



April 2, 2014

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 Town Council with the Town Manager's Recommended Budget for fiscal year 2014/15 in the amount of \$107.1 million; a \$13.2 million, or 14.1% increase from the Adopted FY 2013/14 Budget totaling \$93.9 million.

The budget is developed to support the voter-approved General Plan and the Town Council-approved Strategic Plan. The Town Council has made financial decisions the last four years that have put the Town on a sustainable financial path. These decisions range from increasing revenues and efficiencies to streamlining operations. The current organization is not the same organization as it was five years ago; it is stronger, more adaptable and prepared to maximize opportunities.

The demands of the organization continue to evolve as the Town sees significant signs of economic recovery. Specifically, the recovery in the housing market is leading to challenges and opportunities. Because the organization made significant staff reductions during the recession, this surge of activity presents some unique staffing challenges, and we continue to monitor the activity closely. Town staff has been extremely dedicated and supportive through the financial crisis and continues to work efficiently to keep up with the increase in activity.

The budget was developed with the following core themes:

1. Investment in Town employees
2. Investment in Town assets and technology
3. Delivery of community services
4. New initiatives

### **Investment in Town employees**

The Town of Oro Valley provides services and programs that are required by law and expected by the community members. The delivery of the programs and services come from the Town's expert staff members. The high quality of services and programs are a direct result of strong leadership and high-quality employees.

During the recession, the Town reduced staff considerably. In FY 2008/09, the adopted budget included 389 full-time equivalent (FTE) positions. The FY 2014/15 Recommended Budget includes a total of 342 authorized FTE positions. The Town has also reduced full-time, benefited positions from 332 in FY 2008/09, to 290 in the FY 2014/15 Recommended Budget. The Town has some of the most dedicated and competent employees who have taken on more responsibilities as the workforce decreased.

## Employee Compensation

In an effort to compare our employee compensation to the market, we conducted a salary market survey during FY 2013/14. As the economy is seeing steady recovery, public employers have increased compensation to retain high quality employees. In order to retain our well-trained and experienced employees, we are proposing implementation of the compensation plan adjustments based on the findings in the market survey. The FY 2014/15 Recommended Budget includes \$1.1 million to implement the market study adjustments and related benefit costs. We are also committed to funding step and merit pay increases for employees, and \$555,000 has been included in the budget for these increases.

As we started last year and are continuing this year, this budget includes a small amount of funding (approximately \$26,000) 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. As a result, we completed a comprehensive reclassification process starting in late fall and are recommending some minor adjustments to some positions.

The amounts calculated for the market salary adjustments, merit/step increases, reclassifications and new position requests (to be discussed later in this budget message) have not been included in the departmental personnel budget recommended amounts for FY 2014/15; however, the total budget adjustments attributable to these increases are outlined in Exhibit A – FY 2014/15 Personnel Budget Adjustments by Fund attached to this document.

## Self-Funded Insurance

One of the Town's sizable investments in employees is medical insurance. Two years ago, staff members reviewed the Town's medical claim history, in cooperation with the Town's insurance broker, and based on our exceptionally low claims history, we switched to self-funded insurance for medical coverage. The Town has accepted additional risk in this new funding methodology; however, given the Town's excellent claim history, we believed there was considerable financial benefit to be gained in future years. In the first year of self-funded medical insurance (FY 2012/13), the Town recognized a savings of \$354,000.

Due to the success experienced with self-funding for medical insurance, our insurance broker provided us a bid for self-funding of our dental coverage from our current provider, Principal. Self-funding for dental insurance would result in a slight savings to the Town of approximately \$13,000 and allow us to keep employee dental premiums flat for next year. Therefore, the Recommended Budget includes moving to a self-funded model for dental insurance coverage next fiscal year with our current provider.

Since the Town has more to benefit from a culture supportive of health and wellness, last year we added funding to support the Town's health and wellness program. This year we are recommending further support of the health and wellness program by the inclusion of an on-site health clinic. The clinic would start in January 2015 and be available for employees and dependents covered on our health insurance. These types of clinics have proven to show downward trend on medical claims after three to five years in operation. The investment in an on-site health clinic has been funded in the budget at approximately \$76,000, of which \$15,000 is for one-time start-up costs. Therefore, we are planning for expenditures of approximately \$2.5 million for the coming year in the Self Insurance Benefit Fund. We feel fortunate that the costs are projected to increase only slightly next year. It is estimated that if we had not moved to self-funded, our expenses would be approximately \$500,000 higher than our current budget (assuming the same level of benefit).

Town staff work very closely with our broker and medical insurance provider, United HealthCare, to monitor the claim trends, ensure adequate funds are available to pay for Healthcare Reform Act provisions and maintain appropriate reserves to pay for high claims. For next year, United HealthCare and our broker are recommending a modest increase in premiums to fund expected costs in the Town's self-insurance fund. A 7% premium increase has been included in the budget for both employee and employer contributions. The employee premium increase, the first since 2008, averages approximately \$4 per pay period for those employees on the PPO plan with dependent coverage. There will continue to be no charge to employees with employee-only coverage.

To further incentivize enrollment in our High Deductible Health Care Plan, employee premiums will be lowered in this plan to equal 50% of those offered in the PPO plan. Additionally, the Town contributions to employees' health savings accounts in this plan will increase by \$250 annually. Those with employee-only coverage would receive \$1,000, while those with dependent coverage would receive \$1,250.

### New Staffing

The organization is experiencing an increase in work activity. The demands and expectations are higher than ever before, and the organization is delivering with a small, efficient workforce. There are a few "pinch points" that need to be addressed in the budget for next year. In order to accommodate the increased building activity, we are proposing an additional building inspector. The building activity has increased significantly and is not expected to decrease until about 2019/2020 or beyond.

Additionally, the Water Utility has seen a significant increase in customer service interactions, so a 19-hour per week (non-benefited) customer service representative has been added.

Finally, additional part-time, non-benefited FTEs have been added in the Transit and Aquatics divisions to meet the service level demands in these two areas.

### Investment in Town assets and technology

#### Transportation

The Town is well known for having quality infrastructure. The budget includes more than \$1.1 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 the infrastructure to deteriorate. Additionally, the Town operates and maintains the street lights in Sun City Vistoso, and we have seen significant deterioration in the electrical system the past several years. In order to fix the issues, an amount of \$200,000 has been included in the Capital Improvement Program (CIP) in each of the next three years to rewire the circuits. In addition, \$200,000 has been included for safety measure improvements to the Tangerine and First Avenue/Rancho Vistoso intersection.

#### Fleet Replacement Program

An important component of municipal services requires fleet infrastructure. This year is the third year in the effort to return to a regular replacement schedule. The budget includes the replacement of seven (7) marked police vehicles; one (1) general administration vehicle; four (4) trucks combined for DIS operations, facility maintenance and inspection and compliance divisions; a field

groomer and truck for Parks and Recreation, and matching funds for ten (10) grant-funded Transit vehicles at a total budgeted cost of \$964,800. The Water Utility Fund will replace two (2) vehicles per the replacement schedule at a budgeted cost of \$85,000.

### Steam Pump Ranch

Steam Pump Ranch continues to be an arts and culture opportunity for the community. Historic preservation is recognition of our community's history and heritage. Over the last few years, significant improvements have been made to the site. Last year, the Town funded \$82,000 in improvements at Steam Pump Ranch. Next year, we have allocated \$125,000 for a protective cover over the historic steam pump.

### Aquatic Center

The Aquatic Center has recently completed its first full year of operations. After the \$5 million expansion, the site and facility require some additional improvements. An interim parking and circulation road have been added for a cost of \$184,000. This funding will provide a cul-de-sac with parking and a north/south path to the east of the facility off of Calle Concordia Drive. With this additional parking capacity, staff will be looking at ways to generate additional revenues during large events to offset some of the expenses of this facility.

Additionally, there are a few small capital items that have been funded for \$57,000. These include a pool cover for the recreation pool, the purchase of a timing system and a display board showing record swim times.

Signage off of Oracle Road, or lack thereof, continues to be a challenge for recognition of the facility, so \$26,000 has been provided to develop signage along Oracle Road.

### Park Improvements

During this current fiscal year, staff proposed and Council approved, a project of \$2.3 million for Naranja Park. The Capital Improvement Program (CIP) for 2014/15 builds on this previous funding by adding \$250,000 for a restroom at Naranja Park. The CIP also includes the Naranja Master Plan update at \$40,000, which is the continuation of \$40,000 funded last year. Cañada del Oro (CDO) Riverfront Park will also see some enhancements, with \$57,000 in upgrades to playground equipment.

### Police Evidence Facility

Another significant project is the Police Evidence Facility, which is anticipated to be funded in phases over the next several fiscal years. Funding included in the current year budget has been identified to purchase the land upon which this future facility could be built. Negotiations for this land purchase are currently underway and are expected to be completed prior to the end of this fiscal year. Funding of \$200,000 has been included in the 2014/15 Recommended Budget for design of a new facility. In the CIP for 2015/16, an amount of \$2.5 million has been identified as a placeholder to construct the facility.

### New Fueling Facility at Municipal Operations Center (MOC)

Currently, the Town has one fueling site located at 680 W. Calle Concordia to support the needs of the entire Town fleet. This has posed some level of risk from an emergency preparedness perspective, as well as challenges and inefficiencies with fueling our fleet of transit vehicles, which

are based out of the MOC location. Funding in the amount of \$80,000 has been included in the budget for an additional fueling facility (both gas and diesel) on the north end of town at the MOC site. Having this alternate fueling facility will allow the Transit vehicles to efficiently fuel up prior to the start of their shift and provide additional fueling capabilities in the case of an emergency or disaster.

### Investment in technology

Technology has been a focus over the last year, and this budget includes additional resources to meet the growing demand. The following areas are seeing significant support:

- Replacement of Town's permitting system - \$240,000 (second of two years)
- Replacement of Town's phone system - \$300,000 (second of two years)
- Automatic lighting control at JDK and Riverfront Park - \$22,500
- Audiovisual improvements to Council Chambers - \$12,000
- Records Management System for the Police Department - \$75,000
- Electronic Document Management System Town-wide - \$112,000
- Security camera project - \$50,000 (second of two years)
- Enhancement of Town data back-up system - \$60,000

Appropriate replacement of computers and other technology is critical to maintain smooth administrative functions. The proposed budget includes computer replacement for aging equipment at a budgeted cost of \$233,000. This includes several servers, desktop computers and mobile data computers (MDCs).

### Delivery of community services

One of the focus areas in the Town Council-approved Strategic Plan is Community Services, with the primary goal to provide services to enhance residents' quality of life. All Town functions contribute to the overall quality of life for residents. From our recognized public safety services to the top-notch Water Utility, and everything in between, these services contribute to what makes Oro Valley a special place for residents to call home. The Town performed well during the recession because of its commitment to maintaining service levels in the Town's four primary service areas: Public Safety, Transportation, Water, and Parks and Recreation. Because we held true to these four primary service areas, these areas are now recognized for their exceptional service and programs to the community. The Town's strength in the delivery of community services has led to increased activity in building development and economic development. The refocus, and streamlining, of the development process has placed Oro Valley on the map for the development community. The development community sees Oro Valley as a place to invest and do business.

The Town's departments on the front lines of programming and service delivery plan to continue the high quality the community has come to expect. The operational departments are supported by internal service departments such as Human Resources, Information Technology, Finance, Legal Services, etc. These internal service departments are the backbone of the organization and have seen significant reductions in staffing. They continue to support the organization as we continue to push ourselves to outperform our previous service level.

### New initiatives

Special events continue to be important to our economic recovery. With the increase in activities at the Aquatic Center and Steam Pump Ranch, the Town has seen benefit from special events. We see value in providing seed money for the development of a signature event in Oro Valley. We are

still exploring opportunities for the event, but have established \$30,000 out of the Bed Tax Fund to get the event off the ground in FY 2014/15. Additionally, to further promote the Town's rebranding efforts, \$10,000 has been allocated for banners on light poles.

To further promote arts and culture in Oro Valley, our partnership with the Southern Arizona Arts & Cultural Alliance (SAACA) will continue with funding of \$26,800 included in the budget. This funding will continue to support the concert events at Oro Valley Marketplace and Steam Pump Ranch, as well as the Just for Kids Concert Series.

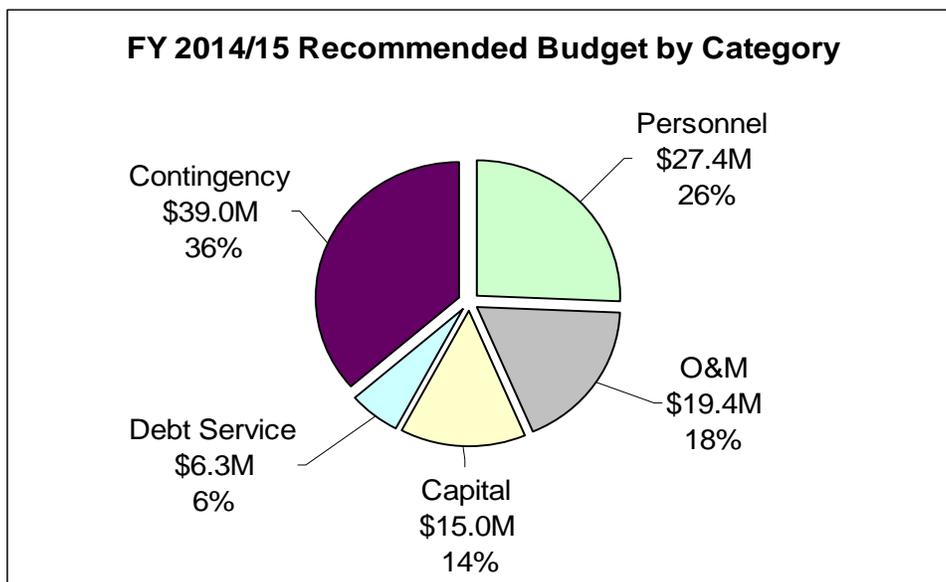
We have heard interest from the soccer community to oversee our parks during the winter season, and therefore, we have allocated funding for next year to oversee the multi-sport fields at CDO Riverfront Park. The cost is primarily for the extra water, which we have budgeted \$25,000. Also in the area of parks maintenance, an amount of \$25,000 has been included in the budget for contracted park maintenance services in order to meet the additional workload needs in this area. This is a pilot program aimed at contracting out a portion of the field and park maintenance duties in our parks rather than hiring additional Town staff.

As the Town continues to be attractive for all demographics, we have seen a recent surge in families moving into Oro Valley. We are in the formative stages of developing a partnership with the Tucson Children's Museum for a satellite location in Oro Valley. This would require a financial partnership, and we have allocated one-time funding of \$200,000 for exhibit development and first-year operational contribution of \$75,000 out of the General Fund.

Communication is also a key focus area in the Town's Strategic Plan, and one of the ways the Town communicates with its citizens is through the publication of the *Oro Valley Vista Newsletter*. Funding is included in the budget to increase the frequency of this publication from quarterly to an abbreviated, bi-monthly printed publication to be mailed out in the Water Utility bills.

**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 26% of the Recommended Budget (please see Budget by Category chart below).



During the current fiscal year, as employees left the organization through retirements, resignations and other means of attrition, management analyzed the ongoing need for those positions on a

case-by-case basis. In a number of areas, the duties of the departing employees were picked up by existing staff members or reassigned to other areas of the organization. In some cases, a new position replaced a former position in order to better serve the needs and demands of certain departments. In all cases, however, the overall impact to the budget was scrutinized, and as shown in the summary table below, the following personnel changes resulted in an overall annual cost savings of more than \$120,000.

<b>POSITION REDUCTIONS AND REPLACEMENTS</b>				
<u>Position/Title</u>	<u>Department</u>	<u>Replaced With</u>	<u>FTE Incr/(Decr)</u>	<u>Cost Incr/(Decr)</u>
Asst to Town Clerk	Clerk	Senior Office Specialist	-	\$ (10,461)
Office Asst (Part-time)	Clerk	Ofc Specialist (PT)	0.02	10,265
Town Engineer	DIS	Assistant DIS Director	-	(39,546)
Civil Engineer	DIS	Senior Civil Engr. Tech	-	(29,105)
Transit Administrator	DIS	Transit Crew Leaders (2)	1.00	3,019
Safety & Risk Mgr.	HR	Senior Civil Engr. (DIS)	-	(13,570)
Empl & Org Dev Anlyst	HR	Ofc Specialist (PT)	(0.50)	(56,673)
Office Specialist	Mgr's Ofc	Mktg & Comm. Spec.	-	15,769
<b>TOTAL</b>			<b>0.52</b>	<b>\$ (120,302)</b>

Certain areas of the organization experienced significant increases in demand during the current fiscal year, resulting in the need to add a few more temporary personnel and part-time, non-benefited personnel to meet the needs. In Development and Infrastructure Services, the current year budget included funding for contract personnel to assist with the General Plan Update. As a result, one, full-time, temporary senior planner and two, part-time, temporary office assistants were hired to fulfill this need. These positions have been included in the Recommended Budget for FY 14/15, but are temporary and will be eliminated when the General Plan Update is complete.

The Transit Division continues to see record-breaking ridership in the current fiscal year, and as a result, there has been need to hire additional part-time, non-benefited relief Transit drivers to maintain service. The cost of these new positions will be fully reimbursed by the Regional Transportation Authority (RTA) and has been included in the FY 2014/15 Recommended Budget.

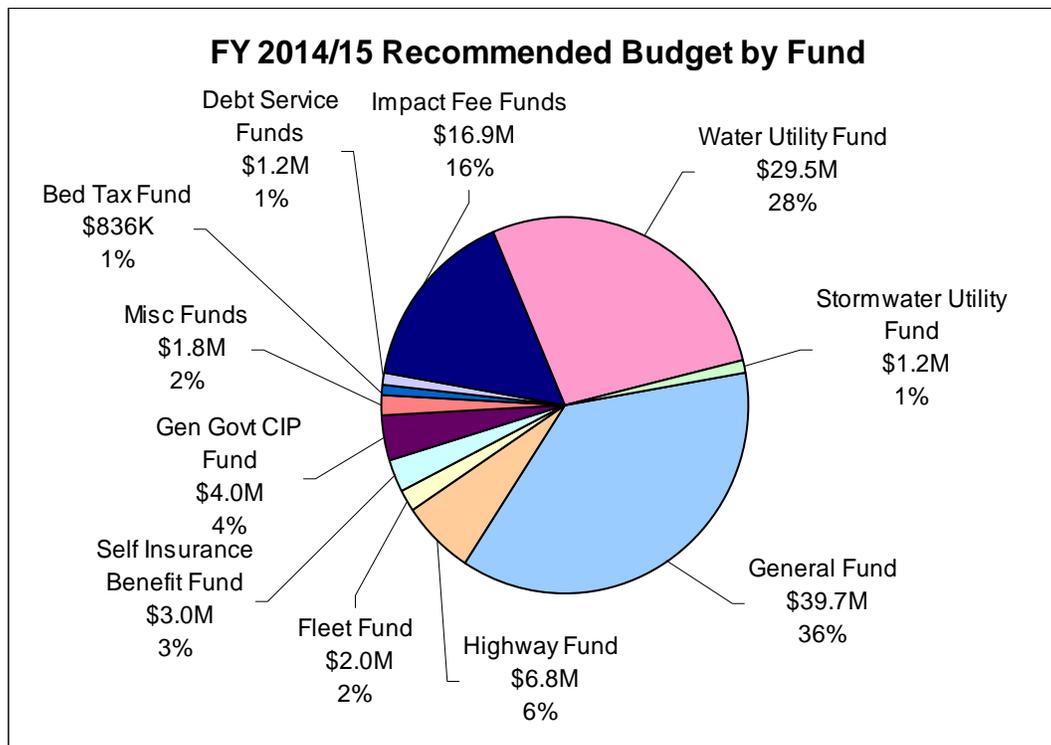
Finally, the current year budget for the Aquatics Division included staffing levels based on recommendations from the Aquatic Center Feasibility Study conducted several years ago. With the first, fully operating year completed, a few additional part-time, non-benefited facility attendants, shift leaders and lifeguards have been added in order to properly staff this facility. These additional positions have been included in the FY 2014/15 Recommended Budget.

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 FY 2014/15 Recommended Budget:

NEW POSITION REQUESTS			
Position/Title	FTE	Department	Annual Salary + Benefits
Building Inspector I	1.00	DIS	59,442
Customer Service Representative	0.48	Water	16,905
<b>TOTAL</b>	<b>1.48</b>		<b>\$ 76,347</b>

### 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.



(Fund totals exclude interfund transfers)

### General Fund Highlights

The recommended General Fund budget totals \$32.3 million (excluding contingency reserves of \$10.1 million and including interfund transfers of \$2.7 million), and is 8%, or \$2.3 million, more than the current year adopted budget of \$29.9 million. The General Fund is balanced with revenues exceeding expenditures resulting in a slight surplus of \$9,234.

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

- Total FY 2014/15 General Fund revenues are higher by \$3.9 million, or 13.8%, than FY 2013/14 budgeted General Fund revenues
- FY 2014/15 local sales taxes are \$2.6 million, or 19.5%, higher than FY 2013/14 budget amounts with increased revenues projected from new construction and retail sales activity. This increase reflects the General Fund now accounting for 100% of construction sales tax revenues as these revenues are no longer allocated between the General Fund and the Highway Fund.
- License and permit revenues are \$312,000, or 20.9%, higher than FY 2013/14 budget amounts due to increased residential and commercial construction activity
- \$1,315,000 is budgeted for transit service reimbursement from the RTA
- Overall increase of 6.7%, or approximately \$645,000, 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 second 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 General Fund budget:

- Includes funding for market salary adjustments and merit and step increases for eligible employees at an estimated cost of \$1.4 million
- Employee health insurance premiums are programmed to increase 7% for FY 14/15
- Department operations and maintenance budgets are slightly higher by 2.5%, or \$180,000, than adopted FY 2013/14 levels
- Transfer out of \$1.4 million to the new General Government Capital Improvement Project (CIP) Fund for capital projects
- Transfer out of \$1.14 million in one-time construction sales tax revenues to the new General Government CIP Fund to reserve for future year capital projects

The estimated year-end contingency reserve balance in the General Fund for FY 14/15 is \$10.1 million, which equals 31% of the recommended expenditure budget. The Town's adopted policy level is 25%.

### **Highway Fund Highlights**

Proposed Highway Fund revenues total \$3.0 million, which are lower by \$841,000, or 22.1%, than the current adopted budget amount. This reflects the elimination of a portion of the 4% construction tax revenues previously allocated to this fund. These construction tax revenues are now fully accounted for in the General Fund and will be allocated toward the Town's capital needs. The Highway Fund also includes approximately \$130,000 in revenues charged to the Stormwater Utility Fund for cost recovery of Highway Fund resources utilized during storm cleanup events and ongoing storm facility maintenance. Budgeted expenditures in the Highway Fund total approximately \$4.4 million. This includes a budget of \$1.1 million for pavement preservation, capital funds for a dump truck at \$150,000, and capital funds for Town-owned streetlights in Sun City Vistoso for \$200,000. This fund is balanced with a planned use of contingency reserves of approximately \$1.4 million. The estimated year-end contingency reserve balance is \$2.4 million.

### **Bed Tax Fund Highlights**

It is estimated that the Town's 6% Bed Tax will generate approximately \$945,000 in revenues next fiscal year, which is a 19.7%, or \$156,000, increase from the current adopted budget of \$789,000. Funding is included for Visit Tucson (\$175,000) and the Greater Oro Valley Chamber of Commerce (\$30,000). Funding for arts and cultural events is also included at \$26,800 for the Southern Arizona

Arts & Cultural Alliance (SAACA) to continue the concert series at Steam Pump Ranch and the Oro Valley Marketplace, as well as the Just for Kids Concert Series. 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 second of 15 annual payments of \$35,000 to repay the General Fund contingency reserves borrowed for financing facility construction. The estimated year-end contingency reserve balance is \$228,000.

### **Water Utility Fund Highlights**

Revenues in the Water Utility Fund are estimated at \$17.5 million, a \$3.7 million increase from FY 2013/14 budgeted revenues. This increase is primarily attributable to two areas: 1) the increase in loan proceeds from the Water Infrastructure Finance Authority (WIFA) to fund the meter replacement program and; 2) the groundwater preservation fees (GPF) that will no longer be transferred to the Alternative Water Resources Development Impact Fee (AWRDIF) fund. Previously, the GPF fees were transferred to the AWRDIF to pay for debt service related to the capital costs to develop our reclaimed system. This debt will now be paid out of the Water Utility Enterprise Fund in the future.

The expense budget for the Water Utility is approximately \$4 million more than the adopted FY 2013/14 budget. This is primarily due to the debt service payments associated with the development of our reclaimed system moving over to this fund to be paid with GPF revenues and an increase in capital projects.

### **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 2014/15 is \$13.4 million. As mentioned earlier, a new fund (General Government CIP Fund) has been established to account for capital projects previously accounted for in the General Fund. Segregating these capital projects and the funding associated with them in a separate fund will provide more a more efficient structure for tracking these projects, especially those that take multiple years to complete. 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 Chris Cornelison.

Respectfully submitted,



Greg Caton  
Town Manager

## EXHIBIT A

### FY 2014/15 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
Market Salary Study, including Benefits	\$ 961,483	\$ 55,135	\$ 7,030	\$ 1,478	\$ 17,312	\$ 1,727	\$ 11,307	\$ 71,378	\$ 1,126,850
Funding Level Merit and Step Increases, including Benefits	436,186	45,199	\$ 5,055	\$ 81	\$ 6,616	1,926	9,065	51,325	\$ 555,453
Reclassification Requests	26,411	-	-	-	-	-	-	-	\$ 26,411
New Position Requests (Salary and Benefits)	<u>59,442</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>16,905</u>	<u>\$ 76,347</u>
<b>TOTAL Personnel Budget Increase</b>	<b>\$ 1,483,522</b>	<b>\$ 100,334</b>	<b>\$ 12,085</b>	<b>\$ 1,559</b>	<b>\$ 23,928</b>	<b>\$ 3,653</b>	<b>\$ 20,372</b>	<b>\$ 139,608</b>	<b>\$ 1,785,061</b>