



April 3, 2013

To the Honorable Mayor and Town Council:

One of the primary duties of the Town Manager is to prepare and present a balanced annual budget. It is my privilege to present the Oro Valley Town Council with the Town Manager's Recommended Budget for fiscal year 2013/14 in the amount of \$93.9 million. This represents a \$1.5 million, or 1.6%, decrease from the Adopted FY 2012/13 Budget totaling \$95.4 million.

The Town Council has made financial decisions the last three years that have put the Town on a sustainable financial path. These decisions range from increasing revenues and efficiencies to streamlining operations. The organization has reduced staff, and we continue to right-size operations to ensure that expenditures are aligned with revenues. Town staff has been extremely dedicated and supportive through the financial stress we have experienced over the last five years.

The budget was developed with the following core themes:

1. Investment in Town employees
2. Investment in infrastructure and Town assets
3. Investment in technology
4. Economic development as a key strategy to achieve a healthy financial environment
5. Support quality-of-life programs and services for the community
6. Revenue enhancement and expenditure reductions

Investment in Town employees

The Town has reduced staff considerably over the past five years. In FY 2008/09, the adopted budget included 389 full-time equivalent (FTE) positions. The Recommended FY 2013/14 Budget includes a total of 330 authorized FTE positions. The Town has also reduced full-time, benefitted positions from 332 in FY 2008/09 to 287 in the FY 2013/14 Recommended Budget, an overall reduction of 45 full-time positions over the past five years.

Employee Compensation

The Town has many dedicated and competent employees who have taken on additional responsibilities. In an effort to recognize the efforts of our employees, last year we introduced a modest 2.5% cost-of-living adjustment (COLA) for all employees effective July 1, 2012 - the first COLA since FY 2008/09. This year we are fulfilling the commitment to step and merit pay increases for employees. The Recommended Budget includes \$567,000 to implement these increases for all eligible employees in FY 2013/14.

Employee compensation is a critical component of the Town's budget. Two items are included in the Recommended Budget to ensure appropriate allocation of resources in this area. The first is a small amount of funding (approximately \$50,000) to compensate employees who have been working beyond their job description. Because of the significant reduction in staff, many have taken on responsibilities above and beyond their pay classification. We completed a comprehensive reclassification process starting in late fall of 2012 and are recommending minor adjustments to some positions.

The second addition to the Recommended Budget is funding to conduct a salary market survey. As the economy slowly recovers, the job market will continue to improve, and Town employees will be presented with opportunities. In order to stay current with the recovering job market, we are proposing a \$30,000 salary market survey for the coming year. This will ensure that our positions are properly placed in the market. The last time a comprehensive salary study was conducted by the Town was FY 2005/06.

The amounts calculated for the merit/step increases, the reclassifications and new position requests (to be discussed later in this budget message) have not been included in the department personnel budget recommended amounts for FY 2013/14. However, the total budget adjustments attributable to these increases are outlined in Exhibit A – FY 2013/14 Personnel Budget Adjustments by Fund attached to this document.

Self-Funded Medical Insurance

Employee medical insurance is another critical component of the Town's budget. Last year, in cooperation with the Town's insurance broker, staff reviewed the Town's medical claim history. Based on our exceptionally low claims history, we switched to self-funded insurance. The Town has accepted additional risk in this new funding methodology; however, given the Town's excellent claim history, we believe there are considerable financial benefits to be gained in future years.

The Town's annual expenditure for medical insurance is approximately \$2.2 million, and although it is too early to determine recognized savings, we believe the medical benefit can be maintained with less likelihood of potential increases and no further reduction to the quality of the plan. Since the Town has more to benefit from a culture supportive of health and wellness, we have added funding (\$20,000) to the health and wellness program. Claims funding will be slightly reduced to accommodate the increase in health and wellness; therefore, budgeted expenditures will remain flat at approximately \$2.2 million for the coming year.

Investment in infrastructure and Town assets

The Town is well known for having quality infrastructure. The Recommended Budget includes \$1 million for the pavement preservation program in the Highway Fund, which maintains the current condition of our streets and roads. The amount of maintenance expected to be delivered remains at a level which will not allow our roadway infrastructure to deteriorate.

Fleet Replacement Program

During the economic downturn, the Town went years without a regular fleet replacement program. As a result, it will take years to fully return to a sustainable fleet replacement program.

This is the second year of our effort to return to a regular replacement schedule. The Recommended Budget includes the replacement of eight (8) police vehicles, one (1) general administration vehicle, one (1) truck for Development and Infrastructure Services (DIS) operations, one (1) utility vehicle for Parks and Recreation, and matching funds for one (1) grant-funded Transit vehicle for a total budgeted cost \$483,000. The Water Utility will replace two (2) vehicles per the replacement schedule totaling \$44,000.

In addition, the Recommended Budget includes \$108,000 set aside as a reserve for future replacement of the new vehicles purchased during FY 2012/13. As the Town continues to replace its fleet, funds for the future replacement of those vehicles will continue to be added to this reserve, ensuring that funding will be available at the end of their useful lives.

Water Meter Replacement Program

The Water Utility plans to continue progress on the installation of Automated Metering Infrastructure (AMI) communications equipment and the replacement of approximately 3,700 aging meters with new electronic meters. This project is budgeted in the Water Utility Fund for \$1.3 million and is proposed to be financed with a loan from the Water Infrastructure Finance Authority (WIFA).

Naranja Park Improvements

Naranja Park saw considerable improvements during FY 2012/13. With the help of a grant, community support and in-kind assistance by Town resources, more than \$100,000 was invested in the development of the Naranja Park archery range. To maintain this momentum, two projects are planned for FY 2013/14. First, grants will be pursued for further improvements to the archery range, and the Recommended Budget includes \$20,000 to assist with matching funds. Second, \$40,000 has been allocated to update the Naranja Park Master Plan. It is anticipated that the update will span two fiscal years, with the total project cost estimated at \$80,000.

Police Evidence Facility

The Police Department has identified a growing need for an expanded property and evidence storage facility to remediate a lack of proper storage space and to provide a safer working environment for staff assigned to this area. An amount of \$350,000 has been allocated in the Recommended Budget to construct such a facility during FY 2013/14.

Investment in technology

Technology needs have been a focus over the last year, and this budget includes additional resources to meet the growing demand. The following items are included in the Recommended Budget:

- Permitting system replacement - \$200,000 (first of two years)
- Phone system replacement - \$150,000 (first of two years)
- Online module for business license applications and renewals - \$11,000
- Microsoft Office update – Ongoing operational expense of \$45,000/yr. for 3 years
- Mobile application implementation - \$10,000

Additional staff resources in the Town Manager's Office have allowed us to refocus and strengthen our communications strategy via the website. The website continues to be the first stop for information for residents, businesses, and guests to the community. As such, the website needs to represent the Town in the most professional manner possible.

Regular replacement of computers and other technology is critical to maintaining operational efficiency. The Recommended Budget includes computer replacement for aging equipment at a budgeted cost of \$186,000. This includes several servers, desktop computers and mobile data terminals (MDTs) for the Police Department and building inspectors.

Economic development as a key strategy to achieve a healthy financial environment

Even with minimal resources dedicated to economic development, the Town has been very successful in primary job development. Given the increasingly competitive nature of business attraction, additional focus has been added to this area. Resource allocation to the Economic Development division was enhanced during the last budget process to ensure the fiscal stability of the Town. This type of allocation will have a significant return on investment that contributes to effective service delivery throughout the organization.

Prior to the economic downturn, the Town was directly involved in business recruitment through staff attendance at targeted recruiting events; however, this involvement was reduced when staff vacancies occurred during the recession. Through the additional resources added to the Economic Development division last fiscal year, these recruiting efforts will be restored in FY 2013/14. Revenues generated from business activity continue to be the major driver of Town funding; therefore, continued efforts toward business retention and recruitment will remain a high priority.

The Town is considering the development of a business incubator/bioscience accelerator in order to further promote Innovation Park and strengthen the Town's foothold in the bioscience and high-tech industry. An amount of \$30,000 has been budgeted for an Economic Feasibility Study of this concept. This study would build on the strategy recently developed in partnership with Tucson Regional Economic Opportunities (TREO).

Special events continue to be an important element of our economic recovery. Next year, the Town will celebrate its 40th anniversary, so a small amount of funding (\$10,000) has been allocated to recognize this important milestone. Additionally, to extend the Town's rebranding effort, \$10,000 has been allocated for banners to hang from light poles along the Town's main corridors.

To further promote arts and culture in Oro Valley, the Town will continue its partnership with the Southern Arizona Arts & Cultural Alliance (SAACA) to provide programs such as the concert series and other related events.

Support quality-of-life programs and services for community members

All Town functions contribute to the overall quality of life for residents. From our recognized public safety services to our first-class Water Utility, and everything in between, these services contribute to what makes Oro Valley a special place for residents to call home.

Enhanced Aquatic Center

This will be the first full year of operations at the expanded Oro Valley Aquatic Center. The Town will continue to aggressively recruit large-scale events, which will generate increased tourism and economic activity. Additionally, the new Aquatic Center will appeal to a broader audience of potential local users. This recreational gem will be a highly-utilized facility and will become a regional attraction. Indirect revenues from events at the Aquatic Center are not included in this budget. We will closely monitor revenues generated from upcoming events and make future adjustments as appropriate.

Steam Pump Ranch

Last year, the historic Steam Pump Ranch property saw improvements needed to open the facility to the public. The restroom facility and enlarged parking area now allow the hosting of events. There have been discussions with the operators of the Heirloom Farmer's Market about moving to Steam Pump Ranch in the fall of 2013. In order to accommodate this move, an amount of \$70,000 has been included in the Recommended Budget to build a ramada structure on this property that will be equipped with electricity and provide shade for a broad range of functions. This investment will also serve well for hosting a variety of other events.

Community Survey

One of the goals in the newly-adopted Strategic Plan is to conduct print and/or electronic surveys to solicit community feedback. An amount of \$30,000 has been included in the Recommended Budget to conduct a formal community survey. The last time the Town conducted a community survey was in 2008.

General Plan Update

As the Town prepares to update its General Plan for approval by voters in 2016, the Recommended Budget includes \$206,500 to be allocated primarily for outside consultant assistance and public outreach efforts in this area.

Revenue Enhancement and Expenditure Reductions

A number of revenue enhancements and expenditure reductions over the last several years have put the Town in a stable financial position.

Revenue Enhancements

- Increased annexation efforts in surrounding areas
- Increased Parks & Recreation facility usage fees and other fees for service (e.g. liquor license application fee)
- Increased utility tax from 2% to 4% effective August, 2011
- Partnered with Regional Transportation Authority (RTA) for expanded transit service, resulting in greater reimbursement of RTA funds and reduced Town subsidy of service
- Diversified Town investment portfolio to increase interest income
- Ensured proper reimbursement of General Fund services provided to utility enterprise funds

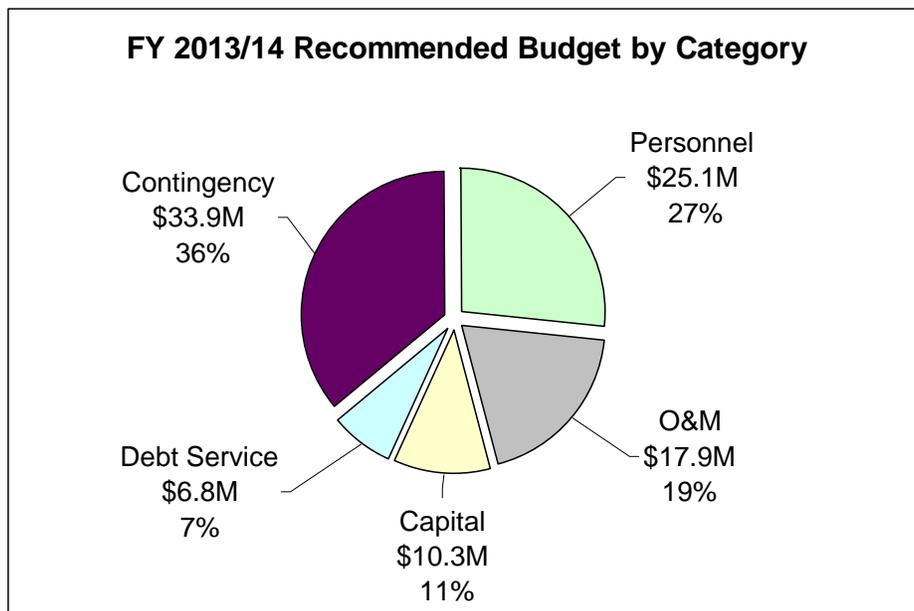
- Invested in expanded Aquatic Center to attract major special events and enhance tourism to our area
- Implemented an Economic Expansion Zone (EEZ) in Innovation Park to streamline development process resulting in businesses opening sooner
- Implemented OV Dollars program to encourage shopping locally
- Implemented automated meter replacement program in Water Utility to increase accuracy of measuring water usage

Expenditure Reductions

- Expanded partnership with Pima County Library District in moving to branch status and saving the Town approximately \$600,000 annually
- Realized approximately \$1.8 million in vacancy savings over last two fiscal years
- Paid off outstanding bond debt in 2010, resulting in significant debt service savings, approximately \$600,000 per year
- Refunded Water Utility debt to cut bond interest rates in half, resulting in net present value savings of \$3.4 million
- Consolidated Development & Infrastructure Services (DIS) Department and reduced staff
- Transitioned to self-funded methodology for employee medical insurance coverage, eliminating profit paid to medical provider and implemented enhanced wellness program
- Expanded volunteer program throughout Town of Oro Valley
- Partnered with Tucson Water for delivery of our CAP water through their system
- Implemented energy efficiency and solar power project at Town facilities

Personnel Overview

It is common that a high percentage of municipal operational expenses are related to personnel, and this is the case for Oro Valley at 27% of the Recommended Budget (please see Budget by Category chart below).



The following table outlines positions that have been eliminated in the Recommended Budget, and the corresponding cost savings:

POSITIONS ELIMINATED			
<u>Position/Title</u>	<u>FTE</u>	<u>Department</u>	<u>Cost Savings</u>
Construction Inspector	1.00	DIS	\$ 61,316
Heavy Equipment Operator I	0.96	DIS	28,129
Town Attorney	1.00	Legal	129,717 *
Office Assistant	1.00	Legal	40,987
Assistant Town Manager	1.00	Town Mgr's Office	156,651
Library Services Manager	1.00	PRL&CR	47,013 **
Librarian II	4.00	PRL&CR	128,515 **
Library Associate	4.48	PRL&CR	98,211 **
Library Technical Assistant II	4.51	PRL&CR	85,685 **
Library Technical Assistant I	3.08	PRL&CR	37,818 **
Library Office Specialist	1.00	PRL&CR	21,156 **
TOTAL	23.03		\$ 835,198

* Contract Attorney in FY 2013/14

** These positions were funded 100% by the Pima County Library District in FY 2012/13

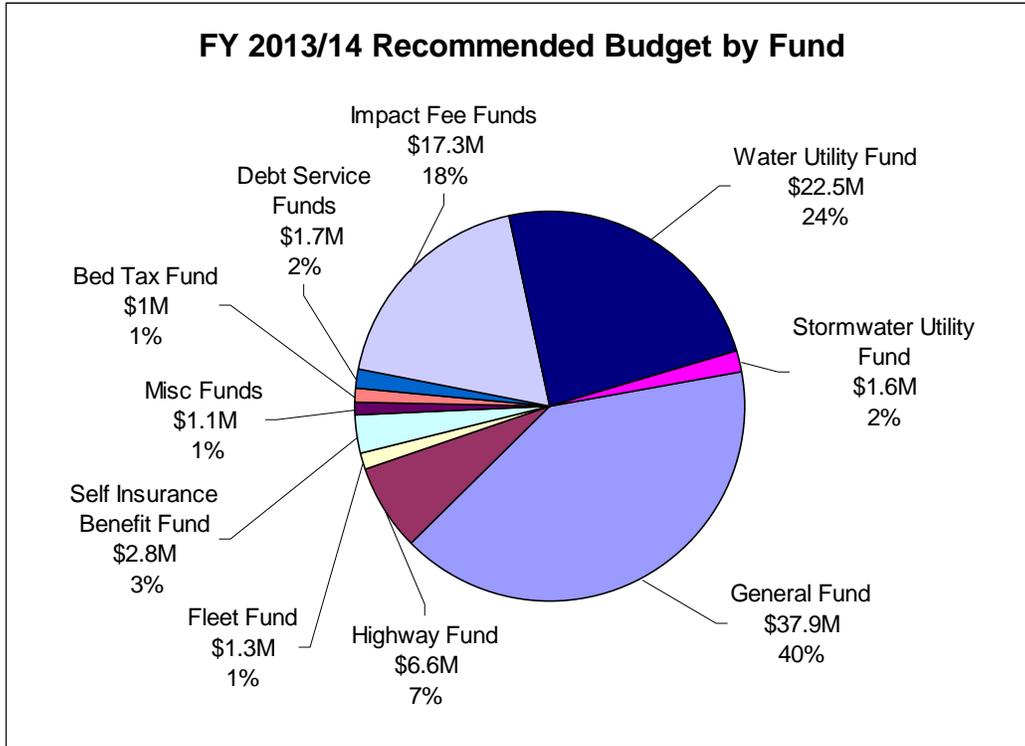
As the Town continues to right-size and reduce or eliminate positions in some areas, increased activity in other program areas is driving the need to add additional resources. Right-sizing the organization entails adding resources where they are needed. The following table outlines new positions that have been included in the Recommended Budget:

NEW POSITION REQUESTS			
<u>Position/Title</u>	<u>FTE</u>	<u>Department</u>	<u>Annual Salary + Benefits</u>
Office Specialist	0.48	DIS	\$ 10,785
Management Intern	0.38	Town Mgr's Office	10,793
Parks Maintenance Worker	0.35	Parks, Rec, & Cult. Rscs.	9,891
Aquatics Facility Attendant	0.48	Parks, Rec, & Cult. Rscs.	9,407
Reserve Officer	1.44	Police	72,496
School Resource Officer	1.00	Police	71,467 **
Electric & Control Technician	1.00	Water	63,776
TOTAL	5.13		\$ 248,615

** Potential for grant funding

Fund Overview

The following sections will cover various budget highlights from each of the Town's major funds, while the chart below depicts the Recommended Budget by Fund.



General Fund Highlights

The recommended General Fund budget totals \$28.3 million (excluding contingency reserves of \$9.8 million), and is 3.8%, or \$1 million, more than the current year adopted budget of \$27.3 million. The General Fund is balanced with revenues exceeding expenditures resulting in a slight surplus of \$38,664.

The following are key revenue provisions included in the General Fund budget:

- Total FY 2013/14 General Fund revenues are higher by \$1.5 million, or 5.7%, than FY 2012/13 budgeted General Fund revenues
- FY 2013/14 local sales taxes are \$795,000, or 6.5%, higher than FY 2012/13 budget amounts with increased revenues projected from new construction, utility sales taxes (TEP rate increase and new development) and increased retail sales activity
- License and permit revenues are \$557,000, or 60%, higher than FY 2012/13 budget amounts due to increased residential and commercial construction activity
- \$1,032,000 budgeted for transit service reimbursement from the RTA
- Overall increase of 5%, or approximately \$484,000, in state-shared revenues
- Includes a transfer of Bed Tax funds in the amount of \$185,000, consisting of \$150,000 to fund the incremental increased cost of the expanded Aquatic Center, plus \$35,000 as the first of 15 annual repayments to the General Fund contingency reserves used for financing the construction of the Aquatic Center

The following are key expenditure provisions included in the budget:

- Includes funding for merit and step increases for eligible employees
- Employee health insurance premiums are programmed to remain flat for FY 13/14
- Department operations and maintenance budgets are higher by almost 27%, or \$1.5 million, than adopted FY 2012/13 levels primarily attributable to the following:
 - Fleet replacement costs - \$499,000
 - General Plan update costs - \$206,500
 - Fleet costs for Transit operations - \$105,000
 - Increased software maintenance and licensing costs - \$50,000
 - Salary market and community surveys - \$60,000
 - Cost to reduce liability insurance deductible from \$100,000 to \$50,000 - \$60,000
 - Increase in sales tax rebate amounts - \$50,000
- Technology replacement funds totaling \$186,000 are included for computers, servers and mobile data terminals (MDTs)

The estimated year-end contingency reserve balance in the General Fund for FY 13/14 is \$9.8 million, which equals 35% of the recommended expenditure budget, slightly above the Town's adopted policy level of 25%.

Highway Fund Highlights

The two main revenue sources in the Highway Fund are construction sales taxes and state-shared highway user revenue funds (HURF), or gas taxes. Proposed Highway Fund revenues total \$3.8 million, which are higher by \$460,000, or 13.8%, than the current adopted budget amount. The Highway Fund also includes approximately \$130,000 in revenues charged to the Stormwater Utility Fund for greater cost recovery of Highway Fund resources utilized during storm cleanup events and ongoing storm facility maintenance. Budgeted expenditures in the Highway Fund total approximately \$3.7 million, which includes a budget of \$1 million for pavement preservation. This fund is balanced with a slight surplus projected of almost \$86,000.

Bed Tax Fund Highlights

It is estimated that the Town's 6% Bed Tax will generate approximately \$789,000 in revenues next fiscal year, which is a 0.9%, or \$7,000, increase from the current adopted budget of \$782,000. Funding is included for MTCVB (\$120,000) and the Greater Oro Valley Chamber of Commerce (\$20,000). Funding in the amount of \$185,000 will be transferred into the General Fund to pay for the estimated incremental cost increase for the expanded Aquatic Center (\$150,000), plus the first of 15 annual payments of \$35,000 to repay the General Fund contingency reserves borrowed for financing facility construction.

Water Utility Fund Highlights

The proposed Water Utility budget does not include an increase in the base rate and commodity rates charged for water sales in FY 2013/14, nor does it include an increase to the Groundwater Preservation Fee (GPF) next year. The main increase seen in funding sources for the Water

Utility is the addition of loan proceeds from the Water Infrastructure Finance Authority (WIFA) in the amount of \$1.3 million to fund the meter replacement program discussed earlier.

The expense budget for the Water Utility is approximately \$213,000 more than the adopted FY 2012/13 budget, primarily due to an increase in debt service principal payments for FY 2013/14.

Fifteen-Year Capital Improvement Program (CIP)

The Recommended Budget includes an expanded Fifteen-Year Capital Improvement Program (CIP) meant to widen the planning window in our ability to allocate funding for potential growth needs into the future. Total funding allocated to CIP projects in the Recommended Budget for FY 2013/14 is \$9.1 million. In the General Fund specifically, funding for CIP projects is included for the first time since FY 2010/11 in the amount of \$765,000. More detail regarding CIP projects and funding is included in the CIP document.

Acknowledgments

This budget document reflects the efforts of many long hours contributed by staff from all Town departments and input generated by employees, the Town Council and local residents. Special recognition goes to the Town's budget team for their extraordinary collaboration in preparing this recommended budget: Finance Director Stacey Lemos, Budget and Management Analyst Wendy Gomez, Communications Administrator Misti Nowak, and Assistant to the Town Manager Kevin Burke.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Greg Caton', with a long horizontal flourish extending to the right.

Greg Caton
Town Manager

EXHIBIT A

FY 2013/14 Personnel Budget Adjustments by Fund

	General Fund	Highway Fund	Bed Tax Fund	Impound Fee Fund	Seizure Funds	Fleet Fund	Stormwater Utility Fund	Water Utility Fund	TOTAL ALL FUNDS
Funding Level Merit and Step Increases, including Benefits	\$ 436,168	\$ 51,644	\$ 5,299	\$ 588	\$ 4,793	\$ 2,013	\$ 9,355	\$ 56,995	\$ 566,855
Position Reclasses Requested, including Benefits	12,938	15,257	-	-	-	507	2,032	19,245	49,979
New Position Requests (Salary and Benefits)	<u>184,839</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>63,776</u>	<u>248,615</u>
TOTAL Personnel Budget Increase	\$ 633,945	\$ 66,901	\$ 5,299	\$ 588	\$ 4,793	\$ 2,520	\$ 11,387	\$ 140,016	\$ 865,449