



Minutes of MAYOR AND COUNCIL Meeting

Approved by Mayor and Council
on May 18, 2021.

Date of Meeting: January 28, 2021

MEETING NOTE: Due to the impacts of the COVID-19 pandemic, which prompted declarations of a public health emergency at the local, state, and federal levels, this meeting was conducted using measures to protect public health. This meeting was held remotely through technological means, as permitted under Arizona law.

The Mayor and Council of the City of Tucson met in regular session remotely through Microsoft Teams at 12:03 p.m., on Thursday, January 28, 2021, all members having been notified of the time and place thereof.

ROLL CALL

The meeting was called to order by Mayor Romero and upon roll call, those present and absent were:

Present:

Lane Santa Cruz
Paul Cunningham
Paul Durham
Nikki Lee
Richard G. Fimbres
Steve Kozachik
Regina Romero

Council Member Ward 1
Vice Mayor, Council Member Ward 2
Council Member Ward 3
Council Member Ward 4
Council Member Ward 5
Council Member Ward 6
Mayor

Absent/Excused:

None

Staff Members Present:

Michael J. Ortega
Michael Rankin
Roger W. Randolph

City Manager
City Attorney
City Clerk

1. Financial Review Including Unrestricted General Fund and Highway User Revenue Fund (HURF); FY 2020/21 Year-to-Date Actuals, Working Projections, and HURF 5-Year Projections FY 2021/22-FY 2025/26 (City Wide) SS/JAN28-21-25

Introductory comments were made by Michael J. Ortega, City Manager. He stated this item was part of the conversation the Mayor and Council had had in previous meetings, where on a monthly basis, staff presented a snapshot of where the City was. He said if any changes were needing to be made, they could be done in real time. He then turned the presentation over staff.

Information and presentation were provided by Joyce Garland, Chief Financial Officer/Assistant City Manager on the City's Unrestricted General Fund Five-Year Financial Plan, Unrestricted General Fund (Fund Balance Projections), Highway User Revenue Funds (HURF) Year to Date Budget to Actual, Five-Year Financial Plan and Fund Balance Projections.

Discussion ensued regarding expenditures and revenues, specifically payments to PSPRS, FTA grant, fare box projections, transit system, fare moratorium, state shared sales tax (remote seller, retail, and construction), adult marijuana use sales tax projections and state restrictions.

Ms. Garland stated there was good news within the General Fund particularly with the sales tax revenue. As presented in the materials, for the actual expenditures there was \$268 million collected in revenue so far this year but, the expenditures were \$285 million almost \$286 million. She said the revenues were greater than the expenses due to policy when it came to the Public Safety Retirement System (PSPRS) was to pay that annual payment in full as quickly as possible within the fiscal year. Therefore, it was a timing matter, at which point the payment was held off being paid in the first five (5) months to ensure the sales tax revenue was stabilized. Payments were made every pay period and a large payment was made in December. She said the City paid \$75.7 million toward the PSPRS for the first six (6) months of the fiscal year. As she stated before, costs were greater than the revenue, but it was just the timing.

Ms. Garland said looking a projections, it was really astounding how the sales tax grew. She also mentioned from when the budget was set eighteen (18) months ago the thought was revenues would decline for the first six (6) months and then start to increase. She stated \$229 million dollars just from sales tax which was more than last year and eleven percent (11%) greater than the adopted budget. She said while that was phenomenal, again conversation was had regarding behaviors and how people were still continually buying goods but, there was still a decline in the restaurant industry. She said they were seeing increases in sales taxes, within the State shared sales taxes which went up to about \$5.3 million which was almost ten percent (10%), but then the transient tax and the hotel/motel surcharge, it had declined \$5.8 million from the budget.

Ms. Garland stated that in total the projections of revenues \$554.6 million, working projections costs totaled at \$545 million. She said currently, they were projecting an \$8.8 million net revenues over expenses. She informed of items considered which were the

\$15 per hour, change in wages, decompression and adjustments, one-time payment of the 288 hours of over the vacation and the pandemic pay for employees. She also stated a place holder was put in for the two (2) percent wage increase of \$2 million based on a February implementation. She said even by doing that and the additional payments, the City was still close to \$10 million.

Ms. Garland indicated what was not known was what the City still needed for vaccines or the \$17.8 million FTA Grant under the new COVID Act. Based on what was known and into the future not much changed, other than sales tax revenues which increased. She also stated the Business Services Department (BSD) contracted with Dr. Hammond to look at the sales taxes and update the City's forecast. She said projections for fiscal year 2022, salaries and benefits were almost \$348 million almost \$349 million and then went down to \$338 million. She said the reason for that was because of a decrease in the pension line for Fire and Police budget capacity and moved to debt services. She continued that for fiscal year 2022 or beginning of 2021, the debt services line went from \$24.5 million to \$55.9 million which took the budget capacity for PSPRS and moved it down to the debt service line. She said that was the reason behind the change with the projected salaries and wages.

Ms. Garland stated that in this projection it annualized a two percent (2%) wage increase moving forward. She said as a result from different conversations with Mr. Ortega, a place holder for performance-based adjustments of three percent (3%) and operation and maintenance costs for Parks and Connection Bonds were included. Debt services went up due to the Certificates of Participation for the pension and transfers to other funds of which were for the operating cost of the Tucson Community Center and the transit system itself.

Ms. Garland stated the projected revenues for fiscal year 2022, there was a difference of about \$16 million which still needed to have more revenue found or decrease in costs. She said all in all, across the board, there was a deficit between revenues and expenses. She said the deficit was not longer \$30 million as it was some years ago and definitely with the Mayor and Council's assistance, the City had made tremendous strides in its financial picture.

Mayor Romero asked what the biggest concerns were with expenditures exceeding over revenues in both the year to date and working projections. She also asked for clarification in the numbers of where things were at now vs. where they would be at the end of the fiscal year.

Ms. Garland responded that on the actuals, it was a timing issue with the annual PSPRS payment of \$75.7 million. She said moving forward within the fiscal year, there will not be any more payments to PSPRS and it will even itself out by the end of the fiscal year. She said many of the costs were seasonal, or it was really a matter of time, the flow of when payments were due and made.

Vice Mayor Cunningham asked for clarification regarding what the FTA grant was written for and how that money would be used since some of it was restricted. Even

though there was \$17.2 million coming in did not mean it was all available for the General Fund.

Ms. Garland stated a couple grants were received for FTA and the \$17.8 million was for operations and would help the General Fund. However, there were two others and asked Diana Alarcon, Director, Department of Transportation and Mobility to chime in and give a better understanding.

Michael J. Ortega, City Manager, stated the grants received were specific to transit and the conversation would be on how the City could shore up the transit system as a whole. He also mentioned one of the things from the material was from a fare standpoint. With the assumption of no fares being charged through the fiscal or calendar year, what did that mean. He said, ultimately, those were costs that had to come from somewhere and if those could be used to offset that cost, then a broader conversation about fares would happen as well as what impact that had on the General Fund.

Diana Alarcon, Department of Transportation and Mobility Director, indicated they were putting it all together and more information would be ready in the very near future. She also stated what Mr. Ortega had said was exactly the approach being looked at.

Vice Mayor Cunningham asked within the projections could it be assumed the fare box would remain at zero.

Ms. Garland replied that with this projection, it was not assuming until the end of the fiscal year to be to zero based off the last direction from the Mayor and Council.

Vice Mayor Cunningham said his suggestion was to back out the fare box amount, approximately \$3.5 million, from the projections until fares could be reinstated. If fares were able to be reinstated that would be great but if the City was getting \$17 million from the FTA and still coming out of the pandemic, he thought it was not an end all, be all approach.

Mayor Romero asked for clarification regarding the fare moratorium being until the end of the fiscal year in June.

Mr. Ortega stated there had not been enough time to run through the various scenarios to provide options or provide what impacts those had on the transit as well as the General Fund balance. He said staff was in the process of putting together that information and would be put together assuming there would be no fares through the end of the fiscal year, no fares through the end of the calendar year and no fares through the end of the next fiscal year. The hope was to have it done shortly to give the Mayor and Council an idea of the impacts and what it would look like.

Vice Mayor Cunningham reiterated he wanted to make sure the projections would include all of that within the five-year projections.

Council Member Santa Cruz asked regarding the increased projections for the state shared revenue fund, was there any idea where it was coming from and if it was strictly filled taxes like food or people going to the store.

Ms. Garland said the state shared sales taxes almost had the same category of sales taxes the City had, it was definitely within the remote seller, in retail and in construction which were the three major categories.

Council Member Kozachik asked what the projections from the marijuana sales tax receipts would be.

Ms. Garland indicated that so far it had been projected at \$1.6 million for the City and \$.5 million from the State, which was conservative since the State has already started collecting. She said the City would know more once the City started to see the first cash come through around the end of February or March.

Council Member Fimbres asked what the State's restrictions on the marijuana funding were.

Ms. Garland stated the State's restrictions was for public safety personnel costs. She also stated staff was getting additional information from the League of Cities and Towns and it thought it could be used for equipment.

Mike Rankin, City Attorney, stated that the revenues generated by the adult marijuana tax could be used for public safety equipment (cameras, vehicles, etc.). He said he would continue to monitor the restrictions set by the State and keep the Mayor and Council apprised.

Mayor Romero indicated at the League of Cities and Towns she participated in, it was explained there was more expansive use the funds could be used for and included restorative work and community safety programs. She asked if it would be good to know exactly what the uses were for entering into the next budget season.

Mr. Rankin indicated he would get together with Andrew Greenhill who had been looking into this and touch base with his partners and figure it all out and get a description to the Mayor and Council as budget discussions continue.

Ms. Garland continued her presentation explaining the HURF on how the taxes were for motor fuel registration and operation of vehicles and the City received an allocation from the State, which was \$55.9 million dollars, so far \$27.6 million had been collected and the expenditure budget was \$56.8 million. She said it appeared revenues were over the expenditures by about \$8 million dollars but again it was all a timing issue. The largest other cost was the debt service payment that was on street and highway revenue bonds.

Ms. Garland said payments were made back in December and in June and so far, the smaller of the two payments was made. She stated that was why the year-to-date expenses appeared to be more than the revenues. She also stated that as the year progressed, it was

all about timing and the revenues that came in from the HURF which was \$55.6 million and the total uses would be greater than \$58.9 million and the plan was to actually use about \$3.3 million of the HURF. She said the reason was that there was an investment of about \$2.1 million for street and maintenance equipment, construction efforts on HAWK lights and some pedestrian and bike boulevards. She stated that projections for the HURF in the fiscal year 2022 revenues were not increasing as much as the City's sales taxes. She continued to explain there were several factors in how people were using more electric, hybrid vehicles, not using as much on fuel so there would be a plateau or just slight increase over the coming years unless there was an actual change to the gasoline tax rate.

Ms. Garland informed that the last payment on the street and highway revenue bonds was in fiscal year 2022 and that budget line was \$12.6 million and once that last payment was made, that will start to free up available dollars in fiscal year 2023. She said the debt service in 2023 at \$1.5 million was for the LED street lighting project.

Ms. Garland stated that in the projections what had been projected was continually increasing the street maintenance and roadway improvements as well as adaptive signalization for the Smart City program, a traffic control center to create capacity in efficiency on how to move people through the roadway system and increased funding for other safety projects and programs. She said that with the current plan, by the time 2026 rolls around, they were project approximately \$2 million left with the currently plan in place.

Mayor Romero asked how much money was being invested in the road improvements and capital improvement budget lines, what those were for and what the difference was between the two.

Ms. Garland replied that the road improvements were for fog seal, potholes, etc., and the capital improvement projects had to do with the dollars needed for the corridors as far as the match for RTA projects and other larger capital projects that were part of the capital improvement plan.

Mayor Romero stated, all in all, it looked like road improvements and capital improvement matches were about \$7 million. She said there was a line item for FY 20/21 that called out for services for \$11 million besides the line item for salaries of \$21 million. She asked what that services line was for.

Ms. Garland replied it was for electricity (street lighting) and other services for road repairs, rights-of-way, and maintenance.

Ms. Alarcon stated that the services encompassed items such as landscaping, lighting, utilities, outsourcing of contract work for engineering and construction inspections, etc.

Mayor Romero requested, of her colleagues on the Council, a motion that would place \$14 million for neighborhood road improvements into both HURF and General Funds for use in the next fiscal year or as appropriately can be used; \$2 million per ward office

and \$2 million for the Mayor. She said that way they could begin chipping away at the needs of the 76% of residential roads that were failing. She commented that this was a tangible way to show the residents of the City, that the Mayor and Council wanted to invest in road improvements, using savings from the HURF debt payment, as well as some of the General Fund balance and not just going out to the voters for an additional sales tax to fund this project.

It was moved by Council Member Fimbres, duly seconded, to direct the City Manager to invest \$14 million in FY 21/22 of HURF and General Funds into residential road repairs.

Discussion ensued. Comments were made by Council Members Fimbres, Lee, Santa Cruz, Kozachik and Vice Mayor Cunningham.

Council Member Lee stated she agreed with Council Member Fimbres and asked for clarification regarding the HURF and general funds and how the combination of the two would come together.

Mr. Ortega said from what he understood the thought was to invest \$14 million into the neighborhood streets. He suggested to Council Woman Lee for the chance to go back to look over the structure to build from into the five-year projections for both the HURF and general fund. He also stated they already put out about \$9 million between the capital outlay and road improvements.

Council Member Fimbres asked what happened with Proposition 101 sales tax revenues collected for the road work and repair entered from the HURF money.

Mr. Ortega stated Prop 101 projects were identified as part of the process and it was not his understanding nor part of the discussion.

Vice Mayor Cunningham stated he would not be supporting this motion and it should be brought back to the voters. He also stated he would rather take some of the fund money balance and see how it could be used next year.

Mayor Romero said they must show the residents of the City that they were committed to road repairs and the additional \$14 million in the City was a drop in the hat. She also indicated 76% of residential roads were failing and they had to prove to the residents they were not just asking for more sales tax, but that the money was being used as indicated.

Ms. Alarcon stated the LED lighting project was for ten years and would be finished with the debt service in 2027. She also stated they needed feedback and direction from the Mayor and Council to be up and running within about two months.

Mr. Ortega stated he would take a look at the budget to get the Mayor and Council where they wanted to go. He said he was clear and what he was hearing was that they wanted to invest additional dollars in neighborhood streets and wanted staff to look at fund balances. He suggested reallocating \$7 million into the conversation as a part of resources available and the second part would be how to structure the program mentioned. He said

the General Fund to balance was probably where he would be putting more focus. He said even though there was a fund balance in HURF, he was sensing that, based on these projections, he was leaning more towards the General Fund. He said the second part to this was how to structure the program based on need, by ward, and some definitive direction was needed on those pieces so that no misunderstanding or miscommunication occurred. He also discussed a timeline for the project.

Council Member Kozachik stated he was also concerned about moving forward so early in the budget process since they had not really identified what was going to happen with Proposition 101. He also stated he appreciated the efforts of money going into neighborhood street but at some point, the conversation about pay raises to employees and pay performance needed to be dealt with.

Council Member Santa Cruz asked if they were giving direction to staff to include the \$14 million of the HURF funds for residential road repair in preparation of the budget or was it a firm line item. She also asked if there would be an opportunity later on to receive more information or revisit the line item.

Mayor Romero stated they were trying to give staff direction to put the \$14 million into residential road repair that was already doing with the HURF funds.

The motion was CARRIED by a voice vote of 5 to 2 (Vice Mayor Cunningham and Council Member Fimbres dissenting), to direct staff to put \$14 million in the budget for residential road repair in addition to what was already being done with HURF funds.

Mr. Ortega said he would return with further information for the Mayor and Council at a future meeting.

2. Employee Retention and Recruitment Plan (City Wide) SS/JAN28-21-25

Introductory comments were made by Michael J. Ortega, City Manager, who fielded and answered questions on employee retention and recruitment plan, particularly, cost of living adjustments, market study and pay for performance. He said there was a need to look at an annual Cost of Living Adjustment (COLA) built into the budget projections moving forward. He spoke about the market study of positions moving forward and performance-based pay.

Discussion ensued.

Mr. Ortega stated that one of the important pieces of this conversation was to focus on what employee retention and recruitment was. He stated that he had broken it down into three pieces. One being cost of living and how the City could keep up with the cost of living. Second, he said was, how the City of Tucson could have a conversation around market, and what that looked like and third was the pay for performance concept.

Mr. Ortega stated first and foremost the City had not been able to afford “regular” cost of living adjustments. He stated the City had tried a variety of things, including giving a one-

time distribution and a variety of other things for employees. He said that there was a need to think about what the cost of living was on an annual basis. He commented that traditionally this was not something that was built into the budget; but clearly there was an opportunity to have a conversation upfront about what this could look like.

Mr. Ortega stated that in the past there were annual allocations, sometimes as high as 7%. He said he thought that should be part of the ongoing discussions moving forward, the employee cost of living needed to be a part of the budget projection/process and not an afterthought; waiting to see what was left over. He stated he had tried to build what that looked like, in terms of understanding.

Mr. Ortega said the second piece was the market study. He began to explain some of the issues he saw. He stated there was a 30% turnover in 911 Communications and when you looked at the City's ability to recruit and retain people; it was a challenge in some areas more than others; particularly public safety. He stated that he had heard from the police and fire chiefs, as well as others that it was a staffing struggle to hire and retain staff.

Mr. Ortega said that the City must be competitive and not just about pay. He said this was much broader than that. He said Council Member Lee's commentary and questions spoke to what the employees work environment was about. He said she asked what the benefit structure and employee benefits were? He stated that the conversation was bigger than just giving everyone a raise; it needed to address where the City was headed as an organization and what that looked like to incoming recruits. He stated that the City needed to recruit differently than it did ten and twenty years ago.

Mr. Ortega stated that a market analysis would help in that respect. He said he expected that this analysis would bring him magnitude to present to the Mayor and Council. He said he expects the number will be large but wanted to present a well thought out plan. He stated this was an opportunity to point to past challenges and how they are being addressed. He stated he wanted an analysis done very three years to ensure the City was staying competitive. He said he also recognized the need to stay current and stated that in between the three-year analysis; the identified problem areas need to be brought to the Mayor and Council, in the entirety of the system. He stated that he expected to bring this to the Mayor and Council in April, at least what it would look like.

Mr. Ortega stated that the last piece was the pay for performance concept. He acknowledged the feedback he had received regarding this. He stated that he was looking for the organization to look at performance-based pay. He also stated that if there was an opportunity to drive metrics important to the Mayor and Council and the community, it should be done. He stated that moving forward, advancement needed to be performance based.

Mr. Ortega stated that the hardest part of this concept was objectivity, and how this could be accomplished objectively vs. subjectively? He stated that it was his hope to implement this administratively, with some aspects of beginning next fiscal year. He stated that he felt this was an opportunity to drive some of the culture change that had been discussed and solidify some of the initiatives.

Mayor Romero thanked Mr. Ortega. She stated that she wanted to see the amount of money that 2% meant to the organization as a whole.

Ms. Garland stated that they had provided that in the general fund, which was part of the forecast. She stated that she did not provide the full dollar amount for the rest of the City but would provide that information to the Mayor and Council.

Mayor Romero stated that it would be good to know what it meant to the general fund and enterprise fund. She stated that she wanted the Mayor and Council to fully understand what 2% meant. She also stated it was important to note what a market analysis would cost and how the City planned to get there. She said she also wanted to see a timeline and a list of the departments analyzed and that without a plan, she felt informed decisions could not be reached.

Discussion continued; no formal action was taken.

3. **ADJOURNMENT:** 2:00 p.m.

AUDIO RECORDING AVAILABLE UPON REQUEST FROM THE CITY CLERK'S OFFICE FOR TEN YEARS FROM THE DATE OF THIS MEETING.



MAYOR

ATTEST:



CITY CLERK

CERTIFICATE OF AUTHENTICITY

I, the undersigned, have read the foregoing transcript of the meeting of the Mayor and Council of the City of Tucson, Arizona, held on the 28th day of January 2021, and do hereby certify that it is an accurate transcription.



DEPUTY CITY CLERK

RWR:bb:jc