of \$500,000 for vacancy and innovation improvements that was initially allocated to the department this fiscal year. This funding is intended to provide continued flexibility, allowing for targeting solutions and adjusting to circumstances as needed during the year. The funding may be used for staffing or programmatic support. HR will be continuing with city-wide Workday Phase 3 implementations of the performance management, onboard & offboarding, and learning management modules.

Additionally, Human Resources budget includes an increase for the Student Loan Repayment program of \$250k, from the current allocation of \$750k. This is intended to set the budget allocation for this program at the current spending trend. The adjustment is intended to set a cap of \$1 million for the program on a first come first serve basis.

Information Technology (IT) Department

- General Fund Unrestricted \$37,997,006
 - \$2,038,000 in One time funding
 - \$500,000 in Investment Plan funding

Included in the recommended budget for IT includes increases to the operating budget for software maintenance contractual adjustments, Workday phase 3 implementation environment, and online access to an IT training catalog. One-time funding was also included for KRONOS timekeeping required upgrade, city-wide roll-out for MS Project online, SAN network storage to support demand, Workday phase 3 for implementation of Human Resources Learning and Performance Management, and the Prism reporting and analytics tool.

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V. Special Revenue Funds

Section 115 Pension Trust

The 115 Trust holds the proceeds of the City's pension obligation bonds and invests that money to assist with meeting our Public Safety Personnel Retirement System (PSPRS) pension obligations. The Trust was established to give the city local control over investments and provide more flexibility in how the City meets its annual pension obligations and unfunded liability. While financial markets remain highly volatile across the globe, the City's 115 Trust Board continues to monitor investment performance and consider relevant investment policies. Trust investments have recently outperformed our benchmarks due to a number of factors related to investment allocation and market sector performance.

We are budgeting to fund the total annual pension obligation of \$124.6 million, an increase of \$500,000 over FY24. The budget includes \$88.8 million funding coming from the General Fund and \$35.8 million from the Trust. The funded status after combining PSPRS and the City's 115 Trust assets and applying towards the City's PSPRS accrued liabilities, the city's unfunded actuarial accrued liability totals amount is \$639.1 million, and the funded rate is 66.5% for both police and fire plans combined, which is similar to last year's combined funded status.

Tucson Delivers, Better Streets, Safer City

- Better Streets Improvement Fund \$18,020,800
- Safer City Improvement Fund \$45,605,749

The sales tax authorized to fund Tucson Delivers ended on June 30, 2022. Revenues under the program have allowed us to deliver beyond our original projections. While the revenue is more than what was originally projected, we have also seen an increase in costs associated with the program (both in the cost of materials and labor).

Tucson Delivers, Parks and Connections

- Great Parks: \$36,808,321
- Strong Connections: \$19,688,280
- General Fund commitment: \$22,431,610

The Tucson Delivers: Great Parks and Strong Connections General Obligation Bond Program is into its fourth consecutive year of implementation. Passed by Tucson voters in November 2018, the Program invests in park amenities and bicycle and pedestrian infrastructure across the city. The City will be further investing in Parks and Connections through a General Fund transfer up to \$22.4 million. This additional investment will

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support the Program delivery as committed to the community including acceleration of the projects.

Gene Reid Park Zoo Improvement Fund

- Zoo Capital Improvement Fund \$31,052,520

For FY25, Reid Park Zoo will continue to be a facility that creates lasting memories while providing educational opportunities to learn about animals, science, and conservation. A key impact will be construction for Pathway to Asia with consideration for comfort of animals and guests.

Top priorities will also be focused on Animal Care, Association of Zoos, and Aquariums (AZA) Accreditation, additional educational programming, Community Events and Accessibility and the continued promotion and achieving benchmarks regarding the Diversity, Equity and Access and Inclusion (DEAI) Action Plan.

There are several capital projects underway for the Reid Park Zoo Master Plan. Pathway to Asia will transport guests to the world's largest continent where they will meet some of the world's most rare and endangered species. This expansion of the Zoo will be in the current parking lot for the Zoo and Edith Ball Adaptive Recreation Center and includes the construction of a new, larger parking lot. This new location does not use any green space and converts 45% of what is currently asphalt into green space within the Zoo. Completion date is planned for Spring of 2026. Reid Park Zoological Society also raises funds through a capital campaign to supplement funding through the Gene Reid Park Zoo Improvement Fund. So far, \$3.5 million has been raised with a goal of \$5.8 million.

Operational and Facility Improvements Ongoing operational and facility improvements are key to a great guest experience. In keeping with the Zoo's commitment to leading animal well-being, the current part-time veterinarian associate position will be increased to a full-time position. This also enhances our partnership with the University of Arizona's School of Veterinary Medicine as our veterinary team provides training for the veterinarians of the future.

Green Stormwater Infrastructure (GSI)

- Green Stormwater Infrastructure Fund \$11,488,029

Mayor and Council authorized to continue the Green Stormwater Infrastructure fee adopted in February 2020 and to continue the Storm to Shade Program supported by the fee. The recommended budget includes the use of some of the fund balance that has accumulated since the inception of the program. The now permanent fee brings in around \$3.3 million of revenue annually and has \$8.7 million in fund balance as of FY23. The Storm

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to Shade Program is fully operational and the team is executing many new projects that were previously in design.

Tucson Convention Center (TCC)

- Convention Center Fund: \$15,022,169

Overall, the Tucson Convention Center operations budget will remain relatively the same from FY24 to FY25. Revenue per event is projected to increase. The following table reflects FY25 General Fund transfer of \$4.1 million, slightly increasing by \$26k or 0.63% from the current year amount.

Funding from General Fund	FY24 Budget	FY24 Projection	FY25 Budget Request	Variance	% Chng.
Operating	\$3,594,800	\$3,277,580	\$3,646,840	\$52,040	1.45%
Capital Equipment	521,000	521,000	495,000	(26,000)	-4.99%
Total Transfer	\$4,115,800	\$3,798,580	\$4,141,840	\$26,040	0.63%

The Living Wage Ordinance adjustment is projected to be 3%. Overall Utilities have increased by both cost per unit and by the TCC’s additional square footage.

The University of Arizona Club Hockey will be adding a women’s team next season with an estimated ten home games. The challenge will be adding these ten games and still having dates available for hosting higher revenue generating events such as concerts. TCC’s sales team has been working closely with Visit Tucson and CVENT responding to RFPs for convention and association events. These require long lead times; however, we have confirmed two new groups. The sales team is also working closely with the TCC Doubletree Hotel, The Leo Kent Hotel, and the Hampton Inn / Home2 to secure room blocks for these upcoming events.

Highway User Revenue Fund (HURF)

- Highway User Revenue Fund \$65,451,401

State shared HURF revenues have experienced a lower-than-average growth in Fiscal Years 23 and 24, increasing 2.20% and 0.03% respectively. Prior to FY23, revenue growth had been somewhat volatile, but averaged a 3% annual growth rate. The FY25 budget is based on a 3% growth factor. It is critical to continue monitoring the revenues in the upcoming fiscal years to ensure the revenue projections are on-target with the financial plan and adjust accordingly. The fund balance on June 30, 2024, is projected at \$20.9M, with an estimated \$15.7M reserved for the collector improvement program.

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The FY25 budget includes several items that increased due to inflation, mainly utilities and commodities (traffic paint and signal cabinets). The budget also includes a 3% increase in wages, pension, and benefits; increased dollars for the recommended health insurance benefits; and a 1% increase in fuel costs. These increases result in projected expenditures equaling revenues.

The HURF budget has committed \$11M per year for five years for the collector improvement program in support of Proposition 411, Better Streets/Safe Streets. This commitment began in FY23 and combines with \$4M per year in the General Fund Investment Plan. This totals to \$15M per year (\$75M grand total) towards the collector improvement program from FY23 through FY27.

Park Tucson

- Park Tucson Fund \$4,459,302

As you recall, Park Tucson's parking revenues were significantly impacted by the COVID-19 pandemic. During that time, fund balance was completely depleted, and the fund had to rely on the General Fund to operate over the last two fiscal years without a deficit. As a result, in FY23, \$1.5M from the Disaster Relief Fund (ARPA) was transferred to the Park Tucson Fund. For FY24, Park Tucson is projected to complete the year very close to expenditures matching revenues. Additionally, Park Tucson will make a final debt service payment of \$721,875 on Pennington Garage bonds in FY24.

Park Tucson is currently conducting public outreach for a proposed increase in rates and fees. The increases would take effect July 1, 2024, pending Mayor and Council approval. This is expected to increase revenues by an additional \$129,180 in FY25.

For FY25, professional services continue to increase as a pilot program has been implemented to offer permanent employment for parking agents after completing training as temporary employees. Park Tucson is working to fill parking service agent vacancies, as filling these positions continues to be a challenge. Park Tucson's priority continues to be the safety and security of the parking lots and garages. There are maintenance needs in the garages that are related to maintaining certified parking facilities. Park Tucson intends to use the budget savings from the retired debt service to perform needed repairs and maintenance. The FY25 recommended budget is \$4,476,188, which is estimated to result in a surplus of \$1,079,322. This projected surplus will be used for one-time maintenance needs.

Housing and Community Development (HCD):

- General Fund \$9,877,478

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- \$4,500,000 in One time funding
 - Community Development Block Grant (CDBG) \$7,442,035
 - ARPA \$29,913,520
 - HOME Investment Partnership Program (HOME) \$5,430,818
 - Public Housing Section 8 Fund \$48,548,133
 - Public Housing AMP Funds \$16,526,903
 - Other Miscellaneous Housing Grants \$9,295,894
 - Other Miscellaneous Federal and Non-Federal Grant Funds \$2,899,130

HCD is committed to the vision of a community in which every Tucsonan has safe, quality, and affordable housing. To achieve that vision HCD consists of five functional divisions that serve our community in different capacities: Public Housing (Federal and Non-Federal), Housing Choice Voucher (HCV), Community Development (CD), Planning Division (PD), and Housing First. The department has 199 Authorized FTEs of which about 173 are grant-funded and 26 are General Fund funded. On average, 98% of HCD's recurring funding is restricted for use in directly funding the department's functional programming. The remaining 2% funds any staff that aren't grant-funded, the P-CHIP Program, and the supplies, tools, and equipment needed to run the department.

Public Housing operates 1,505 public housing units and 451 additional below-market affordable housing units for low-income Tucsonans. HCV administers more than 5,500 Housing Choice Vouchers to residents renting from private landlords. CD administers affordable housing development and financing, owner-occupied residential rehabilitation, lead-based paint remediation, down payment assistance, and tenant-based rental assistance programs. The division also administers the P-CHIP grant program through which HCD provides more than \$3M in funding to support housing and human services programs administered by local non-profits annually. In addition, CD administers projects funded through the Housing and Urban Development Community Development Block Grant program. As part of PD, the Strategic Planning and Community Engagement (SPACE) division conducts community outreach and engagement activities on behalf of HCD, prepares HCD marketing materials and websites, publishes the HCD newsletter, responds to press inquiries, develops mapping tools, conducts local research, and prepares organizational plans. SPACE is the lead team working on Thrive Zone initiatives in the 85705 zip code and the 29th Street Corridor. Lastly, SPACE oversees affordable housing development activities through HCD's El Pueblo Development Non-profit and is administering the \$50M Choice Neighborhoods Implementation grant which will re-develop the Tucson House and revitalize the Thrive in the '05 zone. As part of the local match requirement for this grant, \$6 million will be paid by the General Fund, \$1 million over six years. Also, part of PD, the Continuum of Care team administers the local Continuum of Care, the Tucson Pima Collaboration to End Homelessness. The Continuum

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of Care is the largest funder of homelessness assistance services in Southern Arizona and provides more than \$13M in federal funds to a variety of outreach, diversion, employment and education, and supportive housing programs annually. The Housing First Division administers a variety of human services to address homelessness through shelter and permanent housing. The Division provides street outreach services, housing navigation, mobile showers, emergency shelter, and permanent supportive housing programs for people experiencing homelessness.

ARPA Fund

In FY22, and through ARPA funding, the city shifted from reaction to response and to making a transformative and sustainable impact in the community. Through the leadership of the Mayor and Council, the city developed a framework to infuse \$136 million into the hands of all Tucsonans, starting with those hardest hit by poverty, crime, and COVID-19 in our community.

- Recovery for all, starting with communities who were hardest hit by the pandemic.
- Invest seed money with an eye toward long-term investments to address long-standing inequities
- Strategic Partnerships with Pima County and Pima County School Districts to expand services to the community
- Partner with grassroots networks to connect with hard-to-reach communities
- New solutions and ideas as well as replicating or expanding proven successful models
- Data-driven and evidence-based investments that create the backbone of Tucson's relief and recovery investments
- Transformative, strategic investments aimed at relief and a resilient recovery for the hardest-hit communities.

The FY25 budget will include the final Community Partner Grant distribution and will begin the wind down of ARPA funding. All APRA funding needs to be obligated by December 2024 and spent by December 2026.

Staff will be updating Mayor and Council on our obligation and spending status during a separate item at the April 25, 2024, Study Session.

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VI. Enterprise Funds

Environmental Services Fund

- Environmental Services Enterprise Fund- \$71,879,767
- Grants Special Revenue Fund- \$45,700

On January 11, 2023, Mayor and Council approved a rate increase that went into effect January 1, 2024, for residential collections fees. The FY25 budget includes \$4.2 million additional revenues from this increase. The Environmental Services funding is planned to support the acquisition of critical heavy equipment to support both landfill and collections operations and capital improvement projects, such as the completion of the plastic waste diversion facility at the Los Reales Sustainability Campus. The budget will support several projects bringing the city closer to its climate action goals such as planned enhancements to food waste diversion and composting and landfill gas to energy. The Grant Special Revenue fund is used to account for Brownfields grant activities. Eligible cost covered under this grant are for activities to assess, safely clean up and sustainably reuse contaminated properties. The remaining grant funds of \$45,700 will be utilized by the end of FY25.

Nearmont landfill property – On August 8, 2017, Mayor and Council authorized the allocation of \$7 million from the Environmental Services Fund to remediate approximately 300,000 cubic yards of landfill waste from eight acres of city owned land known as the Congress and Nearmont landfills. The motion also authorized the use of net sales proceeds from the sale of properties west and south of the Caterpillar Headquarters building for reimbursement to the Environmental Services Fund up to the amount invested. Since that time, additional remediation costs have been incurred. To date, the City has invested \$8.4 million from the Environmental Services Fund in the clean-up. The property is vacant and community conversations are being held regarding potential future uses.

Tucson Water Utility (TW)

- Tucson Water Utility Fund \$355,684,011
- Conservation Fund: \$6,531,566

Tucson Water's FY25 budget balances customer rates with the necessary investments in people, infrastructure, and operations to provide essential water service to Tucson and the region. The Tucson Water budget recommendation is based upon a financial plan that incorporates the 5.5% annual water revenue increases for FY24 through FY27 which were adopted by the Mayor and Council in January 2023. Rate increases above 5.5% are likely to be necessary in future years, due in part to the costs related to PFAS remediation capital

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projects and operations. The revenue forecast will be updated each year and any necessary additional rate adjustments will come before the Mayor & Council.

The FY25 budget recommendation increased \$11.8 million above the FY24 Adopted Budget due to increases for CAP rates, energy, and personnel costs. The utility will continue with its efforts in the development and implementation of various capital improvement projects that aim to upgrade the water distribution system as well as maintain compliance with federal mandates and improve the efficiency of operations.

A debt issuance of \$75 million is anticipated to fund part of the five-year capital program. In addition, the Utility secured \$40.5 million in additional funding for projects such as the Lead and Copper Rule Revised Program and the Northwest Wellhead Treatment Project from the Arizona Water Infrastructure Finance Authority (WIFA) that included \$13.6 million in forgivable principal. The water department was also awarded \$3.0 million for Phase 1 of the Advanced Metering Infrastructure (AMI).

The Conservation Fund budget recommendation includes a one-time increase to budget capacity of \$2.5 million to spend most of the \$3.3 million fund balance. This will fund additional conservation and drought plan efforts.

Tucson City Golf Fund

- Tucson Golf Enterprise Fund \$11,810,492

Tucson City Golf continues to expect strong revenue growth as a result of a steady increase in rounds of golf. Rounds continue to increase by approximately 1% per year, which is another 2,500 rounds across all five courses. The operator's ability to increase fees helps offset increased expenses in both personnel and supplies. Revenue projections for FY25 are \$12.6M, an increase of \$1.9M over FY24 budget. Total FY25 operating expenses are estimated at \$11.8M, which will result in an estimated operating income of \$800,000. The Randolph Golf Complex is projected to have the highest operating income at \$1.36M followed by Silverbell at \$150,000.

As of June 30, 2023, the balance owed on the loan from the General Fund to the Golf Fund was \$173,325. This is anticipated to be paid in full at the end of FY24.

FY24 included major tree work at the Randolph Golf Complex and improvements to the restaurant and restrooms. New large screen televisions were installed at all the restaurants to encourage guests to hang out before and after golf. Tucson Golf continues to explore marketing opportunities to increase traffic to the restaurants to generate more non-golf revenue streams.

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The addition of disc golf at El Rio is bringing in a new clientele and helping increase revenues through more tee times and food and beverage. There has been a learning curve for both the disc golfers and regular golfers, but, overall, this has been a good addition. Tucson City Golf will continue to analyze whether disc golf can be incorporated into any of the other courses.

VII. FY 25 & Beyond – 5 Year Forecast and Investment Plan

The Mayor and Council's strategic decisions, direction, and leadership provided stability and opportunity to the City's financial position, particularly within the General Fund. The General Fund will have a projected \$142.5 million in excess of its policy reserve levels at the beginning of FY25, and FY25's recommended budget is operationally balanced (ongoing revenues exceed ongoing expenditures). FY25 includes the continuation of the prior year Investment Plan with significant adjustments to accommodate the reduction of available funding in the current and future years.

The 5 Year Forecast calls to our attention the ongoing difficulties of the unexpected decreases in State Shared Income Taxes in the coming years. We will need to take action to ensure that we can operationally balance the budget in future years. Knowing this now, we are prepared to continue to identify ways to decrease on-going expenditures that might contribute to future year financial difficulties. As you can see, without added cost-saving measures, we will experience operational deficits in FY26-FY29, and the current fund balance could be entirely depleted by FY27.

In addition to changes to Investment Plan spending and deferring compensation decisions to mid-year, we will need to use additional strategies to manage costs and increase revenues. These strategies include: vacancy management (hiring delays and/or freezes), service delivery changes (decreases), increases in rates, fees, and cost allocations, continuing our aggressive pursuit of state and federal funding opportunities, and potentially seeking new voter-approved funding sources.

The Investment Plan will continue the city's multiyear commitment to invest in public safety equipment and facilities and collector streets. Other categories of the plan have been adjusted significantly, some including only specific carryforward from unspent amounts in FY24. The following are the Investment Plan categories with amount included in the recommended budget.

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- Climate Action Plan – \$430,000
- Collector Street Program - \$5 million - (\$4 million/yr.), note this is a part of the \$15M investment required as part of voter approved Prop 411. The remaining \$11M will come from HURF as outlined above.
- Public Safety - \$29.9 million (Equipment, Vehicles, Apparatus, and Facilities (\$18M/year) - note this investment is required as part of voter approved Prop 411.
- Facilities Maintenance Program - \$1 million
- Parks and Recreation Replacement and Renewal - \$3 million
- Information Technology R&R - \$500,000
- Transit Investment – \$4.1 million
- Community Safety, Beautification, and Entryways - \$0
- Art, History, Heritage, and Culture - \$460,000
- Non-Public Safety Vehicle Replacement - \$1 million
- In addition, added to the plan is \$1 million/year (\$6 million total) to meet a local match requirement for Housing's Choice Voucher grant award.

Community Budget Engagement

As part of the city's Budget Engagement effort, in-person and virtual events were held on the following dates and locations.

- February 29th, Midtown Area
- March 26th, Virtual Town Hall
- March 28th, Employee Town Hall
- April 2nd, El Pueblo Activity Center
- April 3rd, El Rio Community Center
- April 4th, Ward 2 Office –Eastside

At all of the events, staff made a presentation regarding the City's budget and current challenges, and attendees were able to ask questions of staff. Citizens were encouraged to provide their feedback through a budget survey link. The survey could be taken on-line, was provided in paper format at the April events, and was available on the 1st floor of City Hall.

We also held an Employee Budget Town Hall on March 28th at the Tucson Convention Center. Over 200 employees were in attendance. They provided ideas and feedback regarding city resources and service delivery. On April 10th we will be reporting out to the employees regarding the feedback that was received during the scheduled "Coffee

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with Mike" meeting. We still tabulating the information and will share it once we have it compiled.

Budget Adoption Calendar

- **April 9th, (today) presentation of City Manager's Recommended Budget**, in accordance with City Code.
- **April 25th, May 7th & May 23rd Study Sessions** - opportunity for Mayor & Council to provide comments on the recommended budget.
- **May 7th – Public hearing** will be held during Regular Session to provide an opportunity for the public to comment.
- **May 23rd - Discussion and Adoption of the Tentative Budget.** Arizona Revised Statute §42-17105(C) requires that after adoption of the tentative budget, total appropriations cannot be increased.
- **June 4th Final Budget Adoption** - will be another opportunity to review and provide comments/changes, as long as the changes are within the total budget amount.

In Summary

This recommended budget has been a challenging plan to develop. We have been hit with unexpected revenue decreases in our General Fund that are projected to be large and to persist for multiple years. This has required that we adjust our spending plans and change strategies for investing dollars within our community. But, because of the careful financial planning of the past, we have resources on hand that will help us weather these difficulties in the coming months.

Staff has spent numerous hours preparing the budget documents and I would like to acknowledge their efforts. There are too many to mention all by name, but it did include the Executive Leadership Team, staff from Business Services, and the City Manager's Office. I would also like to thank the Mayor and Council for the direction and feedback provided leading up to this budget, which has been critical to the preparation of the FY25 Recommended Budget.

Attachments:

Attachment B: FY25 Recommended Budget State Forms

Attachment C: 5 Year Forecast and Investment Plan