



Budget, Revenues, and Cash Position Update

Mayor and Council Study Session
December 15, 2009

1

FY 2010 Potential Problem: Deficit Spending

Reason: Global Economy/Recession

Immediate Goals:
Solvency and Protection of Bond Ratings

Solution: Structural Changes

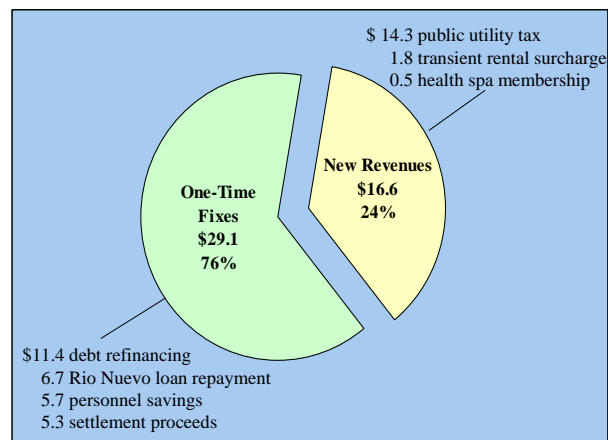
2

Overview

- Brief Background of FY 2010 Adopted General Fund Budget Balancing
- Projected FY 2010 Revenues Shortfall
- Cash Position Update
- Strategic Approach to Balancing FY 2010
- FY 2011 Budget Deficit Preliminary Projection

3

FY 2010 Adopted General Fund Budget Balancing (millions)

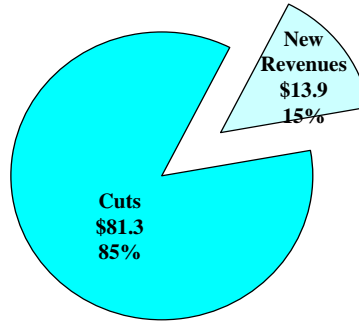
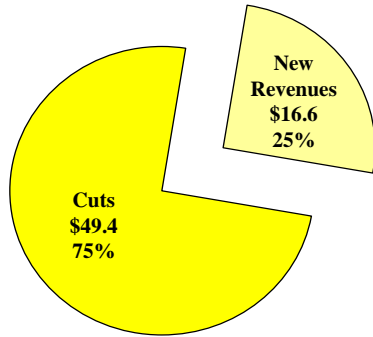


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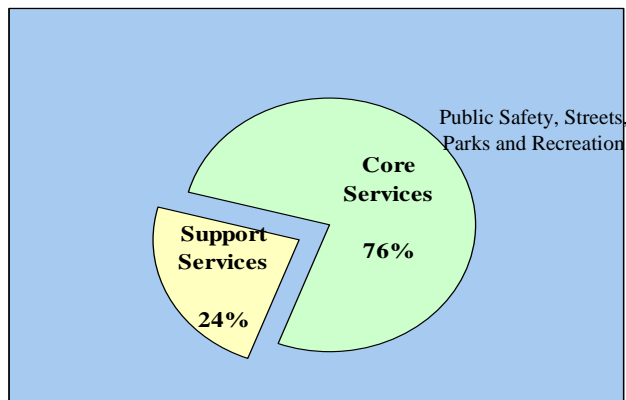
FY 2010 General Fund Expenditure Reductions vs. New Revenues (millions)

At Budget Adoption
(reflects expenditure reductions from
adopted FY 2009 and "new revenues")

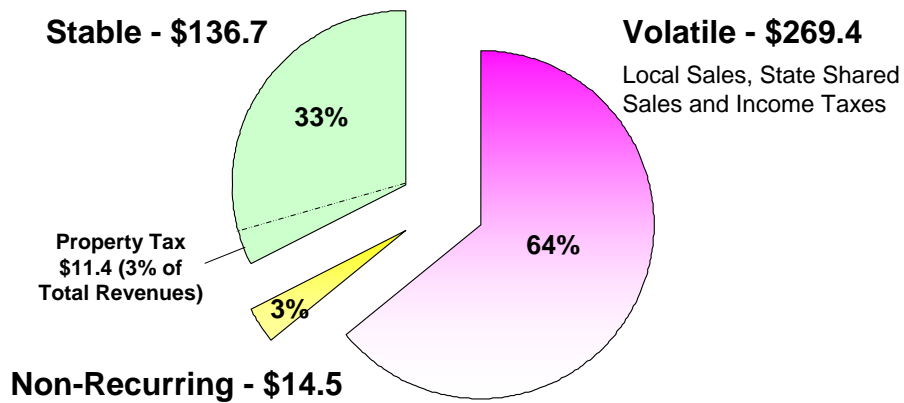
Current Situation
(reflects additional cuts required
and potential "new revenues" drop)



FY 2010 General Fund Core and Support Services



FY 2010 General Fund Adopted Revenues \$420.6 million



7

Economic Recession Trickle-Down Effect

The recession's effect on the City's revenues has been a great equalizer.

Everyone has had to contribute and share in the pain:

- Citizens
- Employees
- Funded Organizations
- Community Stakeholders

8

Current Situation not an Internal “Budget Problem”

- FY 2010 expenditures have been held within budgeted amounts (e.g., Financial Monitoring Team, expenditure oversight).
- FY 2010 key revenues were adopted conservatively at levels that anticipated further reductions.
 - Local sales tax was budgeted at 22% less than adopted FY 2009 and at almost 6% less than actual FY 2009 revenues.
 - State shared sales tax was budgeted using an estimate provided by the State of Arizona.
- Unforeseeable that a \$5.3 million lawsuit settlement will not be received this fiscal year as expected.

9

We are not alone.....

City of Phoenix Budget Situation

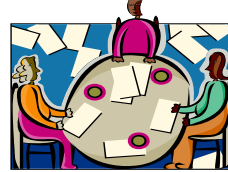
- Projecting shortfalls up to \$95 million in General Fund revenues from the adopted \$1.1 billion.
- Looking at cuts of up to 25% in each department

State of Arizona Budget Situation

- \$1.6 billion+ remaining shortfall for FY 2010;
\$3 billion+ shortfall projected for FY 2011
- Income Tax collections are down by \$100 million this year statewide because of falling revenues; this is reflected in the City's FY 2011 projected deficit

10

People = Services



Fewer People = Fewer Services



Service and Program Reductions Implemented in Fiscal Years 2009/2010

- Elimination of 400 Vacant Positions (included over 290 General Fund Positions)
- Residential Street Paving Suspended
- Five Swimming Pools Closed in Winter
- Decrease in Leisure Class Offerings
- Reduction in Neighborhood Center Hours
- Deferred Maintenance of Park Facilities and City Buildings
- Deferred Vehicle, Equipment, and Computer Replacements
- Reduction in Outside Agencies Funding

13

Employee Costs

The End of Service Retirement Program, turnover savings, and elimination of vacancies have all helped to offset revenue shortfalls in recent years. However, our employee attrition rate has been slowing down.

Employee salary and benefits account for 70% of the FY 2010 Adopted General Fund budget.

14

Revenues Update

What has happened to our key revenues over the past 5 years?

- Local Sales Tax
- State Shared Sales Tax
- State Shared Income Tax

15

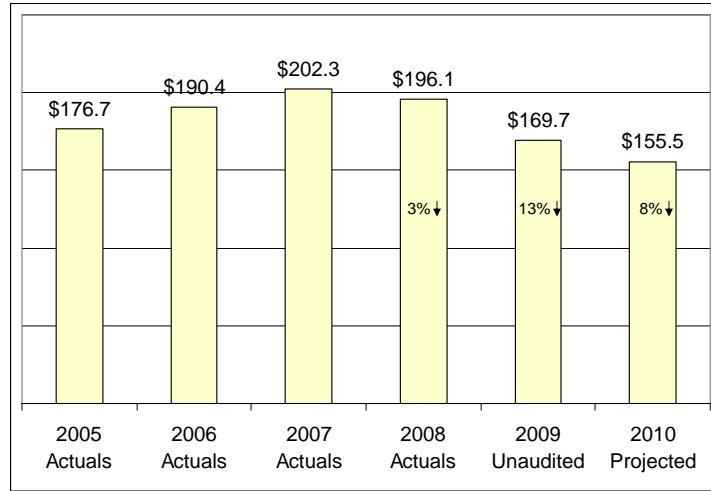
Revenue Drop Due to Reliance on Volatile Sources

Revenue collections have continued to drop this fiscal year.

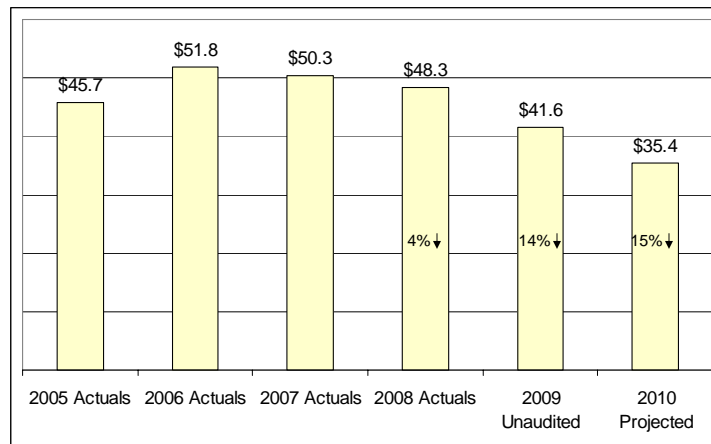
Our key revenues are projected to be down by over \$60 million (19%) from our peak in Fiscal Year 2008.

16

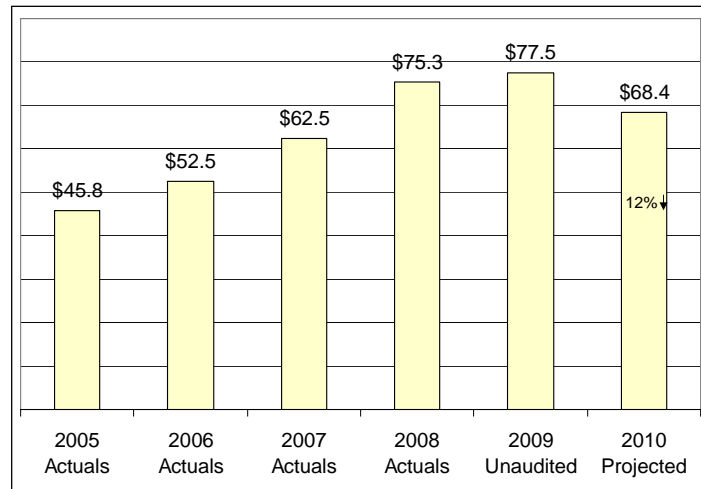
Local Sales Tax Revenue (millions)



State Shared Sales Tax Revenue (millions)



State Shared Income Tax Revenue (millions)



19

City and State-Shared Sales Tax Forecasting

For purposes of projecting City and State-shared sales tax, the City relies on quarterly forecast reports prepared by the State of Arizona's Finance Advisory Committee.

The quarterly forecast report contains projections from the following agencies:

- Finance Advisory Committee
- Joint Legislative Budget Committee
- University of Arizona Economic and Business Research (EBR) General Fund base model
- EBR's conservative forecast model

20

Sales Tax Forecasting: Cautionary Tale

Cities and states have been unable to accurately forecast sales tax revenue during volatile times. Property tax is easier to estimate.

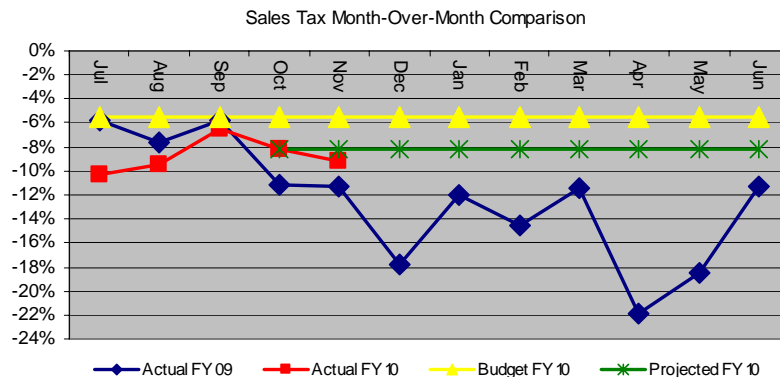
Fear of the unknown is a major player in this recession. Consumer spending is closely tied to consumer confidence about the future.

Sales tax revenue = shopping and dining out.
Almost impossible to predictwhen, where, and how much!



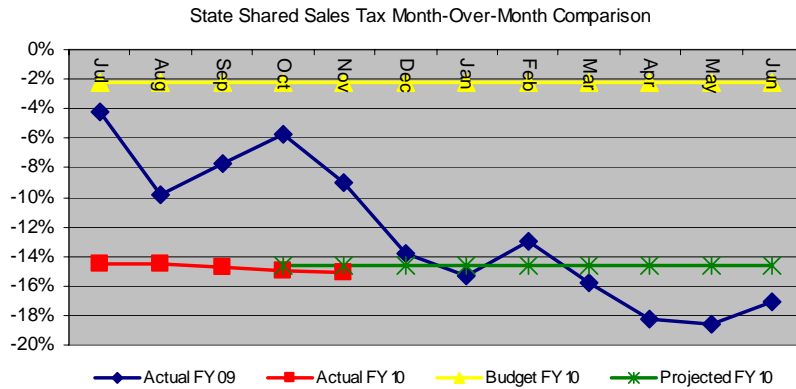
21

Sales Tax



22

State Shared Sales Tax



23

Projected Revenue Shortfalls FY 2010 (millions)

Revenue	Projected Shortfall FY 2010
Sales Tax	\$4.8
State Shared Sales Tax	5.3
Utility Tax	2.1
Transient Rental Surcharge	0.65
Use Tax	3.7
Transient Occupancy Tax	1.8
Fines, Forfeitures & Penalties	3.9
Lawsuit	5.3
Misc Other Revenue Shortfall	<u>4.3</u>
Projected Revenue Shortfall (11-24-09)	\$31.85

24

Time has run out on our reliance on volatile revenues and one-time fixes.

There are few alternatives other than structural changes with only a short timeframe to act.
Delays will only compound the problem.



25

Cash Position Update

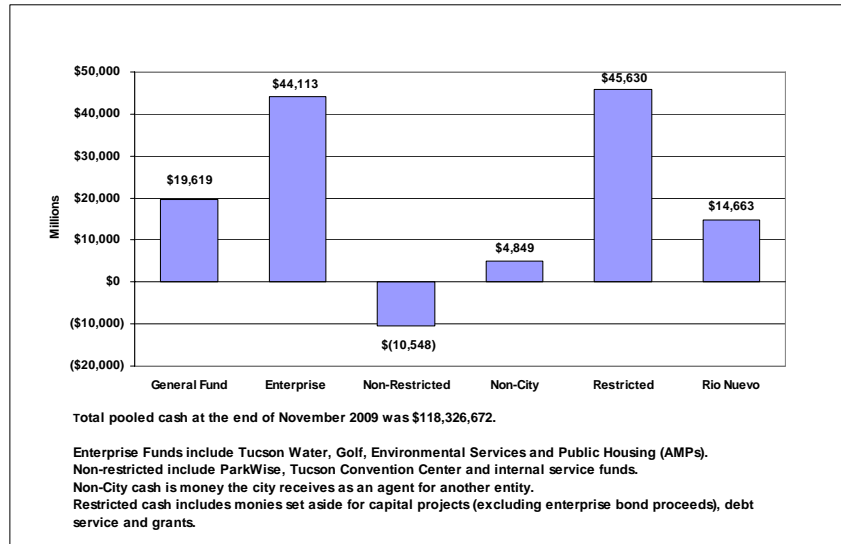
The City utilizes an investment pool that:

- Maximizes interest earnings potential.
- Accounts for each fund's cash separately and allocates interest monthly.

Staff has updated the Mayor and Council's Independent Audit and Performance Commission on this data on a monthly basis since April 2009.

26

City of Tucson Cash Balances as of November 30, 2009



27

Timeframe for Strategic Approach to Balancing FY 2010

- Today: Informational and Discussion
- December 16 - January 4:
Budget Communication Outreach
(employees, labor groups, community,
media, funded organizations, and
stakeholder organizations)
- January 5: Mayor and Council Discussion
and Policy Decisions; Ordinance Adoptions

28

What Do We Need to Do Immediately?

Strategically fix and close the City's "budget gap" ASAP.

- Reduce or eliminate General Fund subsidy for discretionary programs.
- Focus on elimination of programs by limiting across-the-board cuts of core services.
- Amend compensation and benefit policies to reduce both short- and long-term costs.

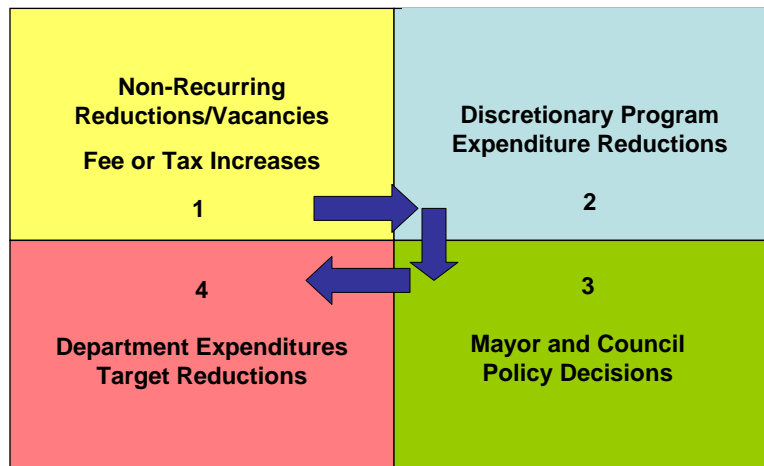
Encourage departments to continue to look for innovative program changes and consolidations to improve services and/or reduce costs.

Communicate with the community, stakeholders, and employees.

Be compassionate and aware of employee stress during this time and provide for any layoffs under the provision of civil service regulations.

29

Strategic Approach to Balancing FY 2010 Budget



30

Strategic Approach to Balancing FY 2010 Budget

**Non-Recurring
Reductions/Vacancies**

Fee or Tax Increases

1

Total = \$11.9 million

Specific potential reductions already identified (\$9.8 million):

- Capture current departmental savings including elimination of vacancies - \$2.0 million
- No planned transfer to fund balance - \$3.7 million
- No planned transfer to risk management fund - \$1.6 million
- Additional debt restructuring - \$1.5 million
- Mass Transit efficiency savings - \$1.0 million

Specific fee or tax increases already identified (\$2.1 million)

31

Strategic Approach to Balancing FY 2010 Budget

*WHAT SERVICES CAN THE CITY
AFFORD TO PROVIDE WITH
DIMINISHING RESOURCES?*

*WHAT SERVICES SHOULD THE
CITY BE PROVIDING?*

**Discretionary Program
Expenditure Reductions**

2

Departments have been directed to identify potential discretionary program reductions and/or revenue increases that could total up to 15% (\$52 million) of the FY 2010 unrestricted General Fund budget. Savings during FY 2010 (approximately \$17 million or 5%) would help offset the current \$32 million revenue shortfall. Additional reductions going into FY 2011 of approximately \$35 million or 10% would help offset the anticipated FY 2011 deficit. These program reductions will result in employee layoffs.

Specific recommendations will be brought to the Mayor and Council for their approval on January 5, 2010.

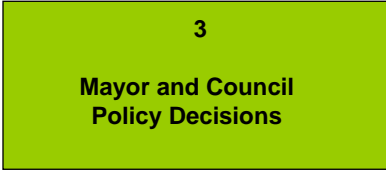
32

Strategic Approach to Balancing FY 2010 Budget

Proposals:

- Employee Premium Pay/Allowances Eliminations (\$3.3 million)
- Fee or Tax Increases (\$2.1 million included in Box #1)
- Outside Agencies Reduction-10% (\$1.0 million) with an additional 30% in FY 2011 (\$4.3 million)
- Eliminate subsidy of public safety employee pension contribution (\$0.5 million)
- Eliminate utility low income assistance program (\$0.5 million) or direct Environmental Services/Water to absorb through rate increases

NOTE: Amounts based on January 2010 implementation.



Potential Premium Pay and Allowance Eliminations

Overtime Pay Policy Change	TFD Paramedic Certification Pay
Tuition Reimbursement	TFD Fire Battalion Call Back Chief Pay
Second Language Pay	TFD Honor Guard Assignment Pay
Death Benefits	TFD Additional Pay to Defray Housekeeping Pay
Executive Vehicle Allowance	TPD Proficiency Second Language Pay
Longevity	TPD/TFD Recruitment Referral Pay
Downtown Parking Allowance	TPD Holiday and Board of Inquiry Pay
Uniform Maintenance Allowance	TPD Career Enhancement Pay
Shift Differential Pay	TPD/TFD Public Safety Command Add'l. Compensation
TFD/TPD Sick Leave Sell Back	Water Pipeline Protection Pay
TFD Incentive Pay for Fire Inspectors	Water Maintenance Management Pay

Note: FY 2010 Potential 6 Months Savings = \$3.3 million
 FY 2011 Potential Full-year Savings = \$8.2 million

FY 2010 Proposed Revenue Sources

Proposed Fee or Tax	FY 2010 Estimated Revenue
Institute collection of insurance deductible for Advanced Life Support from city residents	\$ 625,000
Alternative to Jail Fee (Up to Judge)	416,667
Increase existing Development Services fees by at least 10% and add approximately a dozen new fees	358,000
Increase Parks & Recreation program fees for higher cost recovery	350,000
Increase Business License Fee by \$10 (from \$45 to \$55)	170,833
Repeal the cost of land deduction for sales tax	120,833
Institute new fee structure for Real Estate Division for cost recovery on public requests	72,917
Require special events license for "promoters" \$45 Business License fee	9,167
Require special events license for "promoters" \$28 Dealer-Trade fee	5,833
Total Revenue if effective February 1, 2010	\$ 2,129,250

35

General Fund Outside Agency Allocations 10% ATB Reduction Recommendation except for "Payments to Other Governments" category

(DRAFT)	Adopted GF FY 2010	FY 2010 10% Reduction	Revised FY 2010
<i>Economic and Workforce Development</i>			
Critical Path Institute (C-Path)	158,440	15,844	142,596
Business Improvement District (BID)	280,020	28,002	252,018
JobPath	380,250	38,025	342,225
Metropolitan Tucson Convention and Visitors Bureau (MTCVB)	4,036,350	403,635	3,632,715
Pro Neighborhoods	68,450	6,845	61,605
School Plus Jobs	471,510	47,151	424,359
Tucson Regional Economic Opportunities (TREG)	1,242,700	124,270	1,118,430
Subtotal	6,637,720	663,772	5,973,948
<i>Arts and Cultural Enrichment</i>			
Tucson-Pima Arts Council (TPAC)	525,530	52,553	472,977
El Centro Cultural de las Americas	9,140	914	8,226
Tucson Botanical Gardens	41,120	4,112	37,008
Tucson Children's Museum	35,640	3,564	32,076
Tucson Museum of Art	65,240	6,524	58,716
Tucson Sister Cities Association	12,190	1,219	10,971
Tucson Pops Orchestra	22,820	2,282	20,538
Subtotal	711,680	71,168	640,512

(Continued)

**General Fund Outside Agency Allocations
10% Reduction Recommendation except for "Payments to Other
Governments" category (Continued)**

(DRAFT)	Adopted GF FY 2010	FY 2010 10% Reduction	Revised FY 2010
<i>Human Services</i>			
88-Crime	12,610	1,261	11,349
Community Mediation Program (Our Family Services)	41,700	4,170	37,530
Human Services Plan	1,882,570	188,257	1,694,313
Humane Society of Southern Arizona	13,710	1,371	12,339
Metropolitan Education Commission	53,870	5,387	48,483
Pima County -Tucson Women's Commission	39,360	3,936	35,424
Subtotal	2,043,820	204,382	1,839,438
<i>Civic/Special Community Events</i>			
City Co-Sponsored Events	258,570	-	258,570
El Tour/Perimeter Bicycling Association of America	22,820	2,282	20,538
Southern Arizona Regional Science and Engineering Fair	9,510	951	8,559
Tucson Gem and Mineral Society	27,420	2,742	24,678
Subtotal	318,320	5,975	312,345
			(Continued)

**General Fund Outside Agency Allocations
10% Reduction Recommendation except for "Payments to Other
Governments" category (Continued)**

(DRAFT)	Adopted GF FY 2010	FY 2010 10% Reduction	Revised FY 2010
<i>Payments to Other Governments</i>			
Pima Animal Control Center	1,315,890	-	1,315,890
Pima Association of Governments (plus 100,580 HURF)	197,420	-	197,420
Victim Witness	27,420	-	27,420
Subtotal	1,540,730	-	1,540,730
<i>Other</i>			
Access Tucson	758,740	75,874	682,866
YMCA (Jacobs/Lighthouse/Mulcahy)	88,410	8,841	79,569
Subtotal	847,150	84,715	762,435
TOTAL	\$ 12,099,420	\$ 1,030,012	\$11,069,408

Note: The proposed \$1 million reduction equals a 8.5% reduction to the \$12.1 million General Fund outside agency adopted allocation.

Strategic Approach to Balancing FY 2010 Budget

To the extent that the projected revenue shortfall of \$32 million is not offset by balancing efforts in the prior steps (e.g., non-recurring budget reductions, fee increases, discretionary program eliminations and reductions, policy decisions) departments will be required to make further targeted expenditure reductions (e.g., more layoffs) to the extent needed to **fully offset** the projected deficit.

4

Department Expenditures
Target Reductions

NOTE: Every \$7.5 million shortfall =
Potential reduction in 100 jobs.

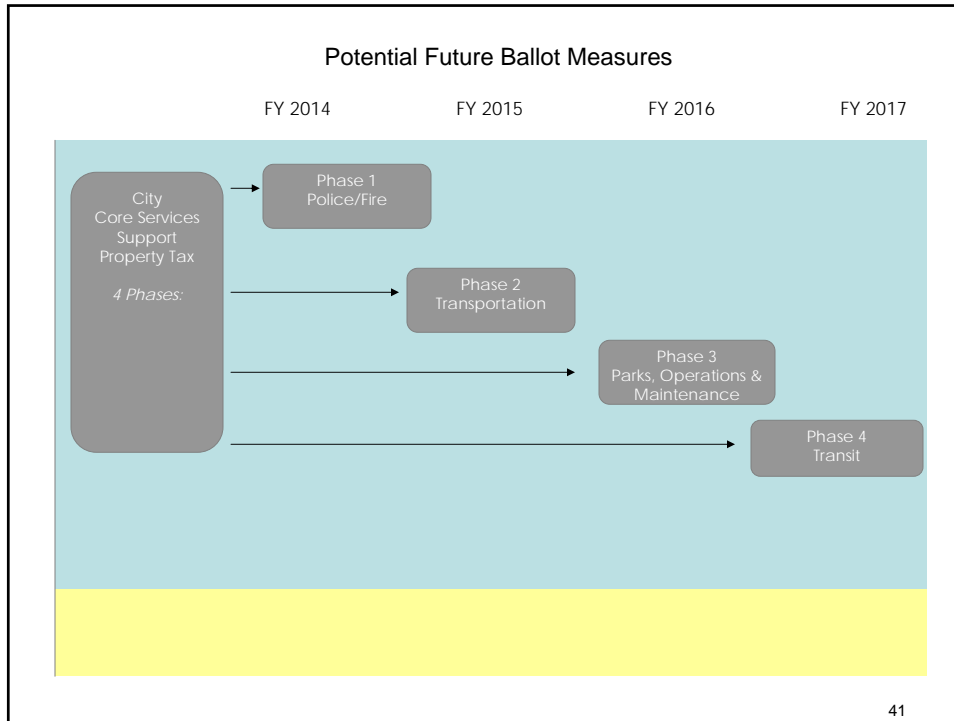
39

Four Scenarios for Departmental Budget Balancing FYs 2010-2011

1. "Strategic Approach" methodology (e.g. discretionary program reductions, across-the-board (ATB) targets) for all General Fund Departments.
2. "Strategic Approach" methodology (e.g. discretionary program reductions, ATB targets) for all General Fund Departments. Reduce impact on Police, Fire and Park employee layoffs with funding available from a dedicated Landlord Tax that sunsets in FY 2016. The sunset would follow voter approval of a Core Service property tax for supplemental support for these specific services.
3. "Strategic Approach" methodology (e.g. discretionary program reductions, ATB targets) with the exception of any layoff of current Police and Fire commissioned personnel. Funding would be available from a dedicated Landlord Tax that sunsets in FY 2016. The sunset would follow voter approval of a Core Service property tax for supplemental support for these services.
- 4.* "Strategic Approach" methodology (e.g. discretionary program reductions, ATB targets) with no layoffs of current Police and Fire commissioned personnel.

* ***The institution of scenario #4 would result in the need for significant reductions of up to an estimated 28%, including layoffs, in all non public safety departments.***

40



Summary of FY 2010 Strategic Approach Budget Balancing (millions)

<i>FY 2010 Revenue Shortfall</i>		\$32.0
1. Current Projected Expenditure Savings (including vacancies)	(2.0)	
No Fund Balance Transfer	(3.7)	
No Supplemental Risk Management Fund Transfer	(1.6)	
Debt Restructuring	(1.5)	
Mass Transit Efficiencies	(1.0)	
Fee or Tax Increases	<u>(2.1)</u>	
Subtotal		(11.9)
2/4. Departmental Program Reductions		(15.3)
3. Employee Premium Pay Elimination	(3.3)	
Outside Agencies	(1.0)	
Low Income Subsidy	<u>(0.5)</u>	
Subtotal		<u>(4.8)</u>
<i>Deficit (if all proposals adopted in full)</i>		-0-
Option: Implement landlord tax (\$5 million estimated revenue in six months) to reduce Departmental Program Reductions in Police, Fire, and Parks and Recreation.		

42

Overview of Fiscal Year 2011 Preliminary Projections

(updated from 9/15/09 presentation
to Mayor and Council)

43

FY 2011 Budget Deficit Preliminary Projection (millions)

Revenue Shortfall (assumes same as FY 2010)	\$ 32.0
Financial Recovery Plan Reductions (FY 2010 one-time fixes)*	17.6
State Shared Income Tax Reduction	16.8
Pension Increases	2.0
Health Plan Increases	2.7
COPS Debt Service – TPD Crime Lab	<u>2.0</u>
Potential Minimum Revenue Shortfall	\$ 73.1
Less Proposed FY 2010 Structural Adjustments**	(32.5)
<i>Outside Agencies Reduction (30% from FY 2010 revised)</i>	<i>(3.4)</i>
<i>Decrease in Mass Transit Subsidy (fare increase)</i>	<i>(1.3)</i>
<i>Recurring and Additional Departmental Structural Reductions</i>	<u><i>TBD</i></u>
Potential Deficit to be Further Offset by Departmental Reductions	\$ 35.9

* Includes assumption of no furlough days in FY 2011.

** Assumes adoption of all proposed FY 2010 fees, revenues, and departmental program and expenditure reductions (from "Strategic Approach to Balancing FY 2010 Budget") with no further revenue reductions.

44

Summary

- Immediately close the “budget gap”.
- Implement more structural cuts and limit or eliminate “one-time” fixes.
- Communicate.

45

Next Steps

- FY 2010 Budget Communication Outreach – immediate implementation
- January 5, 2010 Mayor and Council
 - Study Session: Policy direction for FY 2010 structural budgetary savings
 - Public Hearing on new revenues
 - Regular Agenda: Adoption of ordinances to amend the compensation and benefit codes and implement new revenues
- Revenues will continue to be monitored and projections will continue to be refined and updated. Mayor and Council will be informed.
- February 23, 2010 Mayor and Council
 - Study Session: FY 2011 Revenues and Budget Balancing Framework

46