



MEMORANDUM

DATE: May 25, 2010

TO: Honorable Mayor and Council
City Manager

FROM: Steve Kozachik
Council Member, Ward 6

Subject: FY2011 City of Tucson Budget

The proposed FY2011 City of Tucson Budget is an example of “putting all your eggs in one basket”. The proposed budget leaves a deficit of \$23 million to be balanced through one time only tactics of potential land sales (\$10 million), federal COPS grants (\$6 million), and asset lease-backs (\$7 million). Now the focus has shifted to a potential sales tax increase to fund core services.

All of these strategies are in the category of “To Be Announced”. The discussion of the so-called “Plan B”, in case the sales tax does not pass, is not even slated to be held until sometime in July after the budget has been adopted. This strategy hopes for a sales tax increase that, even if passed, will not address the structural causes of the imbalance.

Why is it harmful to not address the budget deficit now?

1. We have “been there and done that”; in other words, we’ve made that mistake already. This year in January the City was faced with drastic cuts because it had waited to address the growing deficit. Instead of spreading needed cuts over 12 months, the total reductions were condensed into 6 months, making them even more painful. Outside agencies faced elimination of budgets with no time to prepare. Departments chose short-term cutbacks, and the Council and staff spent a significant amount of time trying to re-balance the budget. If the voters do not approve the sales tax increase in November, we will again be forcing 12 months of cuts into 6 months of budget. We must hope for the best fiscal scenario, but structurally prepare for the worst.
2. If our current projections are off, we will be faced with even greater cuts.
3. By not providing a structurally balanced budget the voters will not truly understand the need, or lack of need, for a sales tax increase.
4. We will be giving up all the momentum and budget gains that we have worked hard to attain. The FY2011 proposed budget appears to “give back” the voluntary cutbacks that enabled us to get to the balanced FY2010 budget. As an example,

the council office budgets were \$399,000 in FY2010, which is roughly what they were in FY2009. Each council office has voluntarily submitted to a 15% reduction to balance the FY2010 budget, but now the city manager's proposed FY2011 budget puts it back at \$399,000. The cuts we agreed to make to balance the FY2010 budget should have become the new baseline for the FY2011 budget.

5. Our bond rating will continue to drop, costing us more and more in unnecessarily high interest costs on City borrowing. One of the reasons cited by the bond rating agencies is the City's inability to address the structural deficits. In essence, optimistically we will carry, at a minimum, a \$23 million deficit until either the voters approve a sales tax or we see if we can do sale/lease-backs. These tactics do not solve our bond rating problem.

What are some budget balancing options that could create a truly balanced budget?

Reduce the Mass Transit Subsidy from the General Fund. \$35.3 million is the proposed 2011 subsidy to cover the city's "Maintenance of Effort" obligation to the RTA. The 2009 total was \$30.4 Million. The City Attorney has stated that the legal obligation is to fund about \$600,000. If we accept the advice of our Attorney, we could easily roll back to the 2009 budget level for a general fund savings of \$ 4.9 million. Sun Tran would then evaluate what streamlining would be needed to make up for the budget reductions. While virtually every other municipality has streamlined and cut in the area of city-subsidized transportation, Tucson has *increased* its General Fund subsidy of transit. **FY2011 savings: \$4.9 Million.**

Adopt the FY2011 percentage cuts that were approved in 2010. Many budgets (like the Mayor and Council budgets) simply revert back to 2010 adopted levels, rather than using the mid-year cuts as a new baseline. The reality is that these departments are already reducing their budgets from those levels. The 2011 Budget could start by using the line item amounts from the Estimated 2010 Budget instead of the Recommended 2011 budget for the following:

City Manager: \$5.1M vs. \$5.9M = **\$0.8M saved**

City Attorney: \$8.2M vs. \$9M = **\$0.8M saved**

Finance: \$14.5M vs. \$16.6M = **\$2.1M saved**

General Services: \$46M vs. \$52M = **\$6M saved**

Mayor and Council to take a 10% cut from Recommended—from \$399K to \$350K for each Mayor/Council office = **\$280,000 saved**

Accept the Estimated 2010 Budget for non-core service and enterprise departments

"Non-Core Service Departments"—**Excludes** public safety, transportation, parks and recreation, enterprise departments and TCC. **Includes:** Mayor & Council, City Attorney, City Manager, City Clerk, EEO, Housing and Community Development, Parkwise, Planning & Design/Services, Finance, Human Resources, General Services, I.T., Procurement

Accept the Estimated 2010 Budget for non-core service and enterprise departments = **\$38M saved (some of these dollars could be grants or other restricted funds which the City Manager can provide an analysis of which area funding can be eliminated)**

OR

Apply modest percentage cuts to non-core services departments.

- Cut 1% from Recommended budget for FY2011 (non-core service depts.) - **\$2M saved**
- Cut 3% from Recommended budget for FY2011 (non-core service depts.) - **\$7.5M saved**
- Cut 5% from Recommended budget for FY2011 (non-core service depts.) - **\$12.5M saved**

Move Parks and Recreation from 15% cost recovery to 20% cost recovery - saves \$2.1M from General Fund.

Increase the level of debt restructured by \$3M.

Delay funding Outside Agencies until budget is resolved (except "other governments" and BID and MTCVB allotments). Remaining is **savings of \$3.8M**. If the tax passes or additional funding comes in, the City can fund at that time.

Even without accepting the Estimated 2010 Budget (\$38M) the other budget alternatives equate to \$26 - \$36 Million in potential cuts from the FY2011 Budget, without affecting core services.

No cut is easy, but creating a false crisis and scaring our City workforce by insisting that all cuts become layoffs is irresponsible. In my own budget at Ward 6 we have made cuts of more than 17%, and still are providing quality services with no cuts to employees. We just do more with less.

Ask yourself, like any mom or pop sitting around the kitchen table. Do you increase your spending during a recession and HOPE you get a pay raise? Or do you make the cuts to your non-essential expenses and be prepared if you don't?

Tucson must balance the budget in a realistic and structural way before asking voters to increase the sales tax.