Mayor & Council
Retreat
December 4, 2015

Michael J. Ortega, P.E.
City Manager
Plan for today

• Report on meetings
  – M&C
  – Staff
  – Community

• Observations

• Budget

• Opportunities

• Next steps
Report on meetings

• M&C
  – Pride in Tucson
  – Economic Development
  – Infrastructure Improvement
  – Customer service
    • Internal and external

• Staff
  – No raises for past several years
  – Concern over their future (budget)
  – Proud of what they do
  – Do not feel appreciated
  – Apathy
Report (Cont’d)

• Community members
  – Pride in Tucson
  – City/County Relationship
  – Budget stability
  – Roads
  – Turnover of managers/leadership
Observations

• M&C want:
  – to do the right thing
  – a strong Tucson economy
  – excellent customer service
  – structurally balanced budget

• Staff want:
  – clarity/clear direction
  – security
  – support
    • positive work environment
  – a raise
  – better equipment
Observations (Cont’d)

• Community wants
  – City/County relationships to be strong
    • Regional approach
  – better roads
  – efficiency
  – to have confidence in City Government
  – leadership
Observations (Cont’d)

• Budget is the black cloud we all point to
• Staff morale
• Past Budget reductions driven by our culture
  – Political
  – Competitiveness
  – Scarcity
  – Bureaucracy
  – Survival
• Culture drives everything we do
Observations (Cont’d)

• Survival has turned staff against staff (scarcity)
• Disconnect between us (all)
• Plan Tucson not thought of as direction
Culture

• What does it look like 5 years from now?
• What does M&C want?
• What does staff want?
• What does community want?
Thoughts on Culture (future)

• Security (Financially stable)
• Extraordinary customer service
• Part of something larger (winning team)
• Confidence
  – From community
  – Internally in each other
• Happy workforce/community
• Plan Tucson guides direction
Budget

• Situation
  – Structurally unbalanced
  – Increasing costs above revenues

• Goal
  – Operational Structural Balance by FY 17/18
    • June 30, 2018
  – Structural Balance with Capital by FY 19/20
    • June 30, 2020
Projected GF FY 15/16 – FY 19/20
Changes year to year

<table>
<thead>
<tr>
<th></th>
<th>FY 15/16</th>
<th>FY 16/17</th>
<th>FY 17/18</th>
<th>FY 18/19</th>
<th>FY 19/20</th>
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</thead>
<tbody>
<tr>
<td><strong>Revenues</strong></td>
<td></td>
<td></td>
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<tr>
<td>City Sales Tax</td>
<td>$3,900,000</td>
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<tr>
<td>State Shared Sales Tax</td>
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<td>State Shared Income Tax</td>
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<td>$2,600,000</td>
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<td>Auto Lieu (VLT)</td>
<td>$1,100,000</td>
<td>$1,300,000</td>
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<tr>
<td>Fines/Forfeitures</td>
<td>-</td>
<td>$1,000,000</td>
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<tr>
<td>Sale of Prop</td>
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<tr>
<td>Other</td>
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<tr>
<td><strong>Subtotal Revenues</strong></td>
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<td>$13,975,000</td>
<td>$12,650,000</td>
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<td><strong>Expenditures</strong></td>
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<tr>
<td>PSPRS</td>
<td>$25,000,000</td>
<td>$12,000,000</td>
<td>$7,000,000</td>
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<tr>
<td>TSRS</td>
<td>-</td>
<td>$2,000,000</td>
<td>$1,000,000</td>
<td>$1,000,000</td>
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<tr>
<td>Fully Budget All Positions</td>
<td>$6,184,000</td>
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<td>Health Insurance</td>
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<td>$2,160,000</td>
<td>$2,322,000</td>
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<td>Fuel</td>
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<td>Transit</td>
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<td>COPS Hiring</td>
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<tr>
<td>SAFER Grant</td>
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<td>$(1,783,000)</td>
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<td>Election</td>
<td>$1,200,000</td>
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<td>$1,200,000</td>
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<tr>
<td>Debt Service</td>
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<td>$80,000</td>
<td>$277,000</td>
<td>$(1,337,000)</td>
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<td>Other</td>
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<td>-</td>
<td>-</td>
<td></td>
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<tr>
<td>Capital Investment</td>
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<td>-</td>
<td>$7,000,000</td>
<td>$8,000,000</td>
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<tr>
<td><strong>Subtotal Expenditures</strong></td>
<td>$42,564,000</td>
<td>$21,233,000</td>
<td>$24,049,000</td>
<td>$14,363,000</td>
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<tr>
<td><strong>Total change per year</strong></td>
<td>$(29,564,000)</td>
<td>$(7,258,000)</td>
<td>$(11,399,000)</td>
<td>$(2,423,000)</td>
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<tr>
<td><strong>Cumulative per year</strong></td>
<td>$(12,700,000)</td>
<td>$(42,264,000)</td>
<td>$(49,522,000)</td>
<td>$(60,921,000)</td>
<td>$(63,344,000)</td>
</tr>
</tbody>
</table>
## Projected GF FY 15/16 – FY 19/20

### Cumulative analysis

<table>
<thead>
<tr>
<th></th>
<th>FY 15/16</th>
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<td>$(42,264,000)</td>
<td>$(49,522,000)</td>
<td>$(60,921,000)</td>
<td>$(63,344,000)</td>
</tr>
</tbody>
</table>
What we have done in the past

• Based on the situation one-time solutions were appropriate
• Did not pay principal on COPs
• Restructured debt
  – Interest
  – Defer payment
• Furloughs of staff
  – 9 days/employee ~ 3.4% cut in pay (one time)
• Expenditure reductions
• Reduced staffing (layoffs)
• Sold land/assets
• Settlement of lawsuit
• Reduced amounts to outside agencies
• Established new revenue source
  – False alarm fee
  – Photo enforcement
  – Medical transport deductible
PSPRS

• FY 16/17 ~ $25M
  – 2\textsuperscript{nd} payment of Fields Case
  – Normal actuarial calculations
  – Change in return 7.65% to 7.5%

• FY 17/18 ~ $12M
  – 3\textsuperscript{rd} payment of Fields Case
  – Expected 1\textsuperscript{st} payment of Hall Case
  – Normal actuarial calculations

• FY 18/19 ~ $7M
  – 2\textsuperscript{nd} payment of Hall Case
  – Normal actuarial calculations
PSPRS (Cont’d)

• A few other thoughts:
  – NOT THE FAULT OF FIRE OR POLICE EMPLOYEES
  – Prepayment of contribution (some risk on return)
  – Calculations annually assume all FTEs pay
  – Nothing we can really do locally to change
    • Legislative
    • Voter
  – Will look at Com vs. Non Com. Functions
  – Current unfunded liability approximately $785M
GF Fund Balance

- Current total fund balance: $65.7M
- Restricted: $27.2M

Actual Available Fund Balance: $38.5M
- Stabilization Fund (4.9%): $22.8M
- Unassigned Fund (3.4%): $15.7M
Thoughts for FY 16/17

• Institute Hiring Freeze
  – $15-18M/year
  – Use $12M from FY 15/16 to FY 16/17 (one-time) $12M

• Offer Retirement incentive (TSRS only)
  – 443 citywide (206 GF)
  – 3 month salary (not pensionable)
    • $3.4M Cost (included in FY 15/16 Budget) if all 206 retire
    • $2.4M Savings in FY 15/16 if all 206 retire
  – Assuming 90 GF positions ~ FY 16/17 (ongoing) $6.2M
    • Could be additional $1.0M savings in FY 15/16 (Jan cutoff) (one-time)
  – Could assume EF and SRF will see about 120 FTE’s vacant $2.8M
    • Could see movement from GF to EF/SRF – 40 positions ~ $2.8M (ongoing)

• Attrition (above budgeted 2%)
  – 1% ~ $3M positions held (ongoing) $3M

• Probationary employees (strategic)
  – 40 FTE’s $2.8M
Thoughts for FY 16/17 (Cont’d)

<table>
<thead>
<tr>
<th>Projected Shortfall</th>
<th>$(42,264,000)</th>
</tr>
</thead>
<tbody>
<tr>
<td>One-time from FY 15/16</td>
<td></td>
</tr>
<tr>
<td>CCF (Hiring Freeze FY 15/16)</td>
<td>$ 12,000,000</td>
</tr>
<tr>
<td>Retirement incentive</td>
<td>$ 1,000,000</td>
</tr>
<tr>
<td>Probationary employees</td>
<td>$ 1,000,000</td>
</tr>
<tr>
<td>Add'l proceeds Civano</td>
<td>$ 3,000,000</td>
</tr>
<tr>
<td><strong>Subtotal one-time</strong></td>
<td>$ 17,000,000</td>
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<tr>
<td>Ongoing for FY 16/17</td>
<td></td>
</tr>
<tr>
<td>Fine/Forfeitures</td>
<td>$(3,000,000)</td>
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<tr>
<td>Retirement incentive GF</td>
<td>$ 6,200,000</td>
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<tr>
<td>Retirement incentive EF/SRF</td>
<td>$ 2,800,000</td>
</tr>
<tr>
<td>Attrition 3% (1% above FY 15/16)</td>
<td>$ 8,400,000</td>
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<tr>
<td>Probationary employees</td>
<td>$ 2,800,000</td>
</tr>
<tr>
<td>Health Benefits change</td>
<td>$ 3,000,000</td>
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<tr>
<td><strong>Subtotal ongoing</strong></td>
<td>$ 20,200,000</td>
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<tr>
<td><strong>Total FY 16/17</strong></td>
<td>$ 37,200,000</td>
</tr>
<tr>
<td>Remaining shortfall</td>
<td>$(5,064,000)</td>
</tr>
</tbody>
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Considerations for FY 17/18

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Projected Shortfall</td>
<td>$(49,522,000)</td>
</tr>
<tr>
<td>FY 16/17 Ongoing Reductions</td>
<td>$ 20,200,000</td>
</tr>
<tr>
<td>Revised projected Shortfall</td>
<td>$(29,322,000)</td>
</tr>
</tbody>
</table>
Our plan “1 city/1 team”
(Examples of actions to be taken)

- Implement retirement incentive
- “Employee Town Halls”
- Communicate with public
- Meet with M&C regularly
- Reorganize Departments
  - Efficiency/effectiveness
- Prepare for election
- Review funding to all programs

- Begin combining functions
  - HR
  - Finance/Budget
- Deliver Manager’s Budget (balanced)
- Reach out to potential partners
- Evaluate staffing resource distribution
- Evaluate Probationary Employees
- Employee training
Criteria to Consider

• General Fund
  – $494M/year ~ $1.9M/day (52 wks @ 5 days/wk)
  – $49.5M shortfall in FY 17/18 ~ $76k/day

• FTE costs
  – Including Commissioned ~ $81k/year
  – Excluding Commissioned ~ $69k/year
Other Considerations

• Staff
  – Morale
  – Positive Work Environment
  – Pay – need to work towards 103% of market

• Cuts to staffing probable
  – Depends on when

• Economy
  – We are due for another recession
  – Hits from State

• Additional Revenue Opportunities
  – Voter confidence

• Two year for operational balance
  – Buys time to have more accurate numbers (rev & exp)
  – Prolongs the difficulty

• Four year for capital balance
  – Softens reduction amount in first three years
  – Assumes no catastrophic failures - unlikely
Other Considerations (Cont’d)

• Consolidation
  – Finance/Budget
  – HR
  – PIO
  – M&C Offices
    • Constituent services
  – CMO
    • OIP/PDS/EI/IGR

• Transit review

• All programs and services will be reviewed

• Partnerships
  – TPD/SO
    • Air Support
    • SWAT
    • Bomb Squad
  – TFD/Districts
    • Ambulance Service
    • EOC
  – County
    • IT
    • Parks
    • PDS
    • Facility Maintenance
    • Vehicle Maintenance
Other Considerations (Cont’d)

• How we do business
  – Com. vs. non com.
  – AD’s/forms/processes

• Transfers
  – Water
  – Environmental Services
  – HURF
  – Housing

• Revenue
  – Sales Tax
  – Bed Tax
  – Annexation
  – Property Tax

• Roads need maintenance

• Lack of Replacement Programs
  – Vehicles
  – Equipment
  – Facilities
Funding Opportunities

• Sales Tax
  • \(\frac{1}{2}¢ \sim \$50M/yr\) for 5 years
  • 3-1/5¢ \(\sim \$20M/yr\) for 5 years
    – $20M – transit
    – $20M – capital replacement programs
      • $5M Vehicles
      • $5M Equipment
      • $5M Facilities
      • $5M Parks
    – $20M – roads
      • Maintenance vs. capacity

• Property tax
  – $75-100M in capacity – City
  – $300M – County projects
Next Steps

• Implement FY 16/17 thoughts now
  – Hard Hiring Freeze – all
  – Retirement incentive (12/15 – M&C)
  – Shut down expenses
  – Cut back on Probationary Employees (strategic)

• Begin addressing FY 17/18 shortfall now
  – Increase CCF for FY 15/16
  – Implement changes strategically

• M&C engaged regularly throughout process
Summary

• Continue meet/communicate
  – M&C regularly
    • Clarity of direction
  – Staff (continue to reach out)
  – Community

• Work with staff on Culture
  – Culture drives everything

• Address budget shortfalls now
  – Expense reductions
  – Revenue increases