

**CITY OF TUCSON, ARIZONA
ANNUAL EXPENDITURE LIMITATION REPORT
YEAR ENDED JUNE 30, 2019**

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INDEPENDENT ACCOUNTANT'S REPORT

The Auditor General of the State of Arizona and
The Honorable Mayor and City Council
of the City of Tucson, Arizona

We have examined the accompanying Annual Expenditure Limitation Report of the City of Tucson, Arizona for the year ended June 30, 2019, and the related notes to the report. The City's management is responsible for presenting this report in accordance with the uniform expenditure reporting system as described in Note 1. Our responsibility is to express an opinion on this report based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. Those standards require that we plan and perform the examination to obtain reasonable assurance about whether this report is presented in accordance with the uniform expenditure reporting system, in all material respects. An examination involves performing procedures to obtain evidence about the amounts and disclosures in the report. The nature, timing, and extent of the procedures selected depend on our judgment, including an assessment of the risks of material misstatement of the report, whether due to fraud or error. We believe that the evidence we obtained is sufficient and appropriate to provide a reasonable basis for our opinion.

In our opinion, the Annual Expenditure Limitation Report referred to above is presented in accordance with the uniform expenditure reporting system as described in Note 1 in all material respects.

Heinfeld Meech & Co. PC

Heinfeld, Meech & Co., P.C.
Tucson, Arizona
April 8, 2020

City of Tucson
Annual Expenditure Limitation Report—Part I
Year Ended June 30, 2019

- | | | |
|---|----------------|----------------|
| 1. Economic Estimates Commission expenditure limitation | \$ 977,564,460 | |
| 2. Voter-approved alternative expenditure limitation (Approved _____) | | _____ |
| 3. Enter applicable amount from Line 1 or Line 2 | | \$ 977,564,460 |
| 4. Amount subject to the limitation (total amount from Part II, Line C) | \$ 772,566,585 | |
| 5. Amount under (in excess of) the expenditure limitation | | \$ 204,997,875 |
| <i>(If excess expenditures are reported, provide an explanation)</i> | | |

I hereby certify, to the best of my knowledge and belief, that the information contained in this report is accurate and in accordance with the requirements of the uniform expenditure reporting system.

Signature of Chief Financial Officer: Joyce K. Garland, CPA

Name and Title: Joyce K. Garland, Chief Financial Officer/Assistant City Manager

Telephone Number 520-837-4091

Date: 3/31/2020

If any of the provisions of the Arizona Constitution, Article IX, §20(2)(a), (b), or (c), or A.R.S. §41-1279.07(l) apply to the City/Town, use the long form Part I on page VI-17 of the UERS Manual.

See accompanying notes to report.

City of Tucson
Annual Expenditure Limitation Report—Part II
Year Ended June 30, 2019

	Description	Governmental Funds	Enterprise Funds	Internal Service Funds	Fiduciary Funds	Total
A.	Amounts reported on the Reconciliation, Line D	<u>\$ 844,222,147</u>	<u>\$ 305,767,162</u>	<u>\$ 16,723,225</u>	<u>\$ 82,169,036</u>	<u>\$ 1,248,881,570</u>
B.	Less exclusions claimed:					
1.	Bond proceeds (Note 3)	1,792,773	26,196,277			27,989,050
a.	Debt service requirements on bonded indebtedness (Note 4)	45,617,268	57,863,699	-		103,480,967
b.	Debt service requirements on other long-term obligations (Note 4)	39,383,088				39,383,088
2.	Dividends, interest, and gains on the sale or redemption of investment securities (Note 5)	3,692,300	3,525,039	917,940		8,135,279
3.	Trustee or custodian (Note 12)	3,404,333			82,169,036	85,573,369
4.	Grants and aid from the federal government (Note 6)	83,991,363	6,128,667			90,120,030
5.	Grants, aid, contributions, or gifts from a private agency, organization, or individual, except amounts received in lieu of taxes (Note 7)	658,110				658,110
6.	Amounts received from the State of Arizona (Note 8)	2,324,171				2,324,171
7.	Quasi-external interfund transactions (Note 9)	14,097,738	6,312,579	12,266,291		32,676,608
8.	Highway user revenues in excess of those received in fiscal year 1979-80 (Note 10)	36,481,888				36,481,888
9.	Contracts with other political subdivisions (Note 11)	45,725,015	3,767,412			49,492,427
10.	Total exclusions claimed	<u>277,168,046</u>	<u>103,793,672</u>	<u>13,184,231</u>	<u>82,169,036</u>	<u>476,314,985</u>
C.	Amounts subject to the expenditure limitation	<u>\$ 567,054,101</u>	<u>\$ 201,973,490</u>	<u>\$ 3,538,994</u>	<u>\$ -</u>	<u>\$ 772,566,585</u>

See accompanying notes to report.

City of Tucson
Annual Expenditure Limitation Report—Reconciliation
Year Ended June 30, 2019

Description	Governmental Funds	Enterprise Funds	Internal Service Funds	Fiduciary Funds	Total
A. Total expenditures/expenses/deductions and applicable other financing uses, special items, and extraordinary items reported within the fund financial statements	\$ 847,586,599	\$ 245,565,111	\$ 24,607,347	\$ 82,169,036	\$ 1,199,928,093
B. Subtractions:					
Items not requiring use of current financial					
Depreciation		46,290,418	12,504		46,302,922
Bad debt expense (Note 2)	43,330	1,370,034			1,413,364
Pension and other postemployment benefits (OPEB) Expense (Note 13)	2,036,108	12,356,067			14,392,175
Claims incurred but not reported (IBNR)			17,261,730		17,261,730
Landfill closure and postclosure care costs		240,578			240,578
Required fees paid to the Arizona Department of Revenue (Note 14)	1,285,014				1,285,014
Total subtractions	3,364,452	60,257,097	17,274,234	-	80,895,783
C. Additions:					
Principal payments on long-term debt		35,995,072			35,995,072
Acquisition of capital assets		71,471,185			71,471,185
Pension and OPEB contributions paid in the current year (Note 13)		12,336,120			12,336,120
Claims previously recognized as IBNR			9,390,112		9,390,112
Landfill closure and postclosure care costs		656,771			656,771
Total additions	-	120,459,148	9,390,112	-	129,849,260
D. Amounts reported on Part II, Line A	\$ 844,222,147	\$ 305,767,162	\$ 16,723,225	\$ 82,169,036	\$ 1,248,881,570

See accompanying notes to report.

CITY OF TUCSON
Notes to Annual Expenditure Limitation Report
Year Ended June 30, 2019

Note 1 Summary of Significant Accounting Policies:
The Annual Expenditure Limitation Report (AELR) is presented as prescribed by the Uniform Expenditure Reporting System (UERS), as required by Arizona Revised Statutes §41-1279.0, which excludes expenditures, expenses, or subtractions of certain revenues specified in the Arizona Constitution, Article IX, §20 from the total expenditures, expenses or subtractions reported in the fund-based financial statements.

In accordance with the UERS requirements, a note to the AELR is presented for any exclusion claimed on Part II and each subtraction or addition in the Reconciliation that cannot be traced directly to an amount reported in the fund-based financial statements. All references to financial statement amounts refer to the Statements of Net Position and Activities; the Governmental Balance Sheet and Statement of Revenues, Expenditures, and Changes in Fund Balances; the Proprietary Funds Statements of Net Position and Revenues, Expenses, and Changes in Fund Net Position, and Cash Flow; and the Statements of Fiduciary Net Position and Changes in Fiduciary Net Position.

Note 2 The subtraction for bad debt expense is for amounts recorded in various funds as an element of Contractual Services:

Fund	Governmental Funds	Enterprise Funds
Special Revenue Funds (Fd 008)	43,330	
Water Utility (Fd 081)		1,034,795
Environmental Services (Fd 002)		213,843
Other Enterprise Funds (Fd 070, 075, 110-120, 123)		121,396
Total	<u>\$ 43,330</u>	<u>\$ 1,370,034</u>

Note 3 Separate bond funds are established to record bond expenses for the Water Utility Fund. The schedule presented below shows the final expenses by bond fund. The exclusion for the Governmental Funds is **\$1,792,773** (net of Use of Money and Property) for the 2012 and 2020 General Obligation Capital Projects Fund.

Water Funds	Bond Exclusion
Water Ser. 2015 (085)	\$ 1,337,227
Water Ser. 2016 (087)	\$ 24,859,050
Total	<u>\$ 26,196,277</u>

CITY OF TUCSON
Notes to Annual Expenditure Limitation Report
Year Ended June 30, 2019
(Continued)

Note 4 The exclusion claimed for debt service requirements on bonded indebtedness in the Governmental and Enterprise Funds consist of principal retirement and interest payments.

		<u>Bonded indebtedness</u>	
		<u>Governmental</u>	<u>Enterprise</u>
		<u>Funds</u>	<u>Funds</u>
GO Bond Principal		\$ 26,495,000	\$ -
Street & Highway Principal		10,130,000	
Enterprise Bonds			39,453,942
Certificates of Participation			241,128
Principal	Sum	<u>\$ 36,625,000</u>	<u>\$ 39,695,070</u>
GO Bond Interest		6,894,818	
Street & Highway Interest		2,090,250	
Enterprise Bonds Interest			17,326,186
Certificates of Participation Interest			-
	Sum	<u>8,985,068</u>	<u>17,326,186</u>
Payment to Refunded Bond			
Escrow Agent fee		-	
Fiscal Agent Fees & Debt Issuance Costs		7,200	842,443
Total		<u>\$ 45,617,268</u>	<u>\$ 57,863,699</u>
		<u>Other long-term obligations</u>	
		<u>Governmental</u>	
		<u>Funds</u>	
Principal		\$ 29,746,991	
Interest		9,618,597	
Fiscal Agent Fees & Issuance Costs		17,500	
Total		<u>39,383,088</u>	

Note 5 The exclusion claimed for dividends, interest, and gains on the sale of investment securities, recorded as Use of Money or Property in the governmental funds, and recorded as Investment Income in Enterprise and Internal Service funds is shown below:

	<u>Governmental</u>	<u>Enterprise</u>	<u>Internal</u>
	<u>Funds</u>	<u>Funds</u>	<u>Service</u>
			<u>Funds</u>
Dividends, interest, and gains on the sale of investment securities	\$ 3,692,300	3,525,039	\$ 917,940

CITY OF TUCSON
Notes to Annual Expenditure Limitation Report
Year Ended June 30, 2019
(Continued)

Note 6 The City receives QECB, BAB, and CREB federal contributions to subsidize debt service payments in the General Fund, the Water Utility Fund, and General Services ISF; these will not be included in the federal contributions exclusion since the exclusion was already taken in Note 4. The exclusions claimed for federal grants include: **\$83,991,363** for Governmental Funds and **\$6,128,667** for Enterprise Funds as outlined in the schedule below.

Governmental Funds	Community Development Block Grants Fund	Miscellaneous Housing Grant Funds	Public Housing Section 8/ Home Program Funds	HOME Affordable Housing Funds
Expenditures	\$ 11,545,065	\$ 4,112,847	\$ 36,391,332	\$ 2,176,728
Other Rev sources:	(7,894,411)	-	(122,339)	-
Net Exp excludable	3,650,654	4,112,847	36,268,993	2,176,728
Fed Grant Rev	3,398,389	4,112,847	35,527,753	2,684,773
Exclusions	\$ 3,398,389	\$ 4,112,847	\$ 35,527,753	\$ 2,176,728

	Other Federal Grant Funds	Federal Highway Grant Fund	Mass Transit Fund	Governmental Totals
Expenditures	\$ 8,313,276	\$ 12,434,883	\$ 87,685,104	
Other Rev sources:	(3,122)	-	(27,476,647)	
Net Exp excludable	8,310,154	12,434,883	60,208,457	
Fed Grant Rev	8,310,154	12,434,883	18,030,609	
Exclusions	\$ 8,310,154	\$ 12,434,883	\$ 18,030,609	\$ 83,991,363

Enterprise Funds	Public Housing Funds	Non-PHA Asset Management Fund	Enterprise Total
Expenditures	\$ 12,776,478	\$ 2,822,565	
Non-grant Rev	(6,869,249)	(2,035,674)	
Net Grant Expnd	5,907,229	786,891	
Grant Revenues	6,122,690	221,438	
Exclusions	\$ 5,907,229	\$ 221,438	\$ 6,128,667

Note 7 The exclusion claimed for amounts received from private donors in the amount of **\$453,997** is recorded in the Civic Contribution Fund included in the Non-Major Governmental funds.

Note 8 The exclusion claimed for amounts received from state grants and contributions was recorded in the General Fund and in the Non-Federal Grant fund as follows:

	Governmental Funds
General Fund	\$ 333,393
Non-Federal Grant Fund	1,990,778
Total	<u>\$ 2,324,171</u>

CITY OF TUCSON
Notes to Annual Expenditure Limitation Report
Year Ended June 30, 2019
(Concluded)

Note 9 The exclusion claimed for quasi-external interfund transactions consist of water and garbage sales between the City's Water Utility and Environmental Services Funds to other City departments and amounts collected in the administrative service charge for services (such as payroll) provided by the General Fund to Enterprise Funds. In addition the charges for services collected by the Internal Service funds in the amount of **\$15,805,285**, which netted **\$12,266,291** to absorb **(\$3,538,994)** excess expenditures and not exempt from limitation.

	General Fund		Internal Serv Funds		Enterprise Funds
Service Charges Admin	\$ 14,097,738	\$	15,805,285	City Water Utility Charges	\$ 5,178,203
Total	<u>\$ 14,097,738</u>		(3,538,994)	City Garbage Charges	1,134,376
		\$	<u>12,266,291</u>	Total	<u>\$ 6,312,579</u>

Note 10 The following schedule presents revenues from which exclusions have been claimed for highway user revenues in governmental funds:

Highway user revenues received in FY 19 (excluding amounts for debt - Note 5)	\$ 42,339,896
Highway user revenues received in FY 79-80	(5,858,008)
Subtotal of amounts available for exclusion in FY 19	<u>36,481,888</u>
Amounts expended and excluded in FY 19	<u>36,481,888</u>
Amounts carried forward for use in future years	<u>\$ -</u>

Note 11 The exclusion claimed for contracts with other political subdivisions includes charges for services based on Mass Transit, IGA services, and Regional Transportation Authority monies. For the Water Utility Enterprise Fund, **\$3,767,412** is claimed for sewer billings services to Pima County.

Mass Transit Fund	\$ 5,499,629
IGA Services-General Fund	2,776,867
Regional Transportation Authority	35,008,324
Other Agencies	2,440,195
Total	<u>\$ 45,725,015</u>

Note 12 The exclusion claimed for **\$3,404,333** received by the City as a trustee or custodian, in the governmental funds, is made up of amounts received from individual entities and remitted to police officers for work performed while off-duty.

Note 13 The **\$12,356,067** subtraction for pension and other post employment benefit (OPEB) expense consists of changes in the net pension and OPEB liabilities, changes in deferred outflows related to pensions and OPEB, and changes in deferred inflows related to pensions and OPEB, recognized in the current year in the enterprise funds. The subtraction for pension expense in the governmental funds consists of nonemployer contributions to the Public Safety Personnel Retirement System (PSPRS) that were reported as a revenue and an offsetting expenditure in the City's governmental funds. Consequently, this expenditure of **\$2,036,108** has been subtracted on the reconciliation. The **\$12,336,120** addition for pension and OPEB contributions paid in the current year consists of the required pension and OPEB contributions from the enterprise funds.

	Enterprise Funds
Pension/OPEB Expense	\$ 12,356,067
Pension/OPEB Contribution	12,336,120
	Governmental Funds
PSPRS Expense	<u>\$ 2,036,108</u>

Note 14 The **\$1,285,014** exclusion claimed for required fees paid to the Arizona Department of Revenue is made up of fees assessed pursuant to Laws 2017, Chapter 312, SB 1531 Administration and Collections Assessment Fee and Non-Program City Assessment Fee.