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Fiscal Year 2014 Budget Estimates Update and Discussion

March 5, 2013

Presentation Components

- Budget Goals
- Information/Actions to Date
- Major Revenues/Expenditures Changes
- Use of Debt Restructuring and Fund Balance in Past
- General Fund Revenue Projections
- General Fund Expenditure Projections
- Preliminary Budget Gap
- Balancing Proposals/Alternative Balancing Options
- Long-Term Strategies
- FY 2014 Budget Calendar

"…government cannot afford to do things that don't make sense."

(from Mayor J. Rothschild's 2/19/13 State of City address)

- Current expenditure needs will continue to outpace projected current local and state-shared revenue growth (5 year financial model).
- This trend must be mitigated either through planned programmatic expenditure decreases and/or new revenue sources.

Budget Goals

- Maintain service delivery at existing levels and cover fixed costs (e.g., salaries/benefits, debt service, utilities, technology/software maintenance/service contracts)
- Develop strategies to address ongoing and future fiscal challenges.
- Action Item: Legally balance the budget by which the sources of money used to fund the budget are at least equal to the uses of the money.

Information/Actions to Date

- November 20, 2012 Study Session: Preliminary FY 2012 Year-end Update and 1st Quarter FY 2013 Revenue Results
- December 6, 2012: Executive Leadership Team (ELT) Discussion on “Sound Fiscal Stewardship” and budget issues
- December 2012: City Manager meetings with all General Fund department heads during to discuss FY 2014 budget issues
- January 2013: City Manager executives, Budget and Finance staff internal discussions

Information/Actions to Date

- Budget Office (December/January):
  - Developed FY 2014 personnel budgets
  - Allocated capacity for FY 2014 non-personnel budgets at FY 2013 adopted levels less one-time plus other added costs (e.g., technology, election, debt, electricity increase, transit
- Citywide Departments (December-February):
  - Developed FY 2014 non-personnel operating budgets
  - Developed FYs 2014-2018 Capital Improvement Program submittal

Information/Actions to Date

- January/February: City executive management meetings with mayor and all council offices twice
- January 24: FY 2014 preliminary General Fund budget update for ELT
- February 5: Study Session overview of FY 2012 CAFR
- February 11: FY 2014 preliminary General Fund budget update for Labor Council
- February 26: Study Session overview of pension systems

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Major revenues/expenditures changes: FY 2011 actual to FY 2014 projected

Unrestricted GF Revenues

- Sales Tax up $22M, 13%
- State-shared revenues up $9.6M, 9%
- Primary property taxes up $0.9M, 7.5%
- Transient occupancy tax up $0.6M, 7%
- Licenses and permits down $2M, 23%
- Charges for services down $2.1M, 5.5%
- Fines/forfeitures/penalties down $0.7M, 6%

Unrestricted GF Expenditures

- Salaries up $0.7M, 1.7%
- Overtime up $4.2M, 41%
- Pension contribution up $29.3M, 84%
- Medical up $3.7M, 11%
- Utilities up $0.5M, 4%
- Software maintenance up $4.2M, 108%
- Jailboard up $1M, 17%
- Debt service (due to not restructuring) $10.5M

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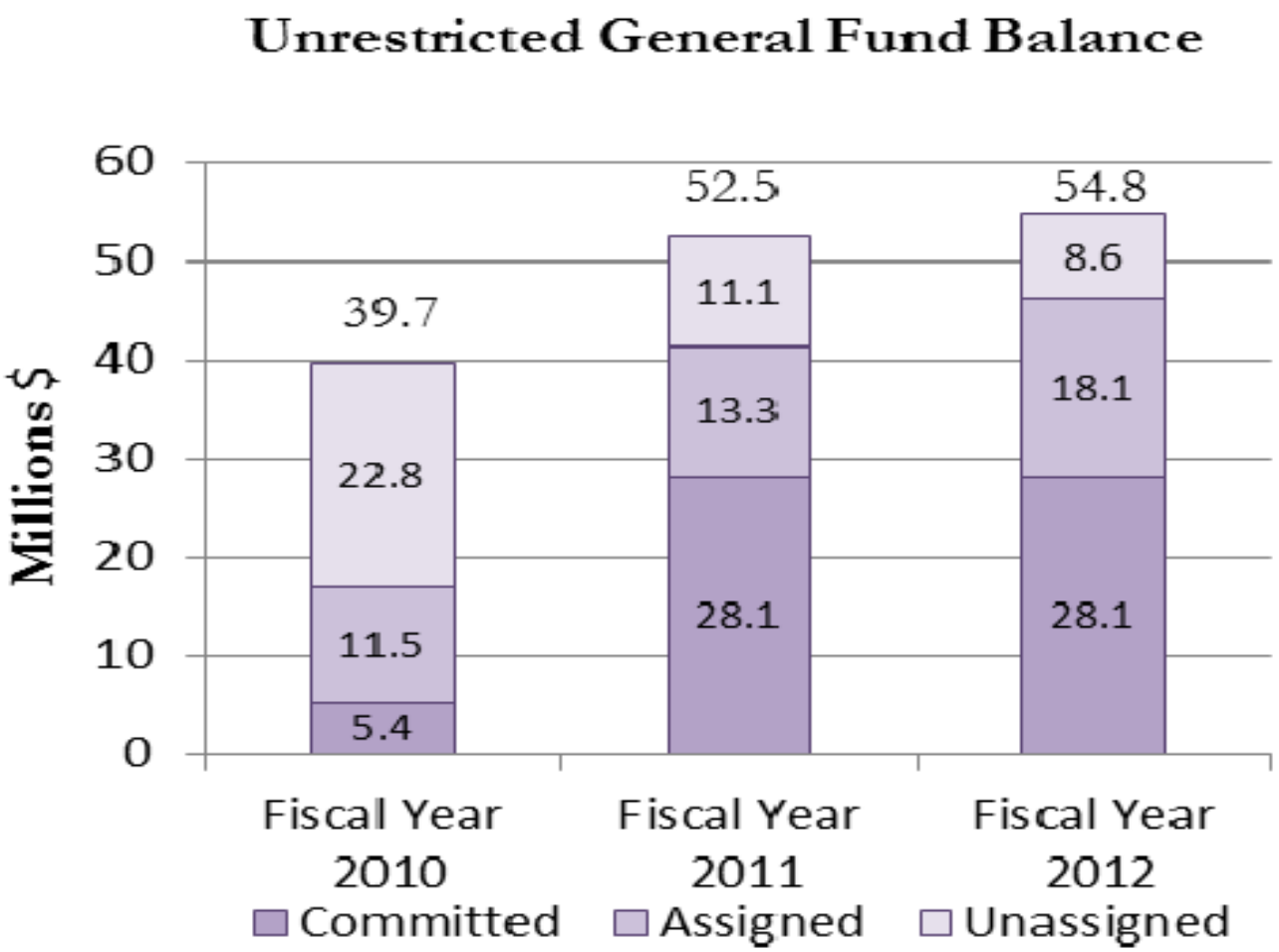
Use of Debt and Fund Balance to Fund "normal operating expenditures"

- Debt Service Restructure
  - Occurred during Fiscal Years 2009, 2010, and 2011
  - Budgeted in FY 2012, then FY 2011 fund balance assigned to cover FY 2012 payment
  - Budgeted in FY 2013, then FY 2012 fund balance assigned to cover FY 2013 payment
- Fund Balance
  - Used in FY 2009 at fiscal year end as funding source
  - Budgeted in FY 2012; not needed
  - Budgeted in FY 2013; then FY 2012 fund balance assigned to FY 2013 budget as funding source


Unrestricted General Fund Balance
Millions $
60
50
40
30
20
10
0
39.7
52.5
54.8
22.8
11.5
5.4
11.1
13.3
28.1
8.6
18.1
28.1
Fiscal Year 2010
Fiscal Year 2011
Fiscal Year 2012
Committed
Assigned
Unassigned

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FY 2014 General Fund Revenue Projections

- State-shared taxes (sales, income, vehicle) Up $6.2M from adopted FY 2013
  - Projecting sales tax @ 4.5% over FY 2013 projections
- Local Sales Tax Up $11.9M from adopted FY 2013
  - $178.4M to $190.3M; 3.5% over FY 2013 projected $183.9M
  - Retail sales currently up 7% over 12 month period
  - Comprises approximately 43% of GF projected revenue
  - FY 12 actuals = $176.8M

FY 2014 General Fund Revenue Projections

- Primary Property Tax Up $200,000
  - 2% increase allowable under State law
- Public Utility Tax and Franchise Fees steadily increasing
  - Excluding one-time audit adjustment in FY 2013
  - Total $36M in FY 2012, $37.5M for FY 2013 projection, and $39M for FY 2014 projection
- Transient Occupancy Tax and Telecommunications License are projected to experience modest growth over FY 2013 budget

FY 2014 General Fund Revenue Projections

"Department Revenues" Flat with exceptions:

- Development Services Fees Up $400K
  - significant permitting in FY 2013; not projecting as much growth in FY 2014 although better than recession years
- pCard Rebates Up $175K
- Court Fines (civil traffic and violations) Down $600K
- Fire Medical Transport Fee Down $700K
- Alarm Registration Fee Reduced Due to Actual Collections
- Parks and Recreation Charges for Services Down $100K

FY 2014 General Fund Expenditure Projections

Personnel Cost Drivers:

- Funding of FY 2013 1% COLA (funded through vacancy savings in FY 2013)
- Public Safety Pension Retirement System (PSPRS) Employer Contribution – Up 10% over FY 2013; Rates of 45.75% (TPD) and 46.77% (TFD)
- Medical contribution decrease
- Projected $15M overall increase in salary/benefits

FY 2014 General Fund Expenditure Projections

<u>"Recurring" Cost Drivers:</u>

- Risk Management Deficit Fund Surcharge
- Electricity Rate Increase (effective spring 2013)
- Technology:
  - Managed Advantage financial system hosting
  - Software maintenance contractual obligations
  - Software licenses for application upgrades
  - PCWIN related: licenses, software upgrades, and subscription fees

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FY 2014 General Fund Expenditure Projections

<u>"Recurring" Cost Drivers:</u>

- Mass Transit System Operating Transfer – Continues to escalate ($2.9M over FY 13 budget; $2.1M over FY 13 projection); includes streetcar operating and maintenance costs
- Debt Service - Assumes no restructure
  - Payment on former golf assets starting in FY 2013
  - $12M more than FY 2013

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FY 2014 General Fund Expenditure Projections

<u>"Non-Recurring" Cost Drivers:</u>

- Primary/General Elections
- Enterprise Resource Planning (ERP) System
  - Increased functionality

BUDGET ISSUES?

Take what you've got and make it work

Approximate $15 Million General Fund budget funding gap

AFTER inclusion of revenues and expenditures

Budget gap assumes services maintained at “status quo” levels

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FY 2014 Revenues/Expenditures Growth Over FY 2013 Adopted

Unrestricted GF Revenues

Overall = 4% increase

– Business Privilege	$11.9M
– Other Local Taxes	(1.0M)
– State-Shared Taxes	6.2M
– Charges for Services	(0.6M)
– Licenses & Permits	(0.2M)
– Fines & Forfeitures	(1.1M)
– Other Agencies	0.2M
– Non-grant Contributions	(1.5M)
– Miscellaneous	0.5M
Total	$14.4M

Unrestricted GF Expenditures

Overall = 7% increase

– Salaries	$2.6M
– Overtime	3.3M
– Benefits	8.1M
– Debt Service	12.0M
– Technology	5.3M
– Mass Transit/TCC	3.1M
– Election	1.7M
– Miscellaneous	2.0M
– One-Time in FY 13	(8.7M)
Total	$29.4M

$15M Gap

Balancing Proposals

The following “balancing proposals” in fulfillment of specific objectives are presented for your consideration and direction. Alternatives are also presented.

These proposals are based on what executive staff has heard from you to date and indicative of the manner in which the City Manager intends to craft a balanced recommended budget.

The recommended budget on April 16 will include any information and direction forthcoming today.

Balancing Proposals = $15M

- Program a debt restructuring during late FY 2013
  - "Save" the FY 2012 fund balance assigned for this purpose ($9.4M).
  - Use this assigned fund balance ($9.4M) towards budget balancing for FY 2014.
- Define "overtime" as payment for actual time worked that is in excess of 40 hours in a 7-day work period (A.D. 2.012-2); i.e., not to include use of sick or vacation hours ($1M savings estimate).

Balancing Proposals = $15M (continued)

- Program land sale proceeds ($2.1M)
- Increase administrative charge to enterprise funds ($1M)
- Reduce <u>discretionary</u> outside agency funding by 50% ($1.5M)
  - –Arts, community events, human services, economic and workforce development RFPs, and other

TOTAL = $15M

Alternative Balancing Options (for FY 2014 and/or 2015)

- Increase annual business license fee from $45 to $60 ($600,000)
- Charge utility companies a graffiti clean-up fee
- Debt restructure in FY 2014 ($13.3M), rather than in FY 2013
- Use of fund balance

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Alternative Balancing Options (for FY 2014 and/or 2015)

- Revisit amount of fee charged to Pima County Wastewater for billing services
- Research pursuing a voter-approved dedicated public safety sales tax
- Adopt a policy for adjusting transit fare structure
- Dedicate any LTAF funding from State to offset General Fund transit investment
- Develop a stormwater utility fee to be dedicated to flood control needs

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ELT Guiding Principles (11/30/12)

- *Enhance the provision of basic services in ways that are observable to the community.*
- *Accept that we must live within our fiscal means by acknowledging the “new normal”.*
- *Reshape the City workforce so it is smaller, better trained and better paid.*
- *Adequately fund basic services and eliminate or reduce low priority services.*
- *Take better care of what we have: improve City facilities by investing or divesting.*
- *Simplify compensation including benefits so they are fiscally sustainable.*

Long-Term Strategies

- Manage unsustainable mass transit system funding support increases
  - Transit Task Force and TDOT are evaluating efficiency and effectiveness options (e.g., fare policy, comprehensive operational analysis)
- Establish sustainable constant employer contribution rate to Tucson Supplemental Retirement System (TSRS)
- Adopt a redesigned compensation plan to sustain and adequately compensate our workforce

Long-Term Strategies

- Decrease accumulated net asset deficits (e.g., Self Insurance, Golf)
- Immediately focus on resolutions for FY 2015 issues (e.g., DROP accrued vacation/sick payouts, funding for grant-funded police officers, streetcar/PCWIN operating and maintenance)
- Look at reducing pensionable pay categories (e.g., shift differential, sick leave sell back)

Long-Term Strategies

- Institute vehicle, technology, equipment, and facilities replacement funding reserves
- Develop master plan for “managed competition/outsourcing” to provide more effective services; identify logical functions (e.g., maintenance) and level of service needs
- Reduce reliance on one-time funding resources; attain structurally balanced budget

Long-Term Strategies

- Operationalize Mayor and Council goals and priorities and Plan Tucson goals and policies through the annual budget process to strive for:
  - strategic public and private investments for long-term economic, social, and environmental sustainability
  - stabilized local economy with opportunities for diversified economic growth supported by high-level, high-quality public infrastructure, facilities and services

Immediate Action

- City Court Remodeling Project
  - Pursue "Option 1" from 10/23/12 M&C City/County Courthouse project discussion subsequent to Pima County declining "Option 4" offer; remain in existing City Court building and allocate funding for one-time repair and improvements
  - $3.8 million in 2010 COPS funding has been identified; remodeling meets use of funds limitations of COPS proceeds
  - Project to be included in FY 2014 capital improvement program (CIP); details to be provided to Mayor and Council on April 9 during CIP update

Fiscal Year 2014 Budget Calendar

- March 19
  - Study session: financial planning efforts for funds other than General Fund (HURF, ParkWise, golf, self-insurance), compensation plan, and draft five-year strategic transit plan.
- March 27
  - Study Session: public safety and parks and recreation budget highlights
- April 9
  - Study Session: major capital improvement projects and report on deferred maintenance

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Fiscal Year 2014 Budget Calendar

- April 16
  - City Manager's Recommended Budget to Mayor and Council, including Five-Year Capital Improvement Program
- April 23
  - Study Session: Discussion of Recommended Budget
  - Public Hearing
- May 7
  - Study Session: Discussion of Recommended Budget
  - Regular Agenda: Adoption of tentative budget

Fiscal Year 2014 Budget Calendar

- May 21
  - Public hearing (truth in taxation) on primary property tax rate
  - Public hearing on budget as tentatively adopted
  - Special meeting for final budget adoption
- June 11
  - Adoption of FY 2014 property tax rates
- July 1
  - First day of FY 2014

Request for Mayor and Council's Input and Direction Today

- Moving Forward
  - –Staff will compile the City Manager's Recommended Budget document (for April 16) based upon this information and incorporate any direction provided <u>today</u> by Mayor and Council

Questions/Direction