DATE: May 5, 2020

TO: Honorable Mayor Romero and Council Members
FROM: Michael J. Ortega, P.E. City Manager

SUBJECT: City Manager’s Recommended FY 2020/2021 Budget

I am pleased to present to you the Fiscal Year 2020/2021 Recommended Budget for the City of Tucson. The budget, as presented, is balanced. Please note that it includes assumptions although it does include assumptions about use of Cash Carry Forward (CCF) or fund balance and reimbursement for certain expenses from the CARES Act associated with the COVID-19 virus. This memorandum provides a comprehensive overview of the budget, but please keep in mind, due to the unprecedented challenges presented by COVID-19 crisis, the process and approach we used to craft the budget reflects the uncertainty our economy faces for the foreseeable future.

As you may recall from the Jan 28 M&C retreat, we were projecting a significant fund balance at the end of this fiscal year and increases in new revenue for FY 20/21. Unfortunately, due to the virus, those projections are no longer accurate, and we are now facing a potential deficit for this current fiscal year (FY 19/20) and significant declines in most sales tax related revenues. Based on information from University of Arizona economists, it appears the negative impact could be even greater than what we faced during the Great Recession of 2009.

We have attempted to take a long-term approach in our projections, but again, these projections are based on very finite information since the full impact of the current crisis is not known and will not be known for months if not for years. The key to this next fiscal year will be strong communication at all levels of the organization and clear understanding of actual revenues against expenditures. It will be extremely important that we all have access to real time information regarding revenues and expenses as the year progresses.

Staff continues to work on perfecting a digital dashboard showing revenues and expenses and will have it ready to unveil shortly. The intent is to display this information on our website. It will give us all real time (daily) information that can guide financial decisions on the spot. As I mentioned in my previous discussions and presentations on the proposed budget, we will present a spending plan on a monthly basis to ensure you are kept up-to-date and will be given the opportunity to guide policy matters.

We have worked diligently over the past several years to evolve our organizational culture to one that provides employees the environment to be successful through flexibility and innovation. This flexibility and innovation will become as important as ever as we work our way through these uncertain financial times. Our efforts towards continuous improvement will continue and we will need to accelerate these efforts to ensure we take advantage of opportunities that arise...
from these challenging times. There is no doubt in my mind that we have assembled a strong
team to get us through this pandemic and we will come out of it even stronger.

Our employee centric approach will also be tested in the coming year. Through your leadership,
we have implemented many programs supporting employees including the Employee Retention
Program that addressed salaries across the organization. Our employees remain our most
important asset, and during these uncertain times, it will be important that decisions are made
with this in mind as we navigate through the impacts this uncertainty has throughout the
organization and community. To keep employees informed, I have established weekly virtual
updates (town halls) where I give employees the latest information I know and then I provide
them with an opportunity to ask questions. We will continue to hold these meetings for the
foreseeable future. I have often said that it is imperative that we continue to invest in training for
our employees. Generally, one of the first items to be reduced or cut when financial hardships are
felt by an organization is travel and training. I have asked the directors to consider holding on to
a portion of this important investment as we go forward to ensure staff stays current with the
latest innovations. This knowledge is key to us keeping a long-term focus.

Another area that will see a deferment is our one-time capital expenses or projects. We have
developed a Capital Improvement Program (CIP) for basic capital investment and reinvestment
into areas where maintenance has been neglected due to previous budget constraints.
Unfortunately, we again face financial challenges and the portion of this program funded from
the General Fund will be reduced. We are exploring the impacts to the CIP as it relates to the
Enterprise and Special Revenue Funds and attempting to keep construction projects on track to
ensure we keep the construction industry moving through the next year. During the Mayor &
Council January 28 retreat, we had expected to hire a separate CIP coordinator. The intent is to
proceed with this effort, although it will be a temporary reassignment for an existing employee
not an additional full-time equivalent.

This memorandum is broken into six sections: FY 19/20 Overview, FY 20/21 Budget Approach,
General Fund, Special Revenue, Enterprise Funds, and Beyond FY 20/21. Please keep in mind
this memo is intended to provide you with an overview of the various programs and initiatives
included in the FY 20/21 budget and give thoughts on how we anticipate COVID-19 fiscal
impact will affect our ability to deliver services.

I. FY 19/20 Overview

We had seen an upward trend in Business Privilege Tax, our major revenue source, with retail
and restaurant growth exceeding projections and one-time construction sales taxes playing a
major role in the revenue increase through March 2020. Now with COVID-19, we will see a
significant decrease in revenues and are revising our projections downward. As you will see
from the table on the next page, we are projecting a possible use of fund balance of $24.1 million
if projections hold.
The following table provides summary information on the FY 19/20 Unrestricted General Fund projections based on third quarter results with a comparison to the adopted budget. Included in the table is the amount assigned for the use of CFF and the amount projected to be spent. You can refer to Attachment A for a more detailed spreadsheet of what makes up this summary table. Attachment A was previously shared with you as a part of the April 14 agenda materials.

<table>
<thead>
<tr>
<th>Fiscal Year 2019/20 ($ millions)</th>
</tr>
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<tbody>
<tr>
<td>Description</td>
</tr>
<tr>
<td>Adopted Budget</td>
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<tr>
<td>Projected</td>
</tr>
<tr>
<td>Variance</td>
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<tr>
<td>% Change</td>
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<td>------------------------------------</td>
</tr>
<tr>
<td>Revenues</td>
</tr>
<tr>
<td>$558.4</td>
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<tr>
<td>$516.7</td>
</tr>
<tr>
<td>($41.7)</td>
</tr>
<tr>
<td>-7.5%</td>
</tr>
<tr>
<td>Expenditures</td>
</tr>
<tr>
<td>(558.4)</td>
</tr>
<tr>
<td>(540.8)</td>
</tr>
<tr>
<td>17.6</td>
</tr>
<tr>
<td>-3.2%</td>
</tr>
<tr>
<td>Difference</td>
</tr>
<tr>
<td>-0-</td>
</tr>
<tr>
<td>($24.1)</td>
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<td>($24.1)</td>
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<td>Use of Cash Carryforward</td>
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<td>-</td>
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<td>-</td>
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<tr>
<td>($24.1)</td>
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</tbody>
</table>

FY 19/20 Revenues

The Unrestricted General Fund Adopted Budget revenues were estimated to be $558.4 million. The projected revenues based on third quarter results are $516.7 million; a decrease of $41.7 million or a 7.5% decline from the Adopted Budget. As we outlined during the April 14 budget presentation, we ran three scenarios for revenue decreases through the end of the fiscal year to give us an idea of the magnitude of the impacts. Based on what we see today, we are expecting the 25% drop in revenue from now through June 30 is more likely than the lesser decreases. Keep in mind that is based on very preliminary and finite information over the past couple of weeks. These projections may change significantly once we receive our actual distributions. Listed below are the explanations for the major General Fund revenues:

- Business Privilege Taxes – The projected taxes are $204.9 million; a $23.3 million or 10% decrease from the adopted $228.2 million. The sales tax categories were we expect to see the greatest decrease are retail, restaurant sales, and construction.

- Use Taxes - The projected taxes are $12.0 million; a $283 thousand or a 2% increase from the adopted $11.8 million. Out-of-state vendors do not generally charge sales tax, so when a customer buys goods or consumes tangible personal property, a use tax is paid at the same rate as the City’s sales tax. Use Tax, like sales tax, is dependent on local and national economic trends, so although we are projecting a slight increase, this source may see a decrease.

- Transient Occupancy Tax - The projected taxes are $12.0 million; a $1.2 million or 9% overall decrease from the adopted $13.2 million. The decrease in this revenue can be attributed to the lack of travel and tourism during the pandemic.

- State-shared Taxes - The projected income for sales and auto lieu taxes is $145.7 million; a $6.9 million or 4.6% decrease from the adopted $152.7 million.

- Ambulance fees - The projected revenues are $10.7 million; a $1.43 million or an 10.8% decrease from the adopted $12.0 million. Transport volume has gone down quite a bit since last month. The trend of fewer transports is happening across the country, so it is
not unique to the City. People are avoiding going to the hospitals because they are concerned, they will be exposed to COVID-19.

- **Licenses and Permits** - The projected revenues are $32.0 million; a $600 thousand or 1.7% decrease from the adopted $32.6 million. Because most businesses pay their license fees at the beginning of the year, we do not expect this line item to decrease significantly this fiscal year. In addition, building permit activity remains strong even during the pandemic.

- **Sale of Property** - The adopted budget did not assume any sale of real property during the fiscal year. However, the City-owned property at 114/124 E Broadway sold in February 2020 for $1.5 million.

**FY 19/20 Expenditures**

Ongoing expenditures exclude those costs covered by CCF. The Unrestricted General Fund Adopted Budget recurring expenditures including transfers to other funds, is $558.4 million. Normally we would project the annual expenditures through the end of the fiscal year based on third quarter results. Although the third quarter results were included in the analysis, the projections indicate a reduction in spending and a hiring freeze in most functional areas. We are projecting to save approximately $11.9 million through the end of the fiscal year because of vacancy savings and the hiring freeze. Based on both of those actions, we expect the actual expenditures to be approximately $540.8 million, a decrease of approximately $17.6 million. Attachment A outlines the total amounts we expect to expend through the end of FY 19/20. Although the decrease amounts to approximately 3.2% it is important to note the reductions are higher in some functional areas since some expenditures mainly covering pensions and debt service cannot be reduced.

**II. Fiscal Year 20/21 Budget Approach**

The approach to crafting the FY 20/21 Recommended Budget is very different from what we used in previous years. Because of the COVID-19 pandemic, the department directors presented on their budgets to the entire Executive Leadership Team (ELT) and other key staff. The resulting discussions identified successes and challenges the departments are facing and allowed ELT to collaborate on ways to address these challenges. Ultimately, this effort will lead to an exhaustive analysis over the course of FY 20/21, and beyond, to ensure resource allocation alignment with our strategic goals.

**Employee Compensation**

We have been implementing the Employee Retention Plan for the past four years and have made progress across all functional areas and most positions. Due to the pandemic, there is no plan to fund employee compensation increases during FY 20/21. Depending on revenue performance during FY 21/22, we may revisit employee compensation.
Health Self-Insurance Trust

On March 5, 2019 the ordinance amending the Tucson City Code for the purpose of establishing a Self-Insurance Trust Fund and Board of Trustees was approved. Under the self-insurance model the City retains full control of all funding decisions and plan design options including selection of the healthcare network and all investment decisions. CIGNA will remain the City’s service provider and third-party administrator for claims. Mayor and Council also approved funding the employee’s portion of a 7.6% health increase in FY 20/21.

The medical increase amount citywide is $3.4 million from the adopted budget of $48.5 million to $51.9 million for FY 20/21. The General Fund FY 20/21 amount will be $37.0 million, an increase of $2.5 million from the FY 19/20 amount of $34.5 million. The Health Insurance Trust Fund is an Internal Service fund much like the Self-Insurance Risk Management Fund. The revenues recorded in the fund mainly come from employee, employer and retiree payments, along with pharmacy rebates. The budget includes capacity for medical claims payments, stop loss premiums, Cigna administration fees, funding the reserve account, staff salaries and the City's new enrollment system. For FY 20/21, the Recommended Expenditure Budget for the fund is $77.4 million.

Use of One-Time Funding Sources

The COVID-19 virus has caused the economy to decline in just a few months. As a result of the unprecedented quickness of the corresponding decrease in ongoing transaction related taxes, we do not have time to react other than drastic cuts in expenses, or the use of one-time sources to buy us time for a recovery or to make more systemic cuts to expenses. A few of the opportunities we have explored are as follows:

Fund Balance/Reserves

As of June 30, 2019, we currently have the following fund balances in the various funds:

<table>
<thead>
<tr>
<th>Fund</th>
<th>Balance</th>
<th>Available</th>
</tr>
</thead>
<tbody>
<tr>
<td>General Fund</td>
<td>$123,371,163</td>
<td>($66.2 m available)</td>
</tr>
<tr>
<td>Highway User Revenue Fund (HURF)</td>
<td>$15,592,245</td>
<td>($15.6 m available)</td>
</tr>
<tr>
<td>Environmental Services Fund (ES)</td>
<td>$42,119,879</td>
<td>($42.1 m available)</td>
</tr>
<tr>
<td>Water Fund</td>
<td>$159,910,806</td>
<td>($63.5 m available)</td>
</tr>
<tr>
<td>Park Tucson Fund</td>
<td>$1,982,530</td>
<td>($1.9 m available)</td>
</tr>
</tbody>
</table>

Although a lot of emphasis will be placed on the General Fund, it is important to note we are expecting decreases in revenue in other funds and it may necessitate the use of some reserves in those funds.

The General Fund has approximately $66.2 million available in reserve that can be used during these difficult times. I would not recommend using all these reserves now but would be comfortable using a portion. Hence, I recommend you consider using no more than $53.5 million between now and June 30, 2021. This will leave approximately $12.7 million as fund balance for future challenges.
Interfund Transfer/Loan

Another opportunity is the potential of interfund transfers/loans. Although each of the funds shown above have some capacity for an interfund transfer to other funds (General Fund), I am not recommending you consider interfund transfers from either HURF or ES because they are not as financially solid as the Water Fund. There is currently approximately $63.5 million available for an interfund transfer from Water. In addition, as you may recall, the Water Fund had been moving to a pay-as-you-go model to fund capital improvements by reducing the amount of debt issued annually. The current plan was to fund the department’s Capital Improvement Program (CIP) by using $10.1 million of existing cash and financing $34 million for the CIP. One option is to finance more of the CIP freeing up cash to add to a possible interfund transfer. We will continue to explore this option through our financial advisors and report to you later in May.

Certificates of Participation (COP) Refinancing

As you may recall, we have approximately $171 million in outstanding COP’s that were issued for acquisition, construction or improvements of various projects including Streetcars, Plaza Centro and Pennington Garage improvements, fire apparatus, Central Energy Plant, ball field lighting, Crime Lab construction, technology upgrades and Reid Park Zoo improvements, among others. An option exists to refinance some of these COPs to give us relief on principal payments for a year or two and refinance them over a longer period. This may be a good strategy given the low market interest rates. We estimate this could equate to a one-time savings of approximately $17.8 million. We will continue to explore this option with our financial advisors and develop possible recommendations for your consideration in the future.

Line of Credit

The City of Tucson has not traditionally used a line of credit for operations, but it may be of value to consider it during the fiscal year for cash flow purposes. We are exploring terms that could be available and will present them to you for consideration in the future.

Federal Funding/Coronavirus Aid Relief and Economic Stimulus Act (CARES Act) – Reimbursement

We have received over $100 million in allocated funding to assist our community and to some level our organization with the negative financial impacts of the COVID-19 virus. Although this is good news, it does have its drawbacks in terms of the restrictions that have been placed on it by the federal government. For example, the guidance we received specifically excludes revenue replacement and is explicit that the funding must be used to address negative impacts of the virus and costs not otherwise budgeted. This would not be a problem if the revenue held, but since the “budgeted expenses” are a function of revenue and revenues are expected to be dramatically reduced, we have no way of capturing the losses in revenue and ultimately funding our basic community needs. Hence, we must find other ways to make up the lost revenue including one-time short-term funding sources and reducing expenses to be in line with those resources.
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The following is a list of the Federal Funding we have either received or been awarded to date:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Coronavirus Relief Fund</td>
<td>$95,634,512</td>
</tr>
<tr>
<td>FTA Section 5307 Formula Grant</td>
<td>$44,285,722</td>
</tr>
<tr>
<td>Community Development Block Grant</td>
<td>$3,295,930</td>
</tr>
<tr>
<td>Emergency Solutions Grants</td>
<td>$1,667,776</td>
</tr>
<tr>
<td>Housing Opportunities FOR Persons with AIDS (HOPWA)</td>
<td>$109,150</td>
</tr>
<tr>
<td>Bureau of Justice Assistance Grants</td>
<td>$949,721</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$145,942,811</strong></td>
</tr>
</tbody>
</table>

Although the costs associated with COVID-19 are eligible, as I mentioned above, they must be unbudgeted. To that end, we are tracking all pandemic costs and ensuring we can demonstrate those increases. We are also working to create a functional area within the City Manager’s Office called COVID-19 Response Unit. It will encapsulate the various functions we are having to create as a result of the pandemic and will include the COVID-19 Emergency Operations Team, Call Center, Shelter Disinfecting Team, Logistics Team, Small Business Navigator Team, Utility Affordability Navigation Team, Landlord Outreach and Housing Search Team as well as other areas specifically associated with the COVID-19 impacts and increases in costs. Please note this will be a new expense in both the FY 19/20 and FY 20/21 operating budgets.

### III. Unrestricted General Fund Overview

The following table provides a comparison of the FY 19/20 Unrestricted Adopted Budget, the FY 19/20 projections based on third quarter results and the FY 19/20 Recommended Budget.

<table>
<thead>
<tr>
<th>Description</th>
<th>FY 19/20 Adopted Budget</th>
<th>FY 19/20 Projected</th>
<th>FY 20/21 Recommended</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenues</td>
<td>$558.4</td>
<td>$516.7</td>
<td>$527.5</td>
</tr>
<tr>
<td>Expenditures</td>
<td>(558.4)</td>
<td>(540.8)</td>
<td>569.2</td>
</tr>
<tr>
<td>Difference</td>
<td>-0-</td>
<td>($24.1)</td>
<td>-0-</td>
</tr>
<tr>
<td>Use of Fund Balance</td>
<td>$0</td>
<td>($24.1)</td>
<td>($41.7)</td>
</tr>
</tbody>
</table>

**Revenues**

The General Fund Estimated Ongoing Revenues are $527.5 million, a projected increase of $10.8 million or 2.1% above the FY 19/20 yearend projections. Listed below are the explanations for major changes in our revenues:

- Business Privilege Taxes. The taxes are estimated at $205.6; a $633 thousand or 0.3% increase from the FY 19/20 yearend projected revenues of $205.0 million. Based on the pandemic, we are projecting a flat 15% decrease in sales taxes through December 2020 with a slight increase of 2% per month from January through July 2021. We also expect to see additional sales taxes generated by on-line sales per the Wayfair ruling last year, however the increase will not make up for the loss in other retail, bar and restaurant sales.
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• State Shared Income Taxes. The estimated income taxes are $79.3 million, a $7.5 million or 10.4% increase from the FY 19/20 projected year end revenues. As you may recall, fifteen percent (15%) of the combined Individual Income and Corporate Tax Revenue base is shared with cities on a two-year lag basis (two years after the year the state collects the funds). This explains the projected increase even considering the expected downturn in income tax caused by the pandemic. FY 20/21’s expected distribution is therefore based on the State's final tax collections in FY 18/19. We expect this revenue component to remain strong through FY 21/22 but will decrease in FY 22/23 to reflect current economic conditions.

• State shared sales taxes. The estimated sales taxes are $52.7 million, a $970.8 thousand or 1.9% increase from the FY 19/20 projected year end revenues. We do anticipate needing to adjust this projection downward as information is received from the State during the fiscal year.

• As allowed by the Arizona State Constitution, I am proposing to increase the Primary Property Tax to an amount not to exceed 2% greater than the maximum allowable levy from the preceding year plus new construction. As we have done in the past and per ARS 42-17102, I am also proposing to include in the Primary Property Tax levy the involuntary torts or claims paid in FY 18/19. The proposed tax rate is $0.4883 per $100 of assessed valuation, an increase of $0.0328 due to the increase of the tort liability claims from $300,140 to $1,622,030. The total amount of Primary Property Taxes is projected to be $18,188,920 of which $16,566,890 would be General Fund revenue and $1,622,030 (the tort liability assessment) would be deposited in the Self-Insurance Fund.

• Licenses and Permits - The estimated revenues are $32.0 million. No change is projected to the FY 19/20 projected year end revenues. Building permit activity has remained strong during the pandemic, but we are expecting permit activity to slow as the impacts of the virus are felt in the homebuilding industry.

• Hotel/Motel Surcharge - The estimated revenues are $7.0 million, which is a decrease of 5.7% from the FY 19/20 projected year end revenues. The projection assumes retaining the $4 per room per night fee and a decrease in the number of room nights over FY 19/20. During the FY 19/20 budget discussions, Mayor and Council directed $2 million of this revenue to be set aside to transfer to the Environmental Service Fund if needed to assist in covering the reduction in recycling revenue. The $2 million is a one time transfer to ES from the general fund. If it is not needed for FY19/20 then it or a portion of the amount will be carried forward to FY 20/21.

Expenditures

As mentioned above, our approach to the operating budget this year is different than we have done in the past simply because of the uncertainty caused by the worldwide pandemic. The following is an outline and plan for what we expect during FY 20/21, but this information should not be seen as the final answer to these expenditures since the final decisions surrounding expenditures will occur on a monthly basis as a function of actual revenues. Through our efforts to develop a culture of innovation and creativity, I believe we have established the flexibility to adjust to actual revenues in a very short timeframe. Departments will provide a monthly
spending plan to reduce expenses approximately 1% per month. This will not necessarily be linear, but that is the general thought at this point. The narratives included from departments in this communication gives a summary of general impacts to their respective department if what equates to a 15% reduction in expenses (1% per month from now through June 2021) is implemented.

The following are highlights in the General Fund expenditures.

**General Government**

In order to provide transparency and ease of auditing, the $95.6 million received from the Coronavirus Relief Fund has been set up in its own Special Revenue fund separate from the General Fund. Budget capacity in the same amount is included in the Recommended Budget under General Government. We do know that we will spend some of these funds during FY 19/20 but since we do not have an estimate of that amount, the full amount was budgeted for FY 20/21. This is just capacity and as financial information is brought to Mayor and Council during the fiscal year, the budget capacity will be reduced depending on funds spent. This additional capacity can also be used in case General Fund revenues do come in greater than anticipated allowing for additional spending.

**Economic Development**

Economic development will continue to be an important focus area for our organization and community particularly the need for economic recovery caused by COVID-19. I expect this effort to include sustaining the increase in spending for small business navigators and targeted advocacy for minority owned businesses.

**Visit Tucson $5.1 Million**

Per Arizona Revised Statute 9-500.06, the City must allocate one-third of Transient Occupancy Tax (TOT) collections exclusively for the promotion of tourism. The agreement with Visit Tucson provides for additional funding once the City’s share of the TOT and half of the hotel/motel room surcharge revenues combined are greater than $9.4 million. I plan to have an ongoing dialog with Visit Tucson about this funding formula going forward. Because of the decrease in tourism we are expecting a corresponding decrease in all tourism related revenues. Staff and I will work closely with Visit Tucson to ensure their marketing efforts continue, while also being mindful of the financial challenges we face.

**Arts Foundation for Tucson and Southern Arizona (AFTSA) $553,990**

The Financial Participation Agreement (FPA) amount for AFTSA is $350,000. Included in this agreement is a provision which provides AFTSA with additional funding. The formula is as follows: once the City’s share of the TOT and half of the hotel/motel room surcharge revenues combined are greater than $9.4 million, the City will share 10% of the combined increase with AFTSA paid in the following fiscal year. AFTSA sets aside 15% of the additional revenues for City public art maintenance. We are expecting a decrease in revenue as outlined above, but we have included for FY 20/21 $552,990 for AFTSA, of which $350,000 is the FPA amount and $203,990 is the additional funding. The actual amount of additional funding may change depending on FY 19/20 yearend results.
Jail Board $6.4 Million
Over the last few years, we had anticipated that Pre-Trial Services would reduce the City’s jail costs by conducting release screenings prior to the booking of defendants. We have not seen any decreases to our costs so for FY 20/21 the budget was increased by $1.5 million from $4.9 million.

Pima Association of Governments (PAG) $298,000
No changes to the funding of PAG are proposed as a part of the FY 20/21 budget. The total member contribution is $298,000 with the funding split between the General Fund ($98,420), the Water Utility Fund ($99,000), and the Highway User Revenue Fund ($100,580).

Community Outreach $200,000
For now, no changes have been made to the $200,000 to cover the costs of community outreach and to support community events not already in the budget. However, with all expenditures under analysis, this may be one area that will be reduced in the upcoming months.

Funding Support is Provided for Certain Civic Events
There are no funding changes proposed to Outside Agencies or certain civic events in the FY 20/21 Recommended Budget. As in years past, the amounts proposed are for Veterans Day Parade, $8,000; Martin Luther King Jr. Walk, $8,000; and Cesar Chavez Walk, $8,000.

Animal Care $4.8 Million
The City continues to be an active member of Pima Animal Care Center Partners (PACC). For FY 20/21, we budgeted $4.8 million, the same amount as FY 19/20. Approximately $0.9 million annually is collected from animal license fees and $10,000 is collected from animal control fines which offset a portion of the City’s cost.

Outside Agencies
We will approach the effort to fund outside agencies differently for FY 20/21. Specially, we have asked the outside agencies to revise their applications to include specific COVID-19 related expenses and how their organizations will assist the community to overcome the negative impacts of the pandemic. The Recommended FY19/20 Budget will include funding support for specific services provided by other agencies to be funded from CARES Act sources. Because we requested new applications and the process has been delayed, we are not prepared to make recommendations on funding for these organizations at this time. We will bring back recommendations when this information is available.

Department and Functional Areas within the General Fund
As mentioned above, department directors were asked to put together an analysis of what a 15% reduction in expenses would entail for their specific areas. The following is a summary by department. Please note the amounts listed are the same as those included in the FY 19/20 budget for planning purposes. In addition, without more data on actual revenues (amounts and timing for receiving those amounts), it is difficult to outline exactly what aspects of the 15% reduction strategies outlined below may be needed or viable to implement. It will become increasingly
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important over the next couple of months for the City of Tucson to receive certainty if some sort of federal or state revenue replacement will become available. As you will see below, without such revenue replacement the cuts to fundamental services to our community will be drastic.

Mayor and Council
General Fund $3,702,890
Civic Contribution Funds $35,260

In FY 19/20, an additional $45,000 for the Mayor and each Ward office was added to their budget. This additional capacity could be a potential reduction to for FY 20/21.

City Clerk
General Fund $2,911,690

Each of the functions within the City Clerk’s office are mandated by Federal law, State law, Charter or Code provisions. By going to Vote by Mail elections and doing our own mailings we have been able to save one million dollars per election cycle. Most of the budget for the City Clerk’s office is funded for employee salary and election expenditures. During the Great Recession staffing was reduced by nearly 50%. Using improvements in technology we maintained the ability to perform our essential functions. Further reductions would jeopardize our ability to perform these essential functions and could jeopardize the City’s legal standing.

City Attorney
General Fund $8,143,530
Federal and Non-Federal Grants $266,060

The General Fund portion of the City Attorney’s Office (CAO) budget is $8,143,530. A 15% reduction in GF expenditures would amount to $1,221,530. Worth noting is that for FY 19/20, the CAO is on track to “return” more than $550,000 to the GF. I note this not for “kudos,” but as an indication that perhaps we can manage a significant reduction – although nothing approaching $1.2 million – through strategies other than a reduction in force (RIF). The described savings were achieved almost exclusively through vacancy savings, and mostly in the Criminal Division, where we experienced more turnover this year than in prior years.

That said, a $1.2 million reduction for FY 20/21 could only be achieved through a combination of attrition, furloughs, and layoffs. I think the CAO may be able to save $350,000 via attrition. I believe that furloughs (perhaps combined with a “work share” plan) could be a useful and strategic device to save money in our department and throughout the City, particularly if used sooner – while workloads are down and supplemental federal benefits are available to the impacted employees rather than later. But I estimate that furloughs/work sharing, even if aggressively deployed in our department, would not generate savings in excess of $200,000. That leaves us at trying to save in excess of $650,000 through layoffs. I would expect that all our layoffs would occur in the Criminal Division. Because of the way layoffs work, probationary employees would go first. That would mean the loss of 2 Litigation Support Clerks, 2 Law Clerks, and 4 assistant prosecutors, representing a savings of just over $600,000. Operational impacts would be significant. We would have to choose entire categories of case types that we would not prosecute. We could not fully staff the existing specialty court programs, including those that help keep people out of jail and I think we’ll burn out our best employees.
Ideas to consider:

- Retirement incentive that does not involve a cash payout (e.g. health care subsidy over time)
- Re-task as many employees as possible to COVID response jobs eligible for federal funding: e.g. contact tracing, PPE procurement and logistics, food distribution, anything else
- Court consolidation (again) – though I don’t think this can be done quickly

**City Court**

General Fund $10,202,340  
Other Federal and Grant Funds $1,186,120

Many of the costs and revenues associated with running the courts are not within the court's control. These are affected by the Legislature and general societal forces. They are also influenced by the decisions of other justice system stakeholders. One example is jail costs. We are hopeful that new jail reduction initiatives this year have driven down jail costs. We are prepared to engage in conversations with stakeholders to reduce costs beyond those we are suggesting in this memorandum. We would ask that you convene such a meeting of justice partners that would also include the jail and perhaps representatives from the County Administrator's Office. To increase the chance of success, the limited goal of this group should be to identify a few changes in practice that could reduce savings and or increase revenues in the next year.

1. Freeze the 5 currently vacant staff positions
   - Annual savings FY 20/21 $313,620
   - Vacancy Savings thru 6/30/2020 $ 43,490
   - $358,110

2. One Magistrate will retire in August. Through the end of FY 20/21, we would not seek to fill this vacancy and would substitute lower cost special magistrates to cover this workload.
   - Partial Year Savings FY 20/21 $80,263

3. Cover AOC equipment costs previously agreed to come from unrestricted general funds to restricted court case processing fee for the next year.
   - Annual Savings $310,000

We are still studying what expenses could be cut over the next year, other than those we may find through engaging our justice system partners. In the meantime, we have made some cost reductions over the past few weeks, most recently to the security contract.
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**Business Services Department (BSD)**

Environmental Services Fund $564,620  
General Fund $13,285,140  
Transportation and Mobility $1,329,200  
Self-Insurance Fund $11,595,910  
Community Development Block Grant $241,840  
Public Housing AMP Fund $562,640  
HOME Investment Partnerships $29,720  
Miscellaneous Housing Grants $52,470  
Tucson Water Utility Fund $804,790

The Business Services Department FY 20/21 General Fund proposed budget is $13,285,140. A 15% reduction would be almost $2 million. The BSD personnel costs are $11,719,830 or 88% of the total budget. Reducing by all the current vacant positions ($1.8 million) could potentially meet the 15% reduction; however, the loss of several of these positions would have a determinantal impact to the operational success of the Department. The alternative is to keep essential positions core to the finance and procurement functions and reduce positions in other identified areas.

**Potential reduction plan:**

1. Reduction of professional services $200,000  
2. Identified vacant positions including an administrator $1,366,850  
3. Identified non-critical operation positions which are currently filled $433,150

$2,000,000

**Environmental and General Services Department (EGSD)**

General Fund: $55,132,320

Recommended costs reductions include:

- Operating the department with the current and future vacancies which for the General Fund would equate to 30 positions for a savings of $2.4 million  
- 13 furlough days for all employees Grade 814 & Above to save $175,000  
- Transition from contracted services to self-performed facilities maintenance and custodial services saves $500,000  
- “Run to Failure” approach as it relates to facilities equipment to $100,000  
- Implement a department wide logistical support center that would be responsible to manage and operate the department’s assets and inventory $500,000  
- Perform a macro-view facility inventory and utilization analysis to divest from underutilized assets $500,000  
- Significant reduction in our fleet inventory coupled with the reduction of non-essential vehicle usage $50,000
Postpone the General Fund vehicle, refuse and equipment replacement programs  
  o  $2,000,000

- Suspend the Household Hazardous Waste program  
  o  $400,000

Maximize the use of CDBG funds to address Vacant and Neglected Structures program and other community wide code enforcement efforts  
  o  $500,000

- Focus code enforcement efforts to only address life, safety and emergency cases  
  o  $400,000

Move several positions supporting the special revenue funds from the general fund to the appropriate special revenue fund  
  o  $600,000

**Housing and Community Development (HCD):**

General Fund $2,540,670

For FY 19/20 HCD General Fund budget is $2,470,720. Of these funds, HCD is committed to $1,575,770 in Human Service grants to nonprofits. The remaining funds are for administrative expenses that can be covered by other HCD funds. HCD can absorb a $894,950 of prior General Fund costs reducing the total by 36%.

**Human Resources (HR) Department**

Environmental Services Fund $195,900
General Fund $4,627,410
Highway User Revenue Fund $387,250
Self-Insurance Internal Service Fund $7,398,170
Tucson Water Utility Fund $405,950

The Human Resources Department (HRD) FY 20/21 General Fund proposed budget is $4,627,410. A 15% reduction would be approximately $694,111. The HRD personnel costs are $4.2 million or 90% of the total budget. Reducing by three of the current vacant positions provides just over one-third of the targeted 15% reduction. There is no valid cut that can be made from the remaining 10% of the HRD’s operating budget. As a result, the only recourse would be a combination of furloughs and layoffs, unless attrition provides other opportunities. Assuming the reduction identified below, the primary service level impacted would be the Classification and Compensation function. An attempt would be made to provide back up support from other areas and will be most difficult when recruitment picks up again and the need for compensation studies and reorganizations are required. Staff will continue to assess other functions for opportunity to better support this area.

Potential reduction plan:

1. Elimination of three vacant positions (approximate cost)  
   $249,347

2. Furlough days equivalent to:  
   $300,000

3. Potential Layoffs  
   $144,653

$694,000
Information Technology (IT) Department

General Fund $25,310,990

The Information Technology Department FY 20/21 General Fund proposed budget is $25,310,990. A reduction of 15% will be $3,796,648.50. Personnel cost is 44% of the total budget and the other 50% is for Software and Services.

The IT department is in a unique position where only 6% of our budget is discretionary. Our budget heavily supports the maintenance of hardware and software applications that are core for business operations. For this reason, it makes cutting costs challenging without crippling the services we provide to the internal departments and citizens. In order to achieve this, we would utilize vacancy savings in open positions, renegotiate with vendors to reduce software cost, cut our hardware maintenance cost impacting Avaya phone system, servers and network equipment, implement printing quotas, eliminate training, traveling and professional services.

Potential reduction plan:

1. Vacancy savings including two Administrators and a Deputy Director $1,443,300
2. Reduce cost with software vendors $588,137
3. Support maintenance including Phone System, Server and Network $710,176
4. Place a quota on city printing reducing printing 33% $128,774
5. Training and Travel $711,600
6. Professional Services $214,660

$3,796,647

Parks and Recreation Department (P&R)

General Fund $27,697,700
Civic Contribution Fund $855,860
Development Fee Fund $2,125,000
Non-Federal Grant Fund $95,700
Other Federal Grants Fund $468,910

The Parks and Recreation Department FY 20/21 proposed budget is $37,263,700, with a capital budget of $9,733,810, labor and services budget is $27,529,890. A 15% reduction in labor and services would be approximately $4,127,890. The department personnel costs are $20,286,530 or 74% of the labor and services budget. Reducing by the current vacancy savings of $2,342,130 would represent 57%, a major portion of the 15% budget reduction goal; however, that suggests programs that rely upon non-perm and seasonal staffing would be greatly reduced in the next fiscal year. Non-perm staffing reliant programs include Parks Maintenance, After School KIDCO, KIDCO Summer Camp programs, and lifeguard coverage at all pools.

Potential Budget Reduction Plan:

1. Identified vacancy savings in non-perm/seasonal staffing $2,342,130
   $1,068,470 Parks Maintenance Programs
   $1,273,660 Recreation Programs
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2. Reduction of commodities/program supplies $499,880  
3. Reduction of services $1,284,480  

$4,127,890

Additional 1%/month budget reductions in non-perm & services beginning in May is $20,269 per month. Estimated 1% reduction for FY20/21 overall, $243,228.

Planning and Development Services Department (PDS)

General Fund $7,976,180  
Federal and Non-Federal Grants $32,000

PDS’s proposed reduction to the FY21 Operating Budget:

20% Reduction from 2020 operating budget to support General Fund:

$1,100,960 = Professional Services, Object Line 219  
$393,244 = EnerGov Contract Employees – 2-year commitment from General Government  
$40,000 = Travel and Training  
$1,534,204

May 1% reduction:

$75,000 = Vacancy Savings

June 1% reductions:

$45,000 = Vacancy Savings  
$15,000 = Office Supplies  
$15,000 = Computer Software

FY21 Spending Plan

Assuming a 15% reduction for FY20/21, PDS’s starting FY20/21 budget would be $6,385,642. A 1% monthly cut would be $63,856.42 per month. The only way to obtain a sustained 1% reduction would be through the following cumulative measures:

- Reduction in department hours (32-hour week)  
- Retirements 30% of the department is eligible for retirement  
- Vacancy Savings (dependent on hiring freeze)  
- Furloughs  
- Layoffs

PDS’s FY20/21 approved budget is $7,512,520. In addition to the Department’s FY20/21 budget, Finance approved $105,000 for travel/training and $15,000 for uniforms. PDS has halted all travel/training and uniform acquisition.
In addition to the $120,000 General Government funding allocated to PDSD, PDSD was authorized to hire six contract/temporary employees for FY20 to assist with the EnerGov Permitting project. The original direction was to hire non-perm City employees for the two year length of the project. However, PDSD was informed by Central HR that non-perms would not be able to work more than 32 hours/week and for no longer than a year. Given the temp limitations, PDSD sought and received authorization from the DCM/CFO to hire six contract employees. These employees were hired to back-fill current FTE’s to allow staff time to work on the EnerGov project.

The EnerGov contract employees’ estimated annual combined salaries total $393,244. PDSD’s FY20 budget for professional services, object line 219 is $1,100,960. This total 219 object line does not include the funding proposed to support PDSD’s EnerGov Permitting project.

Public Defender
General Fund $3,150,380

Due to a 15% budget reduction, the Public Defender’s Office will face cuts across the board including loss in personnel, professional development, and services/commodities. The office has a small budget and the budget reduction will dramatically affect our staffing level and our mission. Since most of our budget involves personnel costs, the loss would limit the amount of court appointments to this office due to mandates by the Arizona State Bar and case law. Since the right to counsel is a mandate of the Constitution, the overflow of representation of indigent clients would shift to outside contract attorneys at a greater unknown cost to the City. This reduction will severely limit client representation in the areas of DUI and specialty courts such as CMPS Court, Mental Health Court, DV Court and any collateral consequences including immigration ramifications. Additionally, our participation with outside agencies such as Pima County through the MacArthur Grant, Housing First Initiative, and the Jail Review Committee would all be impacted. Our involvement with San Miguel High School and University of Arizona Law School will also be affected. To adjust to the loss of funding, new approaches and methods would be implemented to reach the maximum number of indigent clients without compromising our ethical obligations and our clients’ rights guaranteed by the United States and Arizona Constitutions.

Public Safety Communications Department (PSCD)
General Fund $14,130,400

The Public Safety Communications Department (PSCD) proposed FY 20/21 budget is $14,130,400. Budget reductions in the amount of fifteen percent (15%) equals $2,119,560.

PSCD is newly formed and growing department in need of an increased budget to sustain operations and strategically position the department for future growth. A fifteen percent reduction of funds is significant and will adversely affect essential service level impact. The majority of PSCD’s budget is allocated for payroll, hence a fifteen percent reduction can feasibly only be achieved through the reduction of personnel. PSCD does not anticipate a reduction of calls for service for Police, Fire and medical services, therefore, higher overtime utilization will be required to cover the vacancies; resulting in a higher cost to the City. Customer service,
employee morale, and responder safety will suffer as call times will certainly increase. Historically, PSCD call holding times have been negatively publicized in the media.

As an alternative, savings can be achieved as the robust training program continues, and new personnel are released from training. As employees are released from training, overtime for the unit will be reduced. Training for each of the new employees requires an average of six (6) months. In FY 20/21, more employees will be released to work on their own, and less overtime will be utilized; creating a savings. While this savings will not likely equal fifteen percent, it will achieve savings without affecting critical City infrastructure, morale, responder safety, and service level impact.

As FY 19/20 ends, the PSCD is also currently carrying one (1) Administrator position vacancy and three (3) supervisor positions vacancies. These positions can remain vacant to create temporary vacancy savings and reevaluated for fulfillment in six months to ensure expenditures are reduced, and the current financial situation created by the pandemic has been alleviated.

**Tucson Fire Department (TFD)**

General Fund $103,086,200  
Civic Contributions $48,470  
Non-Federal Grants $5,530  
Other Federal Grants $1,126,130

Tucson Fire’s Adopted FY19/20 budget is $102,580,010. Of that, the General Fund supplies $101,136,290. The balance is found in grant funding, civic contributions, and the self-insurance fund. The department’s personnel costs account for 93% of the total budget, or approximately $94 million. The remaining funds ($7.1 million) are used to support acquisition and maintenance of mission-critical equipment, and annual costs are incurred to maintain required electronic data reporting, computers, and office supplies. A 15% reduction of the general fund portion of the budget equates to $15.2 million. In order to achieve this level of budget reduction, a reduction in programs and services along with a reduction of the total number of FTEs is unavoidable.

TFD has a Recruit Class in session with 35 recruit firefighter/EMTs graduating on June 5, 2020. We will still have 8 commissioned vacancies when they graduate. There are currently 7 civilian staff vacancies. Combined, these 15 vacancies amount to $1.34 million. In addition, TFD was budgeted for 16 civilian FTEs in consideration of establishing a civilian EMS tier, but this has been placed on hold in deference of other considerations yielding a vacancy savings of approximately $1.26 million. In addition, TFD is presently budgeted for a class of 20 recruits in FY21 at a level of $850,000. There are 9 known retirements in the commissioned staff in FY21. Eliminating the next recruit class would provide a budget reduction but would severely inhibit progress to close the gap between vacancies and allotted headcount.

Overtime savings will be realized through a “maximum allowable number of personnel” on overtime each workday. To stay entirely within the allotted overtime budget, a maximum of 7 FTEs per day would be permitted. TFD’s daily average of FTEs on overtime is 18, largely due to position vacancies, COT-afforded leaves, military deployments, and injury-related light duty. The only way to hold overtime to 7 FTEs per day, or eliminate overtime altogether, is to brown-out specific units and stations. TFD has a truck shut-down matrix to accomplish this objective. The anticipated potential savings is $3.1 million.
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Additional staff reassignments could occur by reducing the number of commissioned personnel serving as Inspectors in TFD’s Prevention Division. While their reassignment would have a significant negative impact on revenue generation and collection through fees, they could be reassigned to field operations to help reduce vacancies and offset overtime. This, however, creates estimated lost revenue to COT that would be otherwise have been generated by these Inspectors at $365,259. The ability to annually inspect state-licensed facilities and other critical infrastructure will also be severely curtailed.

Finally, TFD would close Fire Station 6, located at 10251 S Wilmot Road across from the prison complex and Fire Station 21 located at 8620 E Tanque Verde Road. The affected 24 FTEs (two Engine companies) would be reassigned within the Operations Bureau to offset vacancies and overtime with an approximate total savings of $2.8 million. Response times to areas served by these stations in Wards 2, 4, and 5, will markedly rise.

Program Elimination
The only arguably non-mission essential programs maintained by TFD are our life safety education section (2 FTE civilian public educators) and the Tucson Collaborative Community Care Program (“TC-3”), to which 3 FTE commissioned personnel are assigned along with 1 civilian FTE. Eliminating the 3 civilian FTEs would save $289,000 and the 3 commissioned FTEs would be reassigned to field operations to help offset vacancies. These steps will end the Safe Schools and TC-3 Programs, or at least end TFD’s affiliation with these community risk reduction activities.

Total anticipated savings of all proposed cuts, reassignments, overtime controls and service/program reductions: $6,928,690. This is accomplished with no layoffs of commissioned personnel, but with the loss of 3 current civilian FTEs. The only way to reach the target reduction of $15,170,443, a delta of $8,241,753 from the above-specified reductions and savings, would be to lay off 80 commissioned firefighter FTEs (approx. fully loaded cost is $103,000 per firefighter). This figure would comprise our current recruit class of 35 plus the 45 least-senior firefighters in the department.

Summary of Reductions

- FY 20/21 Vacancy Savings (15 FTEs) $1,340,000
- FY 20/21 Vacant Civilian EMS Tier (16 FTEs) $1,260,000
- FY 20/21 Recruit Class eliminated (20 FTEs) $ 850,000
- Overtime controls (results in unit “brown-outs”) $3,100,000
- Eliminate 3 civilian FTEs (Pub. Ed. & TC-3) $ 289,000
- Command Staff Realignment & Travel/Trg. Cut $ 89,690
- Eliminate 80 commissioned FTEs $8,240,000

**TOTAL REDUCTIONS: $15,168,690**
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_Tucson Police Department (TPD)_

General Fund $165,324,120
Civic Contributions Fund $15,000
Non-Federal Grants Fund $2,184,290
Other Federal Grants $13,947,110

The COVID-19 pandemic has resulted in unprecedented reductions in sales tax and state shared revenue for the City of Tucson. This loss in revenue will require significant expense reductions by the Tucson Police Department (TPD). The fiscal year 2020 general fund budget for TPD is $157,779,300 with 94%, or $148,341,750, associated with personnel costs.

Methodology
The direction given to departments was that 2% vacancy savings (approximately $3 million) will be deducted from FY’21 budgets. Additional projected vacancy savings above that amount has been included to this model. In addition, TPD is anticipating $5.3 million in budget surplus at the end of FY’20. That surplus amount has also been applied to this model. Reductions to non-personnel line items are based on a review of FY’20 spending and will be managed monthly moving forward.

Loss and Expenditure Reduction Overview
A line item list of proposed reductions is included below.

- Fiscal year 2020 budget surplus $5,300,000
- Discontinue recruit hiring in FY’21 after the August class, savings in Unit 2350 $2,000,000
- Anticipated FY’21 vacancy savings above the 2% turnover credit $3,500,000
- Probationary (not applied to staff in the basic academy) 10-hour/pay period furlough for FY’21 (91 trainees for portions of FY’21) $608,000
- Mandated overtime reduction by 30% $2,000,000
- Travel and Training Reduction by 50% (202/204) $326,570
- Miscellaneous Professional Services reduction by 50% (219) $657,405
- Minor Rehab, Repair, and Alteration by 50% (235) $35,170
- Furnishings, Equipment, and Tools reduction by 50% (345) $396,525
- Computer Equipment <$5,000 by 50% (346) $28,410
- Maintenance Supplies for Machinery and Equipment by 50% (352) $239,795
- Phased elimination of Air Support $500,000

Total $15,591,875

Plan Detail
Staffing levels across the police department have slowly recovered after the 2015-16 budget reductions. Reductions to current staffing levels would require significant reductions to our current service delivery. To prevent significant impact and provide immediate reduction in expenses, we will consolidation the two remaining basic classes scheduled for the remainder of calendar year 2020 (June and September) in favor of one class to be held in August. There are several benefits to this consolidation plan. First, this provides immediate financial relief to the FY’20 budget, as it pushes sworn hiring into the beginning of FY’21. Second, consolidation will give the police department a few additional months to process and hire quality candidates from
current hiring lists. Perhaps most importantly, from a staffing perspective, consolidation flattens any future steep reductions in staffing numbers that would come as a result of a prolonged hiring freeze.

This model assumes the basic classes currently scheduled for January and May of calendar year 2021 will be cancelled. We are hopeful that as revenues begin to return to more normal levels in calendar year 2020 and financial projections improve, the police department will be able to hire recruits for those academies in small numbers, perhaps 15 students per class.

Probationary Sworn Staff Furloughs
Additional reductions can be made through the use of probationary sworn staff furloughs. The furloughs proposed in this model would apply to probationary sworn staff who are out of basic training at a rate of 10-hours per pay period during FY’21. This would apply to the 17 staff who will graduate from basic in June, the 24 staff who are currently in field training and the anticipated 50 recruits who will be hired for the August class.

Vacancy Savings and Budget Surplus
In FY’20, the police department is projecting a $5.3 million budget surplus above the $1.1 million turnover credit that was applied for the FY’20 budget year. This represents immediate savings for the current fiscal year.

With the restrictions in place on hiring, a reduced sworn hiring level in FY’21 and the potential of an increased attrition rate, it is conservative to estimate the police department’s FY’21 vacancy savings will equal the savings realized in FY’20. This model includes a $3.5 million vacancy savings above the 2% turnover credit which will be applied in FY’21. The police department is estimating the 2% turnover credit amount to be approximately $3 million. If the hiring restrictions for professional staff extend for a significant portion of FY’21, police department vacancy savings will be greater than what is reflected in this model.

IV. Special Revenue Funds

**Housing and Community Development (HCD):**

- Community Development Block Grant $13,643,330
- HOME Investment Partnerships $9,211,010
- Miscellaneous Housing Grants $18,052,480
- Non-Federal Grants Fund $325,000
- Non-Public Housing Assistance Assets Management $3,019,070
- Public Housing AMP Fund $15,686,000
- Public Housing Section 8 Fund $42,755,810

**Vacant Grant Funded Positions**

HCD has a total of 19 positions, of which 16 may be available to be filled by COT employees from other departments. A few of these positions do require some specialized skills or knowledge but most could be filled with transferrable skills. Here is a summary of the vacancies available:
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<table>
<thead>
<tr>
<th>Summary</th>
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<tbody>
<tr>
<td>Housing Technician</td>
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<tr>
<td>1 Supervisor</td>
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<tr>
<td>1 Maintenance Technician</td>
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<tr>
<td>2 Project Coordinator</td>
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<tr>
<td>3 Housing Specialist I</td>
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<tr>
<td>3 Housing Specialist II</td>
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<tr>
<td>1 Rehab Coordinator</td>
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<tr>
<td>Housing Assistance</td>
</tr>
<tr>
<td>1 Supervisor</td>
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<tr>
<td>2 Homeless Navigators</td>
</tr>
<tr>
<td>16 Vacancies</td>
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Mass Transit

Mass Transit Fund $108.5 million funded with a General Fund investment of $37.7 million
Sun Link Fund $6.1 million funded with a General Fund investment of $3.1 million
Self-Insurance Internal Service Fund $1,420,000.

The following items are recommendations for cost reduction:

- Sun Tran:
  - Reduce current 15-minute service to 30-minute service on all Frequent Transit Network (FTN) routes
  - Discontinue all express routes not related to Raytheon express routes
  - Discontinue Sunday service on all Sun Tran routes
  - Reduce evening service on all routes from midnight to 9:00 p.m.
  - Start all routes one hour later in the morning
- Sun Link:
  - Reduce service to a Saturday schedule for the entire week
  - Begin service at 8:00 a.m. and end service at 8:00 p.m. daily
- Sun Van:
  - Discontinue all ADA Optional Area service

Highway User Revenue Fund (HURF)

Highway User Revenue Fund $44,302,990
Street and Highway Bond and Interest Fund $11,797,250

The following items are recommendations for FY 20/21 cost reductions:

- Freeze all vacancies
- Suspend or reduce the following services/programs:
  - Speed Hump Pilot Program
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- Sidewalk Pilot Program
- Brush & Bulky Plus
- Non-safety related right-of-way Maintenance (Streets, landscape, etc.)
- Traffic Signals Preventative Maintenance i.e. wiring, cabinet replacement, etc.
- Traffic Safety Programs

- Staff Reductions

**Park Tucson**

Park Tucson Fund $6,386,830

The following are recommendations for cost reductions:

- Security staffing at garages and surface lots:
  - Continue to operate with the reduced contracted security staffing
  - Continue to staff many of the security shifts with Parking Services Agents
- Custodial maintenance of garages and surface lots:
  - Continue to operate with the currently reduced contracted service of 23% of full staffing into FY20/21
- Postpone planned improvements:
  - Parking Guidance Systems at Centro and Pennington Street Garages
  - Expanded License Plate Recognition (LPR) capacity for enforcement
  - Customer payment improvements in parking garages
  - Installation of security cameras at City-State Garage
  - Conference room computer and projection system
- Replacement of Duncan parking meters with IPS smart meters

**Tucson Convention Center (TCC)**

Tucson Convention Center Fund $11,806,390

The TCC was one of the first city functions to be impacted by the pandemic. Major events such as Monster Jam and Cirque were one of the first to postpone with a total of 78 events lost this fiscal year. Since then, 8 have rescheduled for FY 20/21. Season events (i.e. Roadrunners, Sugar Skulls, Symphony, Opera) will start back up next season. Concerts have rescheduled and the TCC is also holding dates for Salpointe graduation and the Tucson Regional Ballet as rescheduled events.

**Gene Reid Park Zoo**

Gene Reid Park Zoo Improvement Fund $17,333,840

The sales tax went into effect on February 1, 2018, and revenues collected are deposited in the Gene Reid Park Zoo Improvement Fund. Over $23.0 million has been collected for Zoo operations and capital projects since inception. The estimated sales and use tax revenues for FY 19/20 are projected to be $11.1 million; decreasing to $10.2 million in FY 20/21. Currently the financial impact from Coronavirus (COVID-19) is unknown; however, the realization is that the sales and use tax revenue will decline effecting the amounts available for ongoing zoo operations and capital projects. The proposed FY 20/21 budget is $17.3 million of which $4.2 million is for
operations and $13.1 million is for capital improvements. Revisions to the budget will be made as financial information is received.

The City will also continue budgeting $1.5 million in the EGSD and Parks and Recreation departments to support the Zoo in order to cover the costs of utilities, maintenance items, and project management. Remaining funds will be CCF to the following year.

_Parks and Connections Bonds_

Parks and Connections General Obligation Bonds $31,539,400

On November 6, 2018, the voters approved Proposition 407, a $225.0 million General Obligation bond package for capital improvements dedicated to City park amenities, connections for mobility, and greenways. The first issuance of the bonds will occur in June 2020. Mayor and Council approved an accelerated implementation and design plan where the General Fund will provide a cash loan in the amount of actual expenditures to fund early construction and design of specific Phase 1 projects. This loan will be repaid when the bonds are issued and the remaining bond proceeds will be used for continuation of Phase 1 capital projects.

_Tucson Delivers, Safer Streets_

Better Streets Improvement Fund $38,981,500
Safer City Improvement Fund $32,348,800

We continue to make significant progress since implementation of the Tucson Delivers Safer City Program. Public safety acquisitions and projects are progressing consistent with the voter-approved plan. In the upcoming fiscal year, Police and Fire facility upgrades and new construction will continue along with the purchase of police vehicles and fire apparatus. Under the Tucson Delivers: Better Streets Improvement Program approximately $39 million is budgeted for street construction.

_V. Enterprise Funds_

_Environmental Services Department (ES)_

Environmental Services Fund $60,851,920

Environmental Services operates as an enterprise fund supporting the City’s provision of refuse and recycling services to residents; landfill disposal services to internal City customers as well as to private haulers; and, commercial refuse, roll-off and recycling services to business and multi-family customers throughout the city. Recommended reductions to reduce costs include:

- Holding 35 positions, $2.8 million
- Divert recyclables to the landfill and maximize the recycling of all compostable products in conjunction with the new composting facility at Los Reales Landfill saving $3.0 million
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- Develop a community partnership in conjunction with the various Neighborhood Associations, Brush & Bulky Plus program to address portions of the Neighborhood Preservation Ordinance
- Significantly reducing our capital improvements $3.0 million
- Finalize the proposed future land use at the old Congress & Nearmount Landfills in order to recover the investment of $8.0 million
- $8.0 million in revenue coming to the ES fund to the refuse truck and landfill equipment vehicle replacement program
- Utilization of our ES Fund Balance to fund the fleet and equipment replacement program $3.0 million

* Tucson Water Utility (TW) *

Tucson Water Utility Fund $299,456,330

Budgeting for the Water Department follows a strategic and integrated approach that links the operating and capital budgets with the five-year financial plan to meet ongoing regulatory requirements, infrastructure needs, Mayor and Council priorities, and affordability concerns. For FY-21, Mayor and Council approved a Notice of Intent to increase water rates on March 3, 2020; however, with the onset of the COVID-19 pandemic, all work was ceased on pending water rates adjustments. There will be no rate changes for FY-21. Staff has been tracking billings, receipts, delinquency rate, and cash balances on a daily basis to carefully monitor the utility’s financial condition. The utility reduced capital spending by $6 million in the current FY-20, instituted austerity measures on operations spending, and developed three levels of austerity measures for FY-21 to respond to possible decline in collections.

Tucson Water has updated the Five-Year Financial Plan with no rate adjustment in FY21 and to resume a discussion of 4% per year, thereafter. This will allow us to keep the FY-21 Operating Budget flat to FY-20, and staff has developed a spending plan to reduce operations spending by approximately $12.5M and Capital spending by approximately $15M - $40M, depending on actual revenues during FY-21. The reductions in O&M spending should not result in reduced level of service for customers in the near-term and will be focused on: 1) 2% reduction in personnel costs due to hiring freeze / delays; 2) Reduction in travel and training; 3) Reductions in outside professional and/or consulting services; 4) One-year hiatus on the vehicle replacement program; and 5) Reductions in spending on IT needs (many devices recently upgraded during COVID-19 response), furniture and fixtures, tenant improvements, and related.

The City Manager’s Office is working with the Water Department to decide how much debt to issue to finance the FY-21 Capital Improvement Program (CIP), ranging between $21M and $50.4M. The final debt decision will determine the cash funded portion of the CIP for FY-21 and may impact when the utility will reach the peak of annual debt service and achieve Pay As You Go for the CIP. Staff is prepared to take further austerity measures, focused on the FY-21 CIP, pending close tracking of actual revenues and collections. Tucson Water projects to be able to maintain the infrastructure reserve with interim use for TARP / AOP improvements, if necessary. The CIP budget will retain sufficient capacity for stimulus funding, which could reduce operational risk to the system, offset future debt, and/or reduce the impact of austerity measures.
Tucson City Golf

Tucson Golf Enterprise Fund $7,725,940

Tucson City Golf is projecting a positive net operating income, and therefore a reduction in the General Fund loan of approximately $300,000. Projected FY 19/20 revenues are $8,063,000, and expenses are projected to be $7,763,000. Rounds are expected to increase for FY 19/20, projecting 218,788 rounds compared to 213,585 in FY18/19. El Rio and Fred Enke golf courses were overseeded this year and their rounds increased significantly. OB Sports continues to manage expenses while still maintaining course conditions and making improvements. Improving food and beverage revenue and non-golf revenue has been a focus the past year.

For FY 20/21, OB Sports is projecting a net operating income of $734,300 and 218,850 rounds of golf. The long-term challenge continues to be deferred maintenance. Golf has been able to make repairs within the current operating budget but does not have reserves to handle major replacements of entire irrigation systems or significant infrastructure improvements to parking lots, cart paths, and restroom facilities.

VI. Beyond FY 19/20

Pensions

The City’s unfunded liability in the PSPRS system increased $74 million from $955 million to $1,029 billion, a trend that we anticipate will continue into the foreseeable future. We are making full contributions to PSPRS over a 29-year schedule to minimize our short-term funding requirements. Ultimately, the only relief will be from legislative changes and the time for implementation of any changes. Unlike the past few years, we will make the minimum contribution to both PSPRS and TSRS. In addition, we will not be making a large payment to PSPRS at the beginning of the fiscal year. We will also explore delaying payments to PSPRS until Jan 2021. We expect these measures will not reduce our long term unfunded liability like we planned, but it will be important to transition back to paying more than the minimum contribution and making the PSPRS payment at the start of fiscal year as early as FY 21/22 to ensure the unfunded liabilities continue to decrease.

IT

The COVID-19 virus pandemic and the corresponding movement to providing virtual city services caused us to move quickly to upgrade and expand our IT use throughout the City operations. We were in the midst of migrating to Outlook 365 when the pandemic struck, and we moved more rapidly to complete it than we would have otherwise. The use of TEAMs for city operations has also be launched and become an integral part of operations and communication within city government as well as the public. The recent upgrades to our backbone infrastructure allowed us to launch significant portion of our staff to work remotely during the pandemic.

We must however continue to modernize and optimize the technology staff uses to serve the community toward our goal of being a Smart City. We continue to have antiquated systems throughout the organization that need upgrading and replacement and we will work to make
modest investments in our highest priority needs. We will have to continue to challenge ourselves to review technology utilization and system efficiencies to drive internal productivity and potentially identify funds (including Federal stimulus) that can be leveraged for further improvements. Our attention will be focused on the basic core assumptions behind our technology systems and processes that have evolved over many years. This will be a big effort and will affect all aspects of city government but is necessary to ensure the value of our IT services is maximized.

Facilities and Vehicles

Proposition 101 has given us much needed relief for public safety facilities, vehicles, and equipment, along with increased funding for road maintenance. Looking forward, we will need to continue to invest in our many other non-public safety needs throughout the organization. Given the impact on revenues from the pandemic, we will reduce investment in these areas at least into FY 21/22. We will however continue reviewing our light-duty size and utilization requirements to optimize our fleet. We will continue to implement energy-efficient solutions to ensure that aging facilities are operated more cost-effectively.

In Summary

The unconventional approach used to create this budget reflects the nature of the historic event we are currently living through. Although our struggles and circumstances are not unique, our approach will be absolutely tailored to the needs of our community. While revenue impacts still remain largely unknow, this budget reflects our need to act swiftly to reduce expenditures. We will not make all of the cuts suggested in this memo on July 1. Rather we will be making monthly spending plans and react appropriately based on real time financial data provided by our new digital dashboard. This will allow us to be flexible enough to accommodate the revenue fluctuations expected to occur throughout FY 20/21. Previous efforts to build a strong organizational culture and recruit and retain talent will serve us well as we rely on the ingenuity of our staff and their deep dedication to serving this community to navigate through our current challenges.