

Preliminary Fiscal Year 2013 Budget Information



Budget and Internal Audit/Finance
February 7, 2012

Presentation Components

- Preliminary Balancing Strategy
- Next Steps in Further Refining Budget
- FY 2013 General Fund Expenditure Projections
- FY 2011 Fund Balance
- FYs 2012 and 2013 General Fund Revenue Projections
- FY 2013 Preliminary Budget Gap/Balancing Options
- FY 2013 Budget Calendar

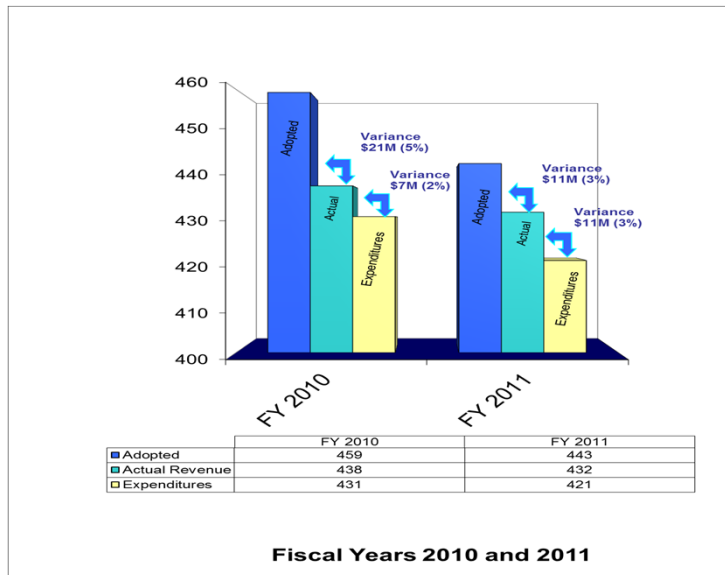
Preliminary Strategy Toward Balancing the Budget

“Fine-tune” departments’ unrestricted General Fund budget capacity for personnel and non-personnel expenditures:

- Potentially narrow preliminary gap created by:
 - structural deficit from prior years,
 - increased employee benefit costs, and
 - slow revenue growth
- Ensure we are not “over budgeting” to mitigate:
 - need for deeper expenditure cuts or
 - extent of need for one-time fixes (debt restructure, fund balance)

Through this effort, the preliminary budget gap is at a manageable level. This “fine-tuning” will continue.

General Fund Budget vs. Actual



Next Steps

- February 17
 - Operating and capital budget requests due from departments
- Late February/early March
 - City Manager/executive management review meetings with department heads to discuss resource needs and make adjustments as necessary
- February/March
 - Further refinements of revenues and expenditures and development of Manager’s recommendation

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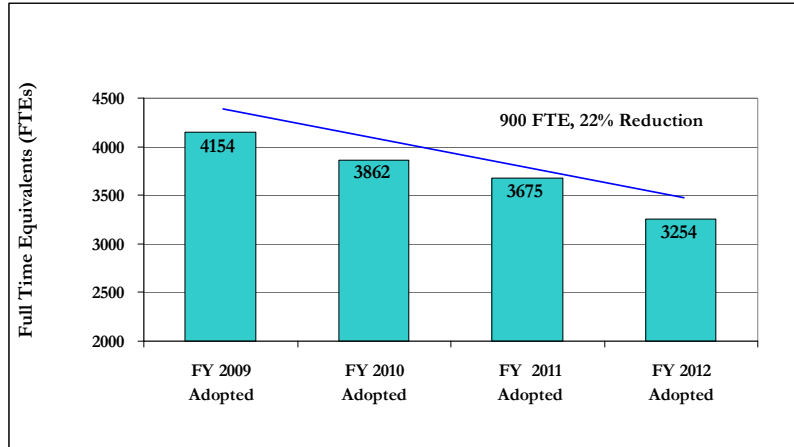
FY 2013 General Fund Expenditure Projections

Major Cost Drivers:

- Employee Benefits – Continue to escalate
- Mass Transit System Operating Transfer – Continues to escalate
- Debt Service - Restructured during Fiscal Year 2009, 2010, and 2011 (i.e. not paid principal or interest) in order to defer costs and balance budget; FY 2011 fund balance assigned to cover payment during FY 2012

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General Fund Staffing Reductions



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Personnel Adjustments

- Historical
 - Layoffs during FY 2010
 - Furloughs during FYs 2010-2012
 - Increased health premiums
- Preliminary FY 2013
 - No employee:
 - Layoffs
 - Furloughs
 - Salary cuts

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Preliminary Personnel Cost Increases over FY 2012

- **Regular and Extra/Over Time – \$1M**
 - attributed to elimination of furloughs offset by attrition and conservative budgeting of vacancies at entry level salaries and use of turnover credits
- **Employer Pension Contribution – \$11.6M**
 - Tucson Supplemental – \$3.9M
 - Public Safety Personnel – \$7.7M
 - Elected and Official - \$6K
- **Risk Management Fund Deficit Surcharge – \$1.8M**
 - increase to workers’ compensation charge-outs to departments as a result of surcharge enacted in FY 2012 to mitigate \$28M fund deficit; rates did not increase
- **Health Insurance – \$2.6M**
 - estimate until contract finalized

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Pension Contribution

Escalating rates for public pension funds due to investment experience and shifting ratio of retirees to active employees (i.e. more \$ being paid out than being paid in to system); ending pay rates used to calculate final pension also a factor.

Specific pay beyond base pay/wages is “pensionable” (e.g. public safety overtime and biweekly sick leave sell back):

- Hours worked count toward retirement eligibility
- Requires pension contribution

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Mass Transit System Operating Transfer

- General Fund resources necessary to operate system; fills the fiscal year-end gap between operating revenues and expenditures
- Historical Transfers:
 - FY 2009 \$31.4M
 - FY 2010 \$29.7M
 - FY 2011 \$38.7M
 - FY 2012 (projected) \$39.5M
- Fiscal Year 2013 Current Projection: \$45.5M
 - From Five Year Projected Summary of Operations developed by SunTran
 - Reflects shift of federal funding to bus/van replacements resulting in additional transfer funds needed for preventative maintenance

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Highway User Revenue Fund (HURF) Issues: FY 2013

- Deficit situation by FY 2013 assuming flat revenues and expenditures from FY 2012; uncertainty remains regarding what State will do regarding shared revenues
- As a result, there are no additional HURF funds available for streets and traffic maintenance; \$2M has been programmed for chip sealing in preliminary FY 2013 General Fund budget estimate; this is in alignment with FY 2012 HURF amount being used to remediate priority areas citywide
- \$900K programmed in preliminary FY 2013 General Fund budget to fund graffiti remediation expenses to mitigate HURF deficit
- Administrative fee of \$1.4 million preliminarily programmed to be paid to General Fund by HURF in FY 2013
- How could HURF issues ultimately impact the General Fund?

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Fund Balance: Fiscal Year End 2011 (GASB 54)

- **Nonspendable (\$2.7M): inherently unspendable**
 - Example: inventory, long-term receivables
- **Restricted (\$5.5M): externally enforceable limitations on use**
 - Example: legally enforceable – external party could compel the city to use the resources for a specific purpose (debt covenants, grant requirements, charter)
- **Committed (\$28.1M): self-imposed limitations by Mayor & Council**
 - Includes stabilization fund of \$22.8M which is 5.4% of revenues - Mayor and Council policy is 10%
- **Assigned (\$13.3M): limitation resulting from intended use by other than Mayor & Council**
 - Resources constrained by the City’s intended use, set by City Manager or designee; programmed in FY 2012 so not have to debt restructure or have furloughs in latter part of FY
- **Unassigned (\$11.1M): residual net resources**
 - Mayor and Council policy of 7%; currently at 2.7% of revenues

TOTAL = \$60.7M

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Sales Tax

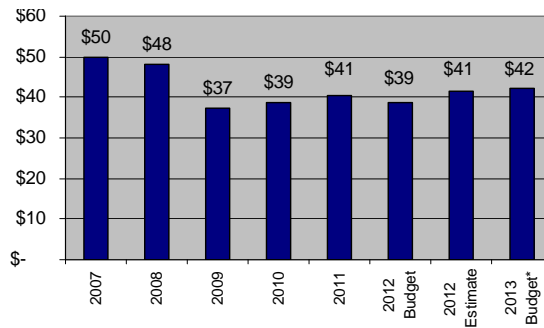
- FY 2012 estimate is \$5 million more than 2011 actual collections (3%). Revenue collections in all but one of the last seven months exceeded the collections for the same month in the prior year. The FY 2012 estimate is an increase of \$3.9 million over the FY 2012 Budget.
- FY 2012 YTD collections are up 4.6%.
- FY 2013 Preliminary Budget is based on an additional 3% increase (\$5.2 million) over the FY 2012 Estimate.
- Sales Tax revenue is increasing slowly. The 2013 sales tax budget is still 14%, or \$24 million, less than 2007 levels.

Year	Amount (\$M)
2007	\$202
2008	\$196
2009	\$170
2010	\$167
2011	\$168
2012 Budget	\$169
2012 Estimate	\$173
2013 Budget*	\$178

* Preliminary Budget

State Shared Sales Tax

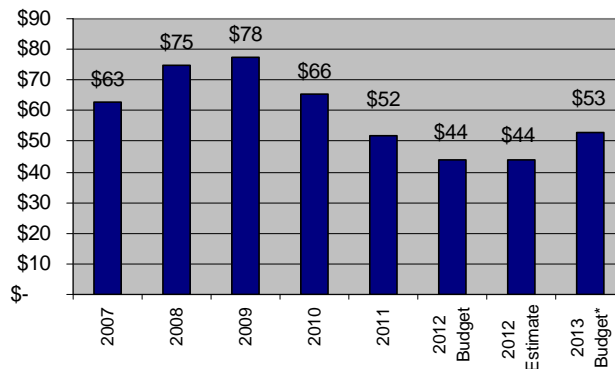
- FY 2012 estimate is \$800K more than 2011 actual collections (2%).
- Revenue collections in all but one of the last seven months exceeded the collections for the same month in the prior year. The FY 2012 estimate is an increase of \$2.6 million (6.7%) over the FY 2012 Budget.
- YTD collections are up 2.18%.
- FY 2013 Preliminary Budget is based on an additional 1.9% increase (\$800K) over the FY 2012 Estimate.
- State Shared Sales Tax revenue is increasing slowly. The 2013 State Shared Sales tax budget is still 16% or \$8 million, less than 2007 levels.



* Preliminary Budget

State Shared Income Tax

- Income Tax numbers are known, so there is no adjustment between the FY 2012 Budget and the FY 2012 current estimate.
- FY 2012 collections will be \$8 million less than FY 2011 actual.
- FY 2013 reflects nearly a 21% increase (\$9 million) over FY 2012.
- Although, FY 2013 reflects a large percentage increase over the prior year; revenue is still \$25 million less than 2009 levels, which is a 22% decrease.



* Preliminary Budget

Revenue FY 2012 Estimate

Revenue FY 2011 Actual, FY 2012 Budget, FY 2012 Current Estimate (amounts in millions)					
	FY 2011 Actual	FY 2012 Budget	FY 2012 Estimate	\$ Variance FY 2012	% Variance
	(excludes restricted of \$9.9m)	(excludes restricted of \$9m)	(02-07-12)	Budget vs. Estimate	Budget vs. Estimate
Sales Tax	\$168.2	\$169.3	\$173.2	\$3.9	2.3%
Utility Tax	25.3	23.1	23.6	0.5	2.0%
Lodging Tax	12.5	11.7	12.8	1.1	9.3%
Primary Property Tax	12.0	12.2	12.3	0.1	0.7%
Other Taxes	7.5	7.1	7.5	0.4	5.1%
Franchise Fees	19.6	19.3	19.7	0.4	1.9%
State Shared Sales Tax	40.6	38.8	41.4	2.6	6.7%
State Shared Income Tax	50.3	43.9	43.9	0.0	0.0%
State Shared Auto Lieu Tax	19.7	19.4	18.3	(1.1)	-5.7%
Administrative Fee	12.0	11.9	11.9	0.0	0.0%
Licenses & Permits	2.1	3.3	2.1	(1.2)	-36.4%
Fines, Forfeitures & Penalties	12.6	13.5	11.4	(2.1)	-15.6%
Charges For Services	26.3	24.5	24.0	(0.5)	-2.0%
Other	3.6	5.9	6.0	0.1	1.7%
Debt Restructuring	11.9	9.5	0.0	(9.5)	-100.0%
Use of Restricted Fund Balance	0.0	3.3	12.7	9.5	290.0%
Total Revenue	\$424.2	\$416.8	\$420.8	\$4.1	1.0%

Revenue FY 2013 Preliminary Budget

Revenue FY 2012 Budget, FY 2012 Estimate, FY 2013 Preliminary Budget (amounts in millions)							
	FY 2012 Budget	FY 2012 Estimate	FY 2013 Preliminary Budget	\$ Variance	% Variance	\$ Variance	% Variance
	(excludes restricted of \$9m)	(02-07-12)	(02-07-12)	FY 2012 Budget vs. FY 2013 Preliminary Budget	FY 2012 Estimate vs. FY 2013 Preliminary Budget		
Sales Tax	\$169.3	\$173.2	\$178.4	\$9.1	5.4%	\$5.2	3.0%
Utility Tax	23.1	23.6	24.6	1.5	6.4%	1.0	4.2%
Lodging Tax	11.7	12.8	13.0	1.3	11.0%	0.2	1.6%
Primary Property Tax	12.2	12.3	12.5	0.3	2.3%	0.2	1.6%
Other Taxes	7.1	7.5	7.6	0.5	6.5%	0.1	1.3%
Franchise Fees	19.3	19.7	17.9	(1.4)	-7.4%	(1.8)	-9.1%
State Shared Sales Tax	38.8	41.4	42.2	3.4	8.8%	0.8	1.9%
State Shared Income Tax	43.9	43.9	53.1	9.2	21.0%	9.2	21.0%
State Shared Auto Lieu Tax	19.4	18.3	18.7	(0.7)	-3.6%	0.4	2.2%
Administrative Fee	11.9	11.9	10.2	(1.7)	-14.3%	(1.7)	-14.3%
Licenses & Permits	3.3	2.1	2.2	(1.1)	-33.3%	0.1	4.8%
Fines, Forfeitures & Penalties	13.5	11.4	11.5	(2.0)	-14.8%	0.1	0.9%
Charges For Services	24.5	24.0	24.1	(0.4)	-1.6%	0.1	0.4%
Other	5.9	6.0	5.5	(0.4)	-6.8%	(0.5)	-8.3%
Debt Restructuring	9.5	0.0	0.0	(9.5)	-100.0%	0.0	0.0%
Use of Restricted Fund Balance	3.3	12.7	0.0	(3.3)	-100.0%	(12.7)	-100.0%
Total Revenue	\$416.8	\$420.8	\$421.5	\$4.7	1.1%	\$0.7	0.2%

**Preliminary \$15 - 20M Gap:
assuming services at status quo level**

- **Potential Balancing Options - as of 2/7/12**
 - Program a debt restructuring during late FY 2013 and only do if necessary (\$9.0M)
 - Suspend surcharge on workers' compensation charged to departments (\$1.8M)
 - Program use of fund balance that assumes additional surplus at end of FY 2012 (\$4.1)

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Preliminary \$15 - 20M Gap:

- **Additional Balancing Options**
 - Evaluate potential mass transit system transfer reductions (\$M?)
 - Review and fine-tuning of departments' resource needs, efficiencies, etc. by executive management (\$M?)
 - Review and fine-tuning of revenue projections (\$M)

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Result of Implementing Potential Balancing Options

“Balanced budget” with unresolved issues

- structural (e.g., rising benefit costs, use of one-time resources, deficit funds)
- unfunded needs (e.g. employee pay increases; deferred roads, equipment, vehicles, and technology investments)
- FY 2015 budget (e.g., funding grant-funded police officers, covering DROP payout costs, streetcar operating and maintenance, potential State actions due to expiration of incremental sales tax in FY 2014)

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FY 2013 Budget Calendar

- March 6
 - Mayor and Council Study Session discussion
- April 24
 - City Manager’s Recommended Budget to Mayor and Council
- May 8
 - Study Session discussion of Recommended Budget
 - Public Hearing

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FY 2013 Budget Calendar

- May 15
 - Mayor and Council Study Session discussion
 - Regular agenda adoption of tentative budget (i.e. ceiling)
- June 5
 - Public hearing (truth in taxation) on primary property tax rate
 - Public hearing on budget as tentatively adopted
 - Special meeting to adopt final budget
- June 19
 - Regular agenda adoption of FY 2013 property tax levies

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Mayor and Council Requests for Follow-Up Information

Questions that will inform the Mayor and Council's future decision making process should be forwarded to both Marie Nemerguth and Kelly Gottschalk via e-mail and they will coordinate staff responses.

Responses will be provided to all offices.



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