MEMORANDUM

DATE: November 5, 2018

TO: Honorable Mayor and Council Members

FROM: Michael J. Ortega, P.E.
City Manager

SUBJECT: General Fund and Tucson City Golf Fiscal Year 2017/18 Preliminary Financial Results and General Fund Fiscal Year 2018/19 Annual Projection Based on 1st Quarter Results

As we do annually per your request, I am providing our report on the preliminary *unaudited* Fiscal Year (FY) 2017/18 financial results for the General Fund and the Tucson Golf Enterprise Fund, along with FY 2018/19 annual projections based on first quarter results for the General Fund. During the fiscal year, Mayor and Council are provided with information quarterly on changes to estimates made during the budget process. Throughout FY 2017/18, the City's business privilege tax continued to grow particularly in the retail, restaurant, and construction categories. This is an indication of a strong economy and we think this trend will continue during FY 2018/19. After reviewing the detail information provided in this memorandum, it will appear that certain expenditure reductions (i.e. department efficiency savings, jail board cost reduction, city/county court reductions, etc.) may not be necessary **in the near term**. However, if we are going to continue to be fiscally sustainable and provide excellent customer service to our community and remain focused on providing the best for our employees, we cannot stop transforming ourselves and developing a culture of flexibility, innovation, and accountability.

General Fund

Fiscal Year 2017/18 Unaudited Results

As we were analyzing the City's revenues throughout the fiscal year, we were seeing an upward trend on our major revenue source, Business Privilege Tax. Since the upward trend was higher than anticipated, we engaged Dr. George Hammond, Ph.D. from the Economic and Business Research Center of the Eller College of Management at the University of Arizona to provide us with a long-term (30 year) revenue forecasting model. The model projects revenues based on the City's and Pima County's economic activity and national economic conditions. Three sets of forecasts were provided: a "most likely," an "optimistic," and a "pessimistic." The "most likely" scenario calls for continued, but slow, gains in the national and local economies. U.S. economic growth is higher under the "optimistic" assumption. The pessimistic scenario assumes a modest recession beginning in the third quarter of 2019 (FY 2019/20). The model indicates that our sales tax revenues will increase during the next 30 years. The trend is an acceleration of revenue growth from FY 2017/18 through FY 2018/19 but the growth will decelerate in 2020. The model provides a framework for us to use as we put together our five-year forecast.

The following table provides summary information on the FY 2017/18 unaudited General Fund ongoing revenues and expenditures with a comparison to the adopted budget. Details may be found in Attachment A. Included in the table, is the amount assigned for the use of cash carryforward and the amount actually spent.

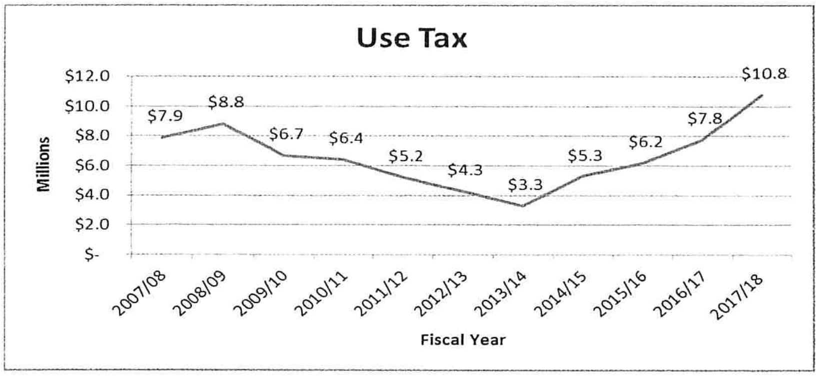
Fiscal Year 2017/18 (Ongoing) ($ millions)				
Description	Adopted Budget	Unaudited Actuals	Variance	Percentage Change
Revenues	$525.3	$541.1	$15.8	3%
Expenditures	(525.5)	(511.7)	13.8	(2.7%)
Difference	(0.2)[1]	$ 29.4	$29.6	--
Use of Cash Carryforward [2]	$ 43.2	$24.5	--	--

[1] Use of restricted fund balance
[2] See page 5 for details

Ongoing Revenues

The General Fund adopted ongoing revenues were projected to be $525.3 million. The unaudited revenues are $541.1 million; an increase of $15.8 million or 3% from the adopted budget. Listed below are the explanations for the major changes in our revenues that we can identify:

- Business Privilege Taxes. The unaudited taxes are $213.2 million; a $13.8 million or 6.9% increase from the adopted $199.4 million. The increase the City is experiencing is in line with the 6.2% revenue growth the State is reporting during the same time period. The increase is attributed to a strong economy with low inflation and low unemployment. The sales tax categories which increased the most are retail and restaurant sales and construction. Attachment B is provided to illustrate the sales tax growth by category. For the Restaurant business activity type, the UNESCO Gastro designation helped us bring more outside foodies and the demand trend for real food (less processed foods) allows a higher plate price per customer charges. Construction sales tax (one-time revenue) is increasing due to the multiple construction projects underway (i.e. Caterpillar, Hexagon, and Banner Health). Attachment C is a listing of the active construction with valuation over $10.0 million during the fiscal year. The increase in construction sales tax also correlates with increased building permits and inspection fees.
- Use Taxes. The unaudited taxes are $10.8 million; a $4.6 million or a 73.0% increase from the adopted $6.3 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 but are one-time unless we continue to new businesses. Use Tax, like sales tax, is dependent on local and national economic trends. As the economy improves, as it has in recent years, these revenues will continue to grow. In addition, our analysis also indicates that since the State took over the collection of our sales taxes, taxpayers are more than likely to pay all taxes owed rather than pay single entities. The chart on the following page illustrates the history of the City's use tax collection.



- Transient Occupancy Tax. The unaudited taxes are $12.5 million; a $1.5 million or a 13.6% increase from the adopted $11.0 million. The increase in this revenue can be attributed to Visit Tucson aggressively marketing our City using different marketing strategies to generate increased leisure and meetings travel. According to Visit Tucson, local hotels are able to command a higher daily room rate than in prior years.
- State shared sales tax. The unaudited taxes are $53.5 million; a $4.0 million or an 8.1% increase from the adopted $49.5 million. As mentioned previously, the State's Joint Legislative Budget Committee (JLBC) reported a 6.2% revenue growth during the same time period. According to the JLBC, the largest growth rate was recorded for the prime contracting category, which increased by 15.1% and exceeded $500 million in state collections for the first time since FY 2008/09.
- Ambulance fees. The unaudited revenues are $13.1 million; a $0.9 million or a 6.6% decrease from the adopted $14.0 million.
- Licenses and Permits. The unaudited revenues in this category are $32.3 million; a $2.4 million or an 8.1% increase from the adopted $29.9 million. The majority of this increase is from the building permit and inspection revenues. There were 9,753 permits issued during FY 2017/18.
- The increases in revenue from the adopted budget to the unaudited actuals are offset by decreases. Notable decreases include State-shared auto lieu and fines and forfeitures.
- Sale of Property. The adopted budgeted assumed $2.5 million in anticipation of the sale of certain properties. This did not occur during the fiscal year.

Ongoing Expenditures

Ongoing expenditures exclude those costs covered by cash carryforward. The General Fund adopted ongoing expenditures including transfers to other funds were projected to be $525.5 million. The unaudited expenditures indicate a decrease of ($13.8) million or $511.7 million; a 2.7% decrease from the adopted budget. Listed below are more specific reasons for the decrease in our expenditures:

- Personnel costs. The personnel costs include the 2.5% salary wage adjustments given to most employees effective April 28, 2018. Net vacancy savings equated to $3.1 million. The savings also includes the reduction of vacant positions due to the consolidation of Finance and Procurement into the new Business Services Department.
- Central Energy Plant Expansion. The $1.1 million project for the Central Energy Plant expansion to the Diocese is underway. During FY 2017/18, $0.7 million has been spent and $0.4 million will be carryforward to FY 2018/19.
- Management Contingency. The adopted budget for management contingency was $1.3 million; $0.5 million was allocated to unanticipated costs for payment to the Arts

Foundation for prior year costs; support of Tucson Delivers; the smoke hatch at the music hall and the water bill at the museum; and for events and training. The total savings of management contingency is $0.8 million.

- Fuel savings. Total fuel savings for General Fund and Mass Transit operations is $1.1 million. This is in addition to the $2.1 million already set aside as of June 30, 2017 for a total of $3.2 million. Currently the City General Fund departments and Mass Transit use approximately 4,235,000 gallons of fuel per fiscal year. The $3.2 million equates to approximately $0.75 per gallon.
- Retiree Health. The adopted budget for the payment of the City's portion of retiree health insurance was $8.0 million; actual cost was $7.1 million for a budget savings of $0.9 million.
- Transfers to other funds. The operational savings which includes personnel, supplies and services on the transfers to Mass Transit was $0.3 million, Sun Link $0.1 million, Tucson Convention Center $0.2 million, and Development Impact Fee funds of $0.2 million for a total of $0.8 million.

Other Budgeted Items:

- Other Financing Sources and Uses. The City included in the adopted budget $4.0 million for the Energy Performance Contract (EPC) with an offsetting expenditure in the same amount. This program did not get underway in FY 2017/18 and is anticipated to move begin during FY 2018/19.
- Transfers to the General Fund. The City issued Special Assessment bonds to finance local street paving, street lighting, and sidewalk improvements. Property owners in the designated districts are proportionately assessed for the principal and interest costs of repaying the bonds. The monies collected earn interest and if a property owner does not pay their bills timely, penalties are assessed on any outstanding balance. A cash reserve accumulated over the years. The remaining debt of $36,946 will be paid off during FY 2018/19 so $0.5 million of the accumulated cash was transferred to the General Fund and will be assigned to the EPC.

Cash Carryforward

The chart on the following page illustrates the cash carryforward assigned at June 30, 2017, as discussed during the budget process as strategies to **address one-time needs**, and how much of these resources were **actually** spent during FY 2017/18.

Cash Carryforward	Assigned as of June 30, 2017	Spent during FY 2017/18	Carryforward to FY 2018/19
Impress cash accounts	$ 579,765		$ 579,765
Self-Insurance set aside	229,508		229,508
Route Enhancements	800,000	$ 800,000	
Employee one-time distribution	2,600,000	2,600,000	
PSPRS Refunds	18,787,440	15,550,734	
Elections	800,000	800,000	
Permitting System	1,700,000		1,700,000
ERP Upgrade	1,800,000	1,595,697	
Police and Fire Vehicles	3,200,000	3,181,206	
Fuel Contingency	2,100,000		2,100,000
Operating Contingency	2,600,000		2,600,000
TARP Settlement	8,000,000		8,000,000
Totals	**$43,196,713**	**$24,527,637**	**$15,209,273**

While there may be minor changes to the above numbers due to the audit, the preliminary General Fund FY 2017/18 financial results are very positive. Between revenue increases and expenditure savings, the City did not have to use any cash carryforward to fund costs such as the Public Safety Retirement System refunds, the one-time distribution to employees, the police and fire vehicles, and other costs as shown in the table on the prior page. The General Fund fund balance is increasing by $5.3 million from FY 2016/17 to FY 2017/18. The history of changes to each category is shown below.

Fund Balance Category	June 30, 2015 Actual	June 30, 2016 Actual	June 30, 2017 Actual	June 30, 2018 Unaudited
Unspendable	$11,175,121	$ 4,535,987	$ 4,546,261	$ 4,535,987
Restricted/Committed	11,674,565	11,850,187	14,058,167	15,319,682
Stabilization Fund	22,836,507	22,836,507	22,836,507	22,836,507
Assigned	4,285,870	8,458,874	43,196,713	24,052,733
Unassigned	15,736,784	28,269,669	18,022,573	41,234,043
Totals	**$65,708,847**	**$75,951,224**	**$102,660,221**	**$107,978,952**

In reviewing the above table, the two categories that tell us how well we are doing financially are the assigned and unassigned categories. The assigned fund balance is the category that reflects the intended use of resources (cash carryforward) so those dollars are set aside separately. The unassigned is the remaining surplus of resources. At June 30, 2015, those two categories combined equal $20.0 million. At June 30, 2018, the combined amount is $65.3 million; over 3 times the amount as the end of 2015. This illustrates how well the Mayor and Council are managing the resources the community entrusts us with to use for services they expect from us.

FY 2018/19 Annual Projection Based on 1st Quarter Results

The table on the following page provides summary information on the FY 2018/19 General Fund annual projections based on first quarter results. Detail information may be found in Attachment D. The ongoing revenues and expenditures are provided with a comparison to the adopted budget. Included in the table, is the amount assigned for the use of cash carryforward and the amount projected to be spent.

Fiscal Year 2018/19 (Ongoing) ($ millions)				
Description	Adopted Budget	Unaudited Actuals	Variance	Percentage Change
Revenues	$534.7	$547.7	$13.0	2.4%
Expenditures	(534.7)	(533.0)	1.7	(0.3%)
Difference	-0-	$ 14.7	$14.7	--
Use of Carry Forward*	$8.7	$7.9	--	--

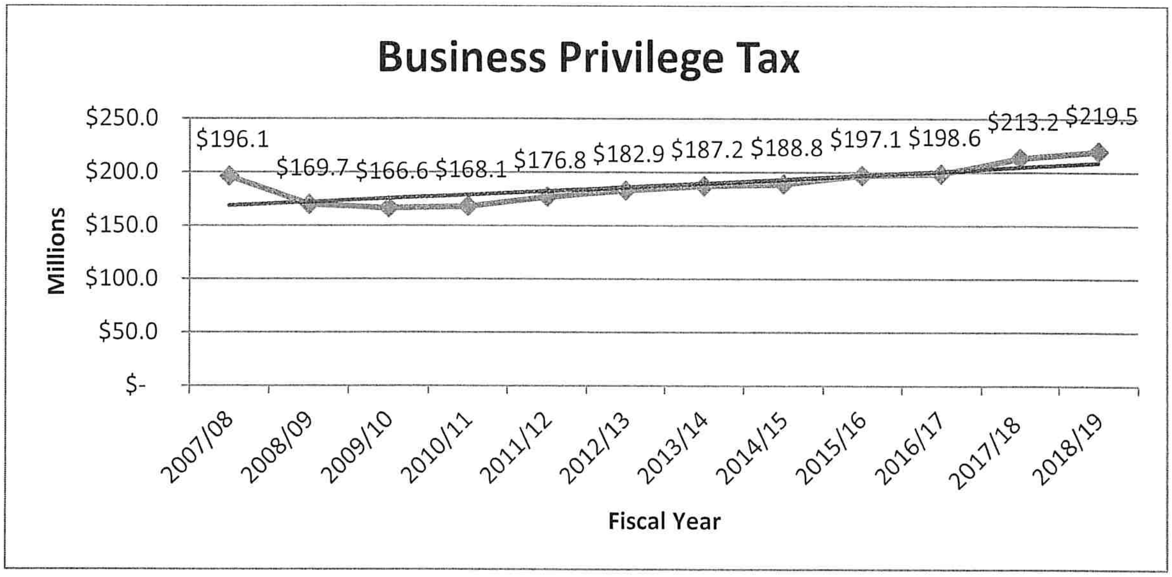
* See page 8 for details

Ongoing Revenues

The General Fund adopted ongoing revenues are $534.7 million. The annual projection based on 1st quarter revenue is increasing by $13.0 million to $547.7 million; an approximate 2.4% increase from the adopted budget. After analyzing the revenue model from Dr. Hammonds and completing a regression analysis along with the FY 2017/18 yearend results and the ongoing construction in our City, we feel confident in adjusting our revenue projections up through the end of this fiscal year. Listed below are the major changes in our revenues.

- Business Privilege Taxes. The annual projection based on 1st quarter results is $219.5 million; an increase of $8.1 million or 3.8% from the adopted amount of $211.4 million. The continued increase is attributed to a strong economy with low inflation and low unemployment and the ongoing construction within the city limits.
- Transient Occupancy Taxes. As last fiscal year, the trend for room rates continues through this fiscal year. The annual projection based on 1st quarter results is $12.7 million; an increase of $1.4 million or 13.3% from the adopted amount of $11.2 million.
- Use Tax. The annual projection based on 1st quarter results is $11.2 million; an increase of $1.5 million or 15.4% from the adopted amount of $9.7 million.
- State-Shared Sales Tax. The annual projection based on 1st quarter results is $55.6 million; an increase of $2.9 million or 5.5% from the adopted amount of $52.7 million.
- Charges for Services. The annual projection based on 1st quarter results is $58.7 million; an increase of $2.9 million or 5.2% from the adopted amount of $55.7 million. This increase is mainly due to ambulance fees.
- The increases in revenue from the adopted budget to the projections are offset by decreases.

As I stated, the revenue outlook is good for this fiscal year with increases in our tax revenue greater than we anticipated. We do try to be within 1% with our projections and have had success in prior years in achieving this goal. However, projections are based on many factors such as economic assumptions, recent collection trends and current laws and policies and can be difficult to be within reason when factors change or the data is flawed. The assumptions made for FY 2017/18 occurred almost 18 months before the fiscal year ended. This is the same for FY 2018/19. Our original projections were based on modest growth using the information we had at the time. In reviewing our projections, we could have placed more emphasis on the construction that is occurring within the city limits. The chart on the next page shows the Business Privilege tax collected since 2007/08 (blue line) and a linear trendline which shows increases or decreases at a steady rate. From the chart, you can see that the revenues for FY 2017/18 and FY 2018/19 are above this trend.



Ongoing Expenditures

Ongoing expenditures exclude those costs covered by cash carryforward. The General Fund adopted ongoing expenditure budget including transfers to other funds is $534.7 million. The projected annual expenditures based on first quarter results indicate a decrease of ($1.7) million or $533.0 million.

- The 1st quarter projections include the 2% salary adjustments illustrated under the Employee Retention Plan which was discussed during the budget process. The 2% salary increase was budgeted at $3.0 million with an effective date of January, 2019. Ongoing annual costs will be approximately $6.0 million.
- The adopted expenditure budget included reductions in costs for department efficiencies ($3.3 million), City/County Court Consolidation ($1.0 million), jail board cost reduction ($2.0 million), and transit efficiencies ($2.0 million) for a total of $8.3 million. Of these reductions, the first quarter projection assumes $3.7 million of department efficiencies ($0.3 million), jail board ($1.4 million), and transit efficiencies ($2.0 million).
- Vacancies savings. The 1st quarter vacancy savings are projected to be $1.1 million through the end of the fiscal year. As part of the adopted budget a vacancy factor of 1.5% was included. The continued savings is an indication of employee turnover and the time it takes to recruit.
- Arizona Health Care Cost Containment System (AHCCCS). The City's arrangement with AHCCCS to provide funding to secure federal matching funds for uninsured costs and graduate medical education is projected to save $0.3 million this fiscal year in animal care costs. The savings in FY 2017/18 was greater due to the timing of the payments to AHCCCs.
- City Court anticipated spending from most of their restricted funds. The restricted revenues fund 10 positions but there is high turnover in this area. We are working with Court Staff to address this turnover to include a market analysis of salary trends in this area. This review may lead to salary adjustment recommendations in the near future. City Court also has capacity for digitization of court records and is delaying moving forward with this project. The savings to the General Fund budget is $0.3 million.

Cash Carryforward

During the FY 2018/19 budget process, we identified one-time costs to be funded by cash carryforward. The list of items and the amount projected to spend is shown in the table below.

Cash Carryforward	Adopted Budget FY 2018/19	Projected to Spend by Yearend
Fire Recruit Class	$ 1,087,080	$ 1,087,080
Employee one-time distribution	2,700,000	2,700,000
Permitting System	1,483,300	1,483,300
ERP Upgrade	1,500,000	1,500,000
IT Required Hardware	506,000	506,000
Timekeeping system	133,700	133,700
Building Maintenance (Central Plant Expansion)	679,690	420,000
Fuel Contingency	500,000	-0-
Vehicles	89,250	89,250
Totals	**$ 8,679,020**	**$ 7,919,330**

Recommendations:

Because of the financial position generated by the various decisions you have made over the past several years, it provides Mayor and Council with some flexibility in policy decisions related to expenses. As I discussed in the Recommended FY 2018/19 Operating Budget Memorandum, employee retention and recruitment continues to be a challenge for our organization. Pay is often mentioned in employee exit interviews as one of the main reasons employees chose to search for employment elsewhere. I included $3.0 million to fund a 2% salary adjustment for employees, effective January, 2019. Attachment E is provided as a reminder to the retention plan we previously discussed. I now have confidence the expense for the 2% salary adjustment can be sustained in future years. Saying that, my intent is to ensure the budget projections we have included are realized in order to recommend such an expense. We will continue working on achieving the savings outlined in the adopted budget for department efficiencies, the City/County court consolidation, and a jail board expense reduction. For these reasons, I am bringing to you the following recommendations:

- Proceed with a 2% wage adjustment for those employees who have been with the City for two (2) years as of December 21, 2018 and are not part of the decompression plan. Limiting the increase to 2 years of city employment will help with wage compression. The adopted budget for the 2% increase is $3.0 million. The ongoing cost for this wage adjustment is estimated at $6.0 million.
    - We are looking at a decompression plan for Fire commissioned officers to be effective early next calendar year. The details are not currently available so we will bring back this plan to you in the next 45 days.
    - The pay adjustment for the pay period beginning December 21, 2018, would also include the increase to the minimum wage from $10.50 to $11.00 per hour which was budgeted at $210,000. The ongoing cost for this wage adjustment is estimated at $0.4 million and there will be another minimum wage increase from $11.00 to 12.00 per hour effective January, 2020.

  - Other certain employee wages will need to be adjusted due to the increase of the minimum wage. This impact is $175,000 which was not budgeted and will be covered by vacancy savings. The ongoing cost for this wage adjustment is estimated at $0.4 million.
- Increase the one-time distribution from $1,000 to $1,500. The criteria are the same as last fiscal year. The distribution will be made to employees who were hired on or before June 24, 2017 and still employed with the City on November 21, 2018. Part-time employees will receive a prorated amount based on the actual number of hours worked. For FY 2018/19, the General Fund budget for the one-time distribution is $2.7 million. This recommendation will add $1.3 million for a total cost of $4.0 million to be funded from Cash Carryforward.
- Assign $2.0 million from the construction sales tax and permitting revenues to fulfill obligations under development agreements.
- Set aside $4.6 million for self-insurance (by the end of the fiscal year $400,000 will already be set aside). Total General Fund seed money will equal $5.0 million. Additional funding will be appropriated from special revenue and enterprise funds. This seed money will be available should Mayor and Council proceed with a self-funded health insurance model.
- Assign $1.5 million for Parks and Recreation maintenance and operations.
- Assign $2.0 million for the Energy Performance project in lieu of financing the project.
- Increase the vehicle replacement fund by $1.0 million and set aside $1.0 million for the building maintenance fund. Even though the voters have approved the sales tax for public safety and the general obligation bonds for parks and recreation, it's necessary to set aside funds to replace vehicles and catastrophic building maintenance issues.

Of the above list, not including the Fire decompression plan, $4.9 million is to be covered by ongoing revenues for FY 2018/19 and will increase to $8.3 million for FY 2019/20. The remaining $14.0 million will be assigned cash carryforward.

TUCSON GOLF ENTERPRISE FUND

The unaudited FY 2017/18 Tucson City Golf Enterprise Fund year-end financial results indicate total operating revenues were $7.4 million and total operating expenses were $7.2 million. The fund has operating income of $200,759. Even though the fund has operating income, the fund includes $719,319 of depreciation and interest expense, therefore the net financial impact was a loss of ($518,560). The balance of the amount owed to the General Fund is $1,412,345; a decrease of ($142,311) from the FY 2016/17 amount of $1,554,656.

In Summary

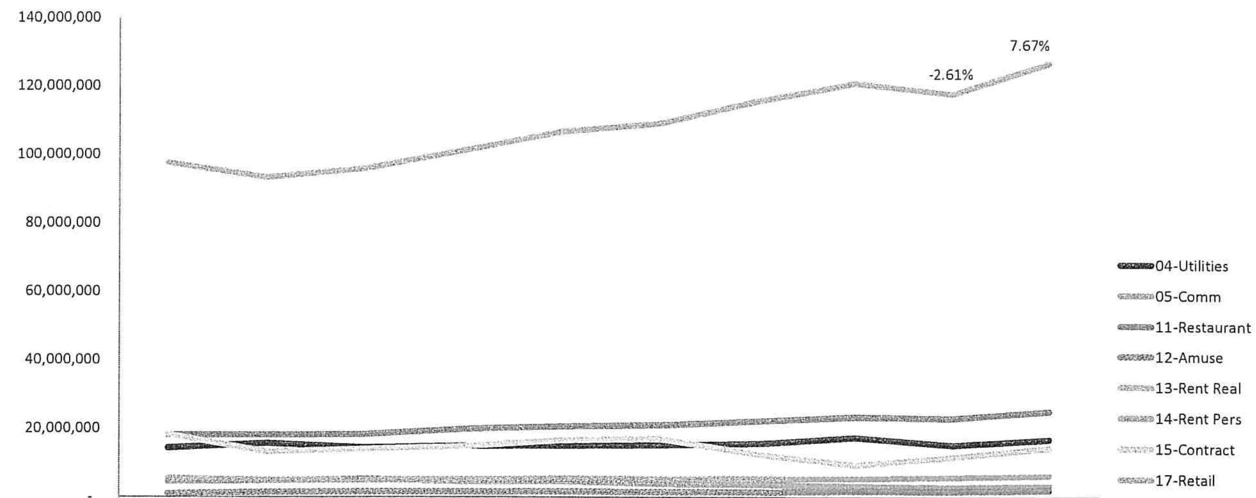
This financial news is good news. I am optimistic for the future but I am also cautious. The City is an example of how states, counties, cities and towns continue to feel financial stress from increasing costs with limited revenue sources. While there have been some encouraging developments in the general economic growth, we still face an environment of limited resources and growing community needs. To meet this need, we will continue to transform ourselves and develop a culture of flexibility, innovation, and accountability. We will evaluate and reevaluate what services are most critical, and how we can best serve the public interest and best deliver those critical services. This evaluation of our activities is uncomfortable for those involved and absolutely necessary to our improvement. We will continue to question every process, procedure and rule to make sure we are providing our services in the most efficient and effective manner possible. We will embrace best practices, but also chart new practices that may be unique to Tucson. We will have meaningful engagement with our employees, our most valuable asset, seeking their creativity and innovation to restructure our organization and provide excellence in our service delivery. Ultimately, we remain focused on the community, on our citizens, and on our stakeholders and we will exceed their expectations.

Attachment A

General Fund
FY 2017/18 Unaudited Ongoing Revenues and Expenditures

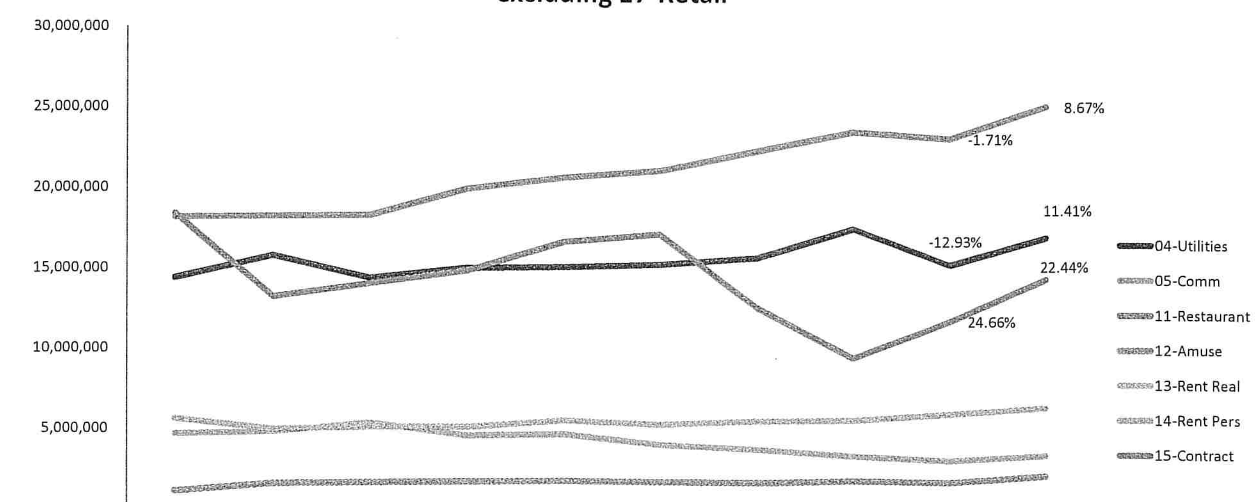
		FY2016/17 Actuals		FY 2017/18 Adopted Budget		Unaudited Year-End Actual as of June 30, 2018		Variance Adopted Budget to Unaudited Year-End Actuals Positive/ (Negative)
Revenues:								
Business Privilege Tax	$	198,629,422	$	199,370,010	$	213,188,216		13,818,206
Primary Property Tax		14,215,062		15,054,500		14,710,170		(344,330)
Public Utility Tax		23,786,210		27,024,170		26,220,025		(804,145)
Transient Occupancy		11,079,644		10,998,850		12,489,626		1,490,776
Room Surcharge		7,547,047		7,732,790		7,659,191		(73,599)
Use Tax		7,769,946		6,263,890		10,838,597		4,574,707
Other Local Taxes		429,604		538,120		341,749		(196,371)
State-Shared Revenue:								
Income Tax		65,150,605		66,727,160		65,588,866		(1,138,294)
Sales Tax		48,859,397		49,506,790		53,529,411		4,022,621
Auto Lieu		21,754,173		24,751,250		23,677,715		(1,073,535)
Licenses and Permits		31,685,108		29,918,310		32,256,053		2,337,743
Fines and Forfeitures		8,954,045		10,502,020		8,674,616		(1,827,404)
Charges for Services		41,888,369		63,345,570		60,270,735		(3,074,835)
Other Agencies		1,521,074		1,545,780		1,603,887		58,107
Non-Grant Contributions		6,509,699		5,502,360		5,013,802		(488,558)
Sale of Property		451,258		2,500,000		0		(2,500,000)
Use of Money and Property		645,156		470,870		1,019,782		548,912
Miscellaneous Revenues		2,250,116		1,409,230		1,809,099		399,869
HIDTA Fiduciary Management Fee						85,371		85,371
Payment in Lieu of Taxes				1,938,060		1,938,060		-
Park Tucson		307,070		200,000		171,880		(28,120)
Total Revenues	**$**	**493,433,005**	**$**	**525,299,730**	**$**	**541,086,851**	**$**	**15,787,121**
Expenditures:								
Mayor and Council	$	2,369,406	$	2,470,230	$	2,460,351		9,879
City Attorney		7,513,020		7,617,420		7,272,948		344,472
City Clerk		2,600,834		2,524,170		2,269,623		254,547
City Court		9,038,409		9,450,970		8,881,691		569,279
Business Services		-		-		555,170		(555,170)
City Manager		4,088,305		4,690,980		3,831,496		859,484
Environmental Services		1,843,307		1,829,960		1,724,659		105,301
Finance		7,854,310		7,923,580		6,559,693		1,363,887
Fire		94,212,173		94,894,760		95,953,817		(1,059,057)
General Services		27,109,787		49,613,010		45,391,279		4,221,731
Housing and Community Development		2,497,621		2,608,080		2,370,447		237,633
Human Resources		2,265,301		2,447,210		2,626,203		(178,993)
Information Technology		20,362,037		22,202,300		21,219,690		982,610
Parks and Recreation		25,240,932		27,514,310		25,148,345		2,365,965
Planning and Development Services		6,488,201		6,450,580		6,277,519		173,061
Police		152,925,947		153,709,550		154,305,750		(596,200)
Procurement		3,095,916		3,354,740		2,861,168		493,572
Public Defender		2,661,088		2,696,930		2,657,809		39,121
Public Safety Communications		-		12,147,030		11,920,932		226,098
Transportation		980,815		1,312,060		1,247,009		65,051
General Government		32,449,678		31,684,330		29,849,185		1,835,145
Debt Service		22,500,371		26,726,640		26,699,417		27,223
Development & Annexation Agreements						102,518		(102,518)
Total Departmental Expenditures	**$**	**428,097,457**	**$**	**473,868,840**	**$**	**462,186,719**	**$**	**11,682,121**
Transfers Out:								
Mass Transit		41,207,867		43,655,740		42,084,253		1,571,487
Sun Link		2,755,107		3,030,080		2,921,910		108,170
Tucson Convention Center		4,409,131		4,464,930		4,232,840		232,090
Development Impact Fee		172,722		478,620		286,026		192,594
Total Financing Sources (Uses)	**$**	**48,544,827**	**$**	**51,629,370**	**$**	**49,525,029**	**$**	**2,104,341**
Total ongoing expenditures	**$**	**476,642,284**	**$**	**525,498,210**	**$**	**511,711,748**	**$**	**13,786,462**
Difference between ongoing revenues and expenditures	**$**	**16,790,721**	**$**	**(198,480)**	**$**	**29,375,103**	**$**	**29,573,583**

Business Privilege Tax by sector



	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
04-Utilities	14,414,184	15,800,939	14,371,054	15,000,153	15,074,089	15,229,576	15,654,120	17,500,955	15,237,572	16,975,725
05-Comm	4,688,549	4,800,509	5,348,052	4,553,554	4,657,642	4,023,393	3,745,576	3,345,099	3,073,955	3,396,062
11-Restaurant	18,179,408	18,245,437	18,263,670	19,922,954	20,621,721	21,061,083	22,300,451	23,482,740	23,082,037	25,082,121
12-Amuse	1,130,406	1,606,313	1,634,602	1,697,692	1,779,389	1,712,143	1,690,378	1,814,015	1,722,803	2,143,858
13-Rent Real	5,632,999	4,987,881	5,103,788	5,090,102	5,527,899	5,295,131	5,502,509	5,581,204	5,960,853	6,379,415
14-Rent Pers	5,632,999	4,987,881	5,103,788	5,090,102	5,527,899	5,295,131	5,502,509	5,581,204	5,960,853	6,379,415
15-Contract	18,417,932	13,237,710	14,031,748	14,838,479	16,637,281	17,119,062	12,600,063	9,429,577	11,755,009	14,392,527
17-Retail	97,655,123	93,371,577	95,871,826	101,242,786	106,739,413	109,118,104	115,714,650	120,912,239	117,750,581	126,786,206

Business Privilege Tax by sector excluding 17-Retail



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15-Contract	18,417,932	13,237,710	14,031,748	14,838,479	16,637,281	17,119,062	12,600,063	9,429,577	11,755,009	14,392,527

Permits issued in FY18 = 9,753

Building Permit/inspection Revenue = $7.086 million

Construction Valuation in FY18 = $616 Million

FY18 Active construction with valuation over $10M

Name/Number	Construction Valuation	Date Issued
Banner/T16CM02176	$186,817,913.10	7/5/16
Skilled Nursing Facility/T16CM02480	$12,591,549.80	1/27/17
Banner/T16CM03513	$24,298,997.67	8/4/16
Banner/T16CM03514	$34,476,692.78	8/4/16
TMC/T16CM08161	$17,000,000.00	2/9/17
Sterling Student Housing/T17CM00004	$38,101,562.55	10/27/17
Marist College Housing/T17CM00366	$12,663,356.42	5/22/17
West End Station Housing/T17CM02114	$12,293,637.08	7/11/17
Raytheon/T17CM02636	$19,454,414.64	6/9/17
Airport Commerce Ctr/T17CM02821	$18,651,022.07	7/27/17
Raytheon/T17CM03512	$33,987,029.76	6/9/17
The Mark Apartments/T17CM04612	$52,844,114.30	11/17/17
Caterpillar/T17CM08953	$22,684,414.11	1/17/18

Other Projects of Note

City Park Shell/T17CM00673	$8,952,892.65	4/27/17

General Fund
FY 2018/19 Annual Projection based on 1st Quarter Projection
(CCF One-time Items not included in this report)

	FY 2018/19 Adopted Budget	FY 2018/19 First Quarter Projection	Variance Adopted Budget to 1st Quarter Projection Positive/ (Negative)
Revenues:			
Business Privilege Tax	$ 211,442,410	$ 219,537,770	$ 8,095,360
Primary Property Tax	15,440,440	15,004,370	(436,070)
Public Utility Tax	26,953,420	26,613,230	(340,190)
Transient Occupancy	11,218,830	12,651,990	1,433,160
Room Surcharge	7,851,450	7,774,080	(77,370)
Use Tax	9,744,880	11,217,950	1,473,070
Other Local Taxes	396,810	353,030	(43,780)
State-Shared Revenue:			
Income Tax	65,149,930	64,870,850	(279,080)
Sales Tax	52,672,090	55,563,530	2,891,440
Auto Lieu	25,593,310	24,731,710	(861,600)
Licenses and Permits	32,609,520	31,673,520	(936,000)
Fines and Forfeitures	9,638,450	8,761,370	(877,080)
Charges for Services	55,716,600	58,661,610	2,945,010
Other Agencies	1,553,990	1,594,280	40,290
Non-Grant Contributions	4,595,200	4,503,360	(91,840)
Sale of Property	-	-	-
Use of Money and Property	487,820	458,540	(29,280)
Miscellaneous Revenues	1,528,510	1,708,240	179,730
Payment in Lieu of Taxes	1,873,340	1,873,340	-
Park Tucson	200,000	160,000	(40,000)
Total Revenues	**$ 534,667,000**	**$ 547,712,770**	**$ 13,045,770**
Expenditures:			
Mayor and Council	$ 2,583,950	2,421,070	162,880
City Attorney	7,430,040	7,294,770	135,270
City Clerk	2,618,200	2,475,520	142,680
City Court	9,658,720	9,352,600	306,120
City Manager	4,819,530	4,434,180	385,350
Business Services	12,123,110	11,275,480	847,630
Environmental Services	1,828,720	2,314,610	(485,890)
Fire	94,693,440	94,463,560	229,880
General Services	51,578,650	51,610,650	(32,000)
Housing and Community Development	2,470,720	2,349,160	121,560
Human Resources	4,368,900	4,195,380	173,520
Information Technology	22,564,430	22,079,360	485,070
Parks and Recreation	26,110,660	25,677,620	433,040
Planning and Development Services	6,278,990	6,779,730	(500,740)
Police	155,506,490	154,418,500	1,087,990
Public Defender	2,758,440	2,782,550	(24,110)
Public Safety Communications Center	13,467,710	13,307,310	160,400
Transportation	1,321,550	546,510	775,040
General Government:			
Outside Agencies	10,865,210	10,865,210	-
General Government	22,986,440	25,964,570	(2,978,130)
Debt Service	24,696,260	24,696,260	-
Fiscal Agent/Debt Issuance Costs	30,000	17,500	12,500
Total Departmental Expenditures	**$ 480,760,160**	**$ 479,322,100**	**$ 1,438,060**
Transfers Out:			
Mass Transit	45,265,480	45,265,480	-
Sun Link	3,729,970	3,729,970	-
Tucson Convention Center	4,481,050	4,227,910	253,140
Development Impact Fee	478,000	478,000	-
Total Financing Sources (Uses)	**$ 53,954,500**	**$ 53,701,360**	**$ 253,140**
Total ongoing expenditures	**$ 534,714,660**	**$ 533,023,460**	**$ 1,691,200**
Difference between ongoing revenues and expenditures	***(47,660)***	***14,689,310***	

Attachment E

Employee Retention Plan