MEMORANDUM

DATE: April 6, 2010

TO: Mike Letcher
City Manager

FROM: Marie Nemerguth mn
Budget and Internal Audit
Program Director

SUBJECT: Collaborative Auditing – Quarterly Analysis Report

Internal Audit has completed an analysis of the Collaborative Auditing performance measures reported by departments through the second quarter (October – December) of fiscal year (FY) 2010. The performance measures were analyzed to identify existing or corrected negative trends and the corrective actions planned or taken, as applicable. The following measures were identified for reporting and follow-up as necessary:

Police Department: Response Times (Attachment A)
The Police Department reversed a slight increase in response times that had occurred during the previous quarter and ensured that average response times remained below the target time for response levels 1, 2, and 3.

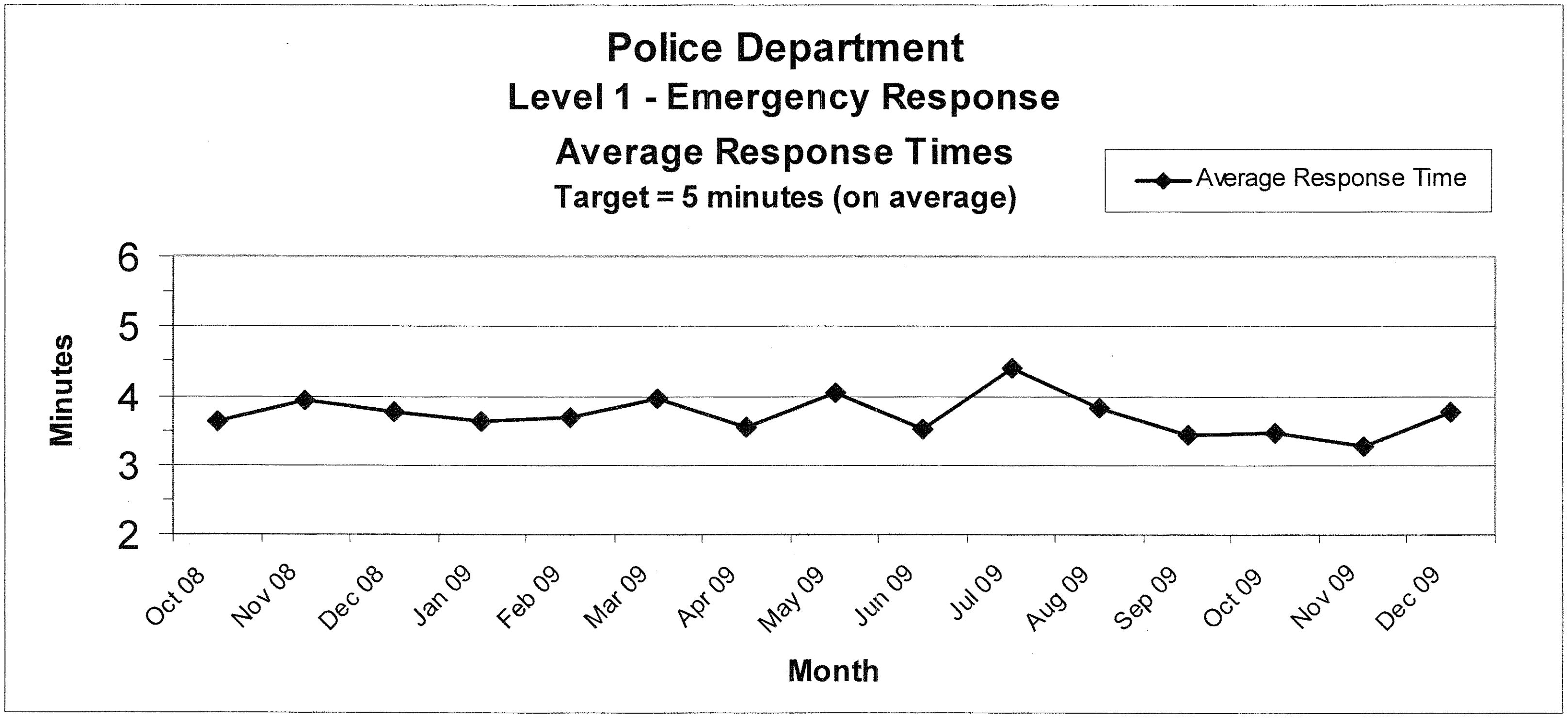
Significant improvement in Level 4 response times was noted. By the end of the second quarter, average response times had been reduced by nearly 20 minutes and were very close to achieving the target time of 60 minutes. Level 4 is the lowest priority call category for responding to crimes or matters requiring police response.

Financial Indicators: Various (Attachment B)
Charts of financial indicators related to the General Fund, Rio Nuevo, and City Golf have been incorporated into the Collaborative Auditing process. Please refer to the attached charts for a trend analysis by indicator.

MN:RK

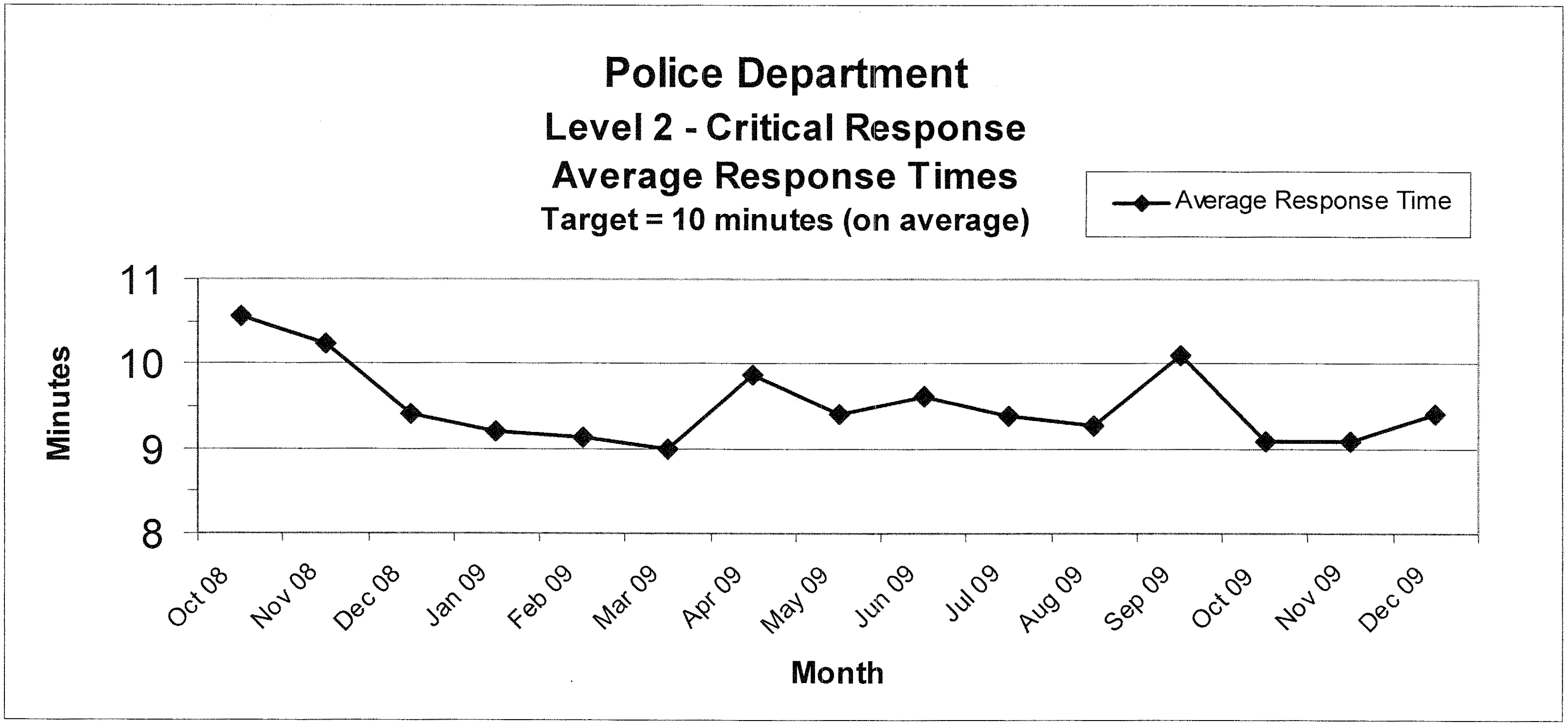
Attachments:
A – Police Department Average Response Times
B – Financial Indicators

c: Independent Audit and Performance Commission
Richard Miranda, Deputy City Manager
Sean McBride, Assistant City Manager
Roberto Villaseñor, Chief of Police
Kelly Gottschalk, Finance Director

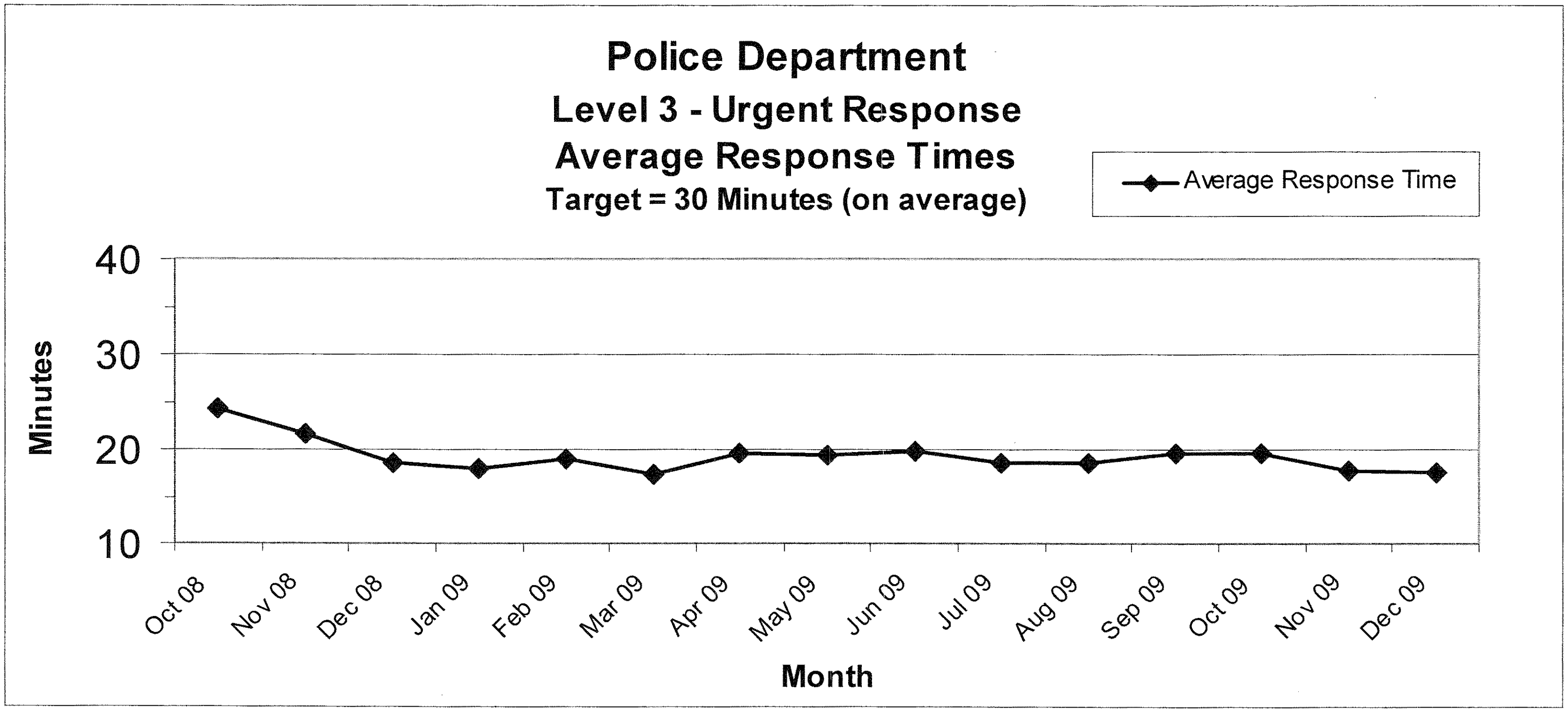


EMERGENCY RESPONSE – An incident posing an immediate threat to life where the threat is present and on-going; and/or an incident posing an immediate threat to life involving the actual use or threatened use of a weapon. The mere presence of a weapon alone, however, without any indication of use or threat of use does not support or justify a Level 1 call.

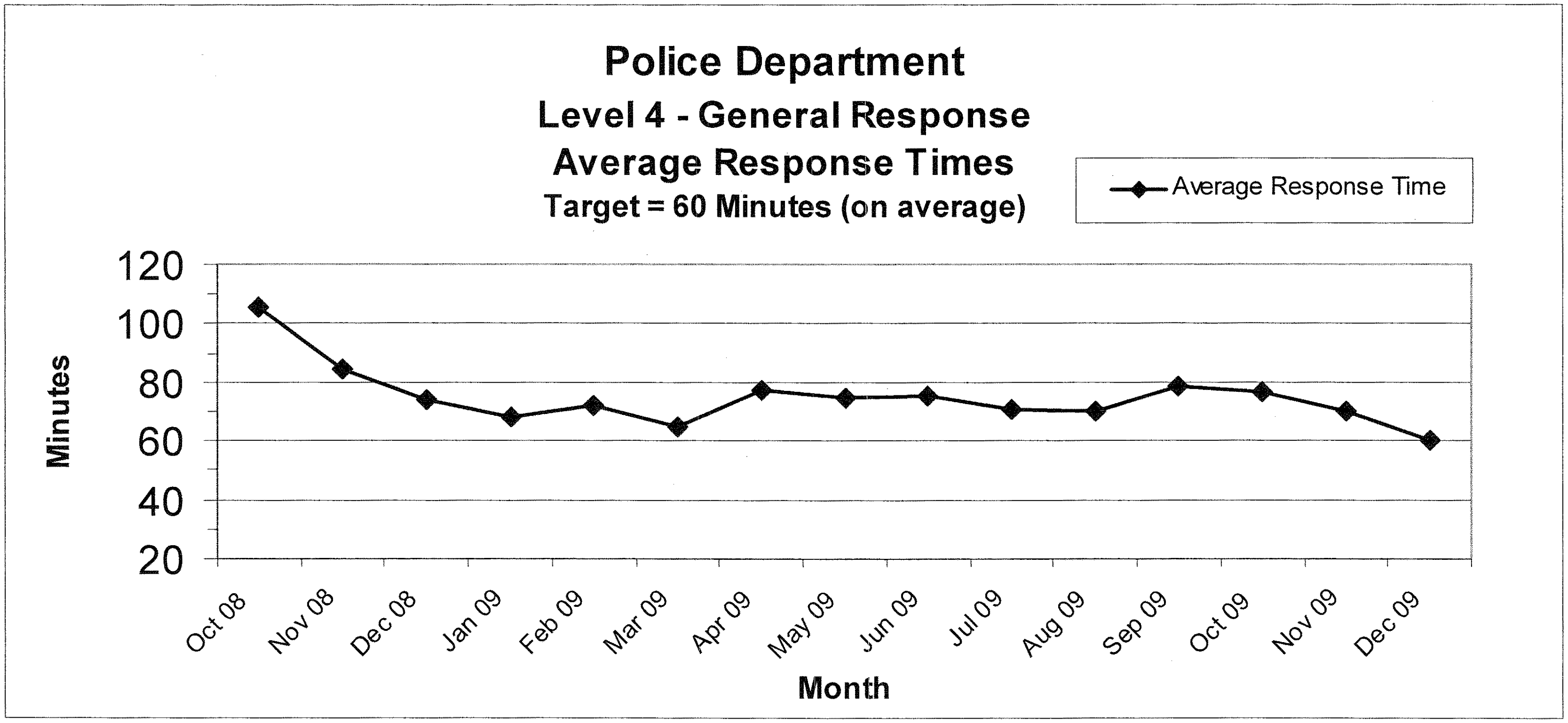
ATTACHMENT A



CRITICAL RESPONSE – An incident involving a situation of imminent danger to life or a high potential for a threat to life to develop or escalate. This incident must be in progress or have occurred within the past 5 minutes.

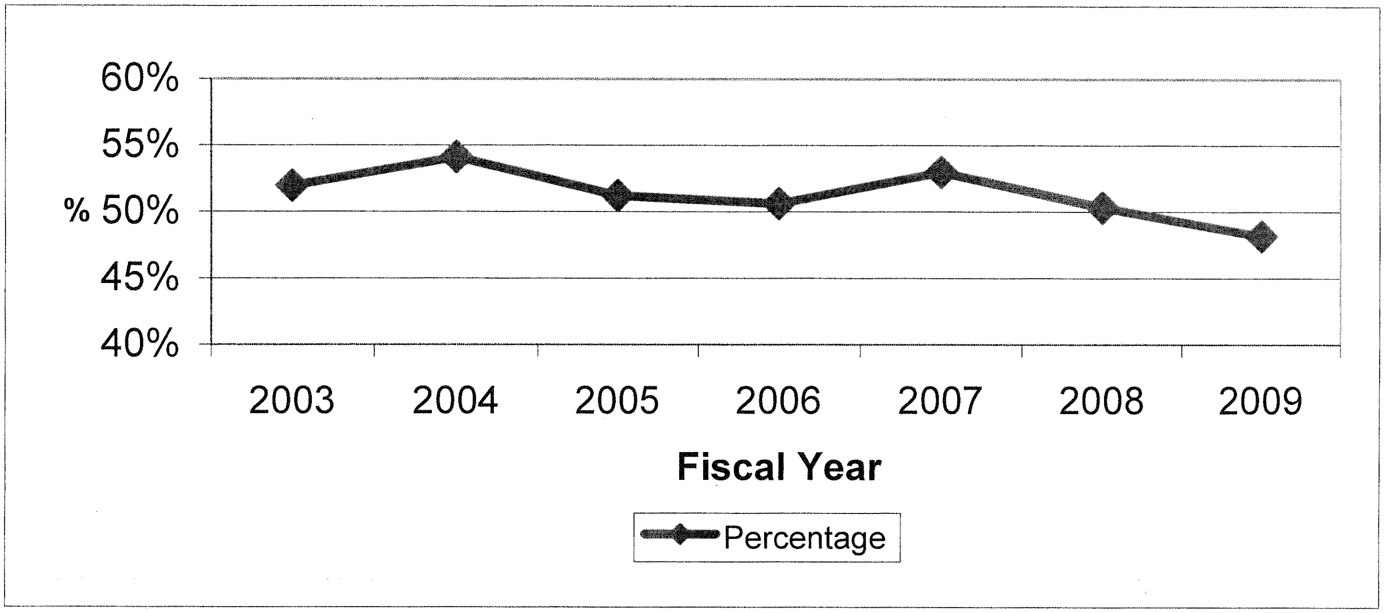


URGENT RESPONSE – Crimes against persons or significant property crimes where a rapid response is needed and the incident is in progress, has occurred within the past 10 minutes or is about to escalate to a more serious situation.



GENERAL RESPONSE – Other crimes or matters requiring police response, generally occurring more than 10 minutes prior to dispatch and having a complainant.

General Fund
Financial Indicator:
Tax Revenues to Operating Revenues



Year	Tax Revenues 000's	Operating Revenues 000's	Percentage %
2003	183,056	352,404	51.94%
2004	202,501	374,263	54.11%
2005	211,795	413,555	51.21%
2006	228,179	450,871	50.61%
2007	242,169	457,080	52.98%
2008	235,103	467,089	50.33%
2009	208,541	433,094	48.15%

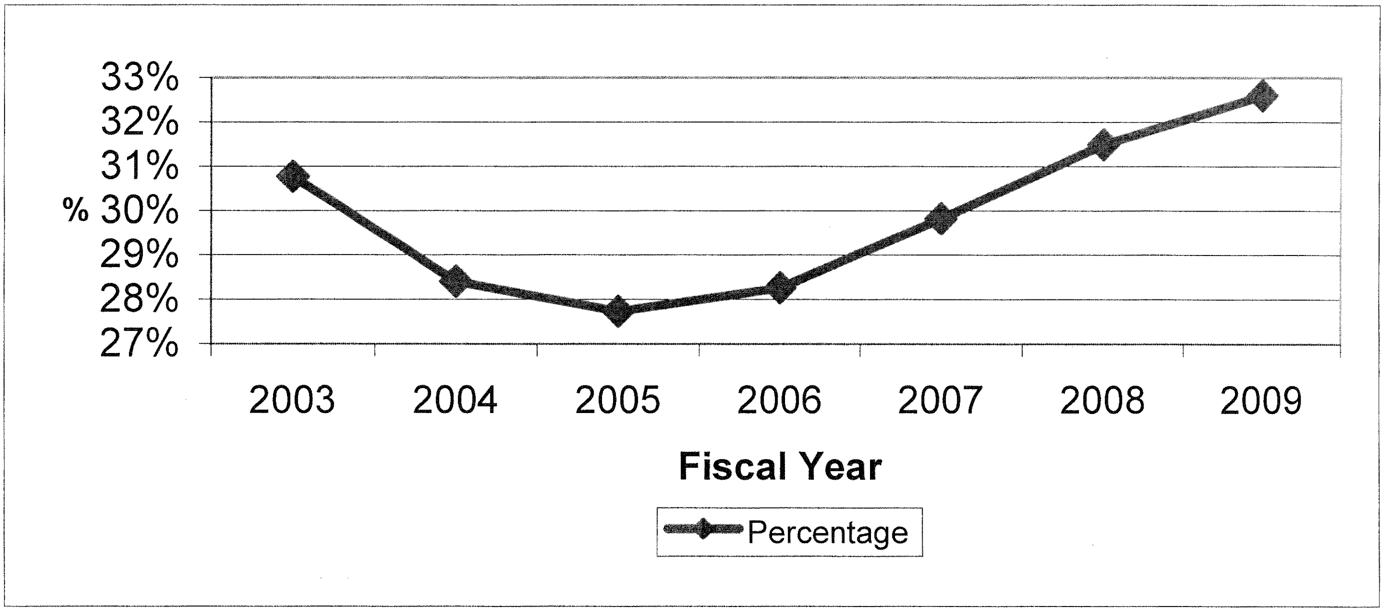
The purpose of this indicator is to assess the extent to which the City relies on tax revenues to fund its general purpose obligations. Tax revenues are highly susceptible to changes in the strength of the economy.

General Fund net operating revenues are the revenues available for operations, prior to deducting expenditures. Tax revenues are all general fund taxes collected by the City. The bulk of these taxes is city sales tax. Additional tax revenues include primary property taxes, transient occupancy (bed tax), public utility, occupational and liquor taxes.

The stable trend line shown in the graph is an indication that the City is not increasing its dependence on tax revenues. The City does rely heavily on tax revenues as part of its general revenue base. Opportunities to diversify this base and cushion the City during economic downturns should be explored.

General Fund

Financial Indicator:
State-Shared Revenues to Operating Revenues



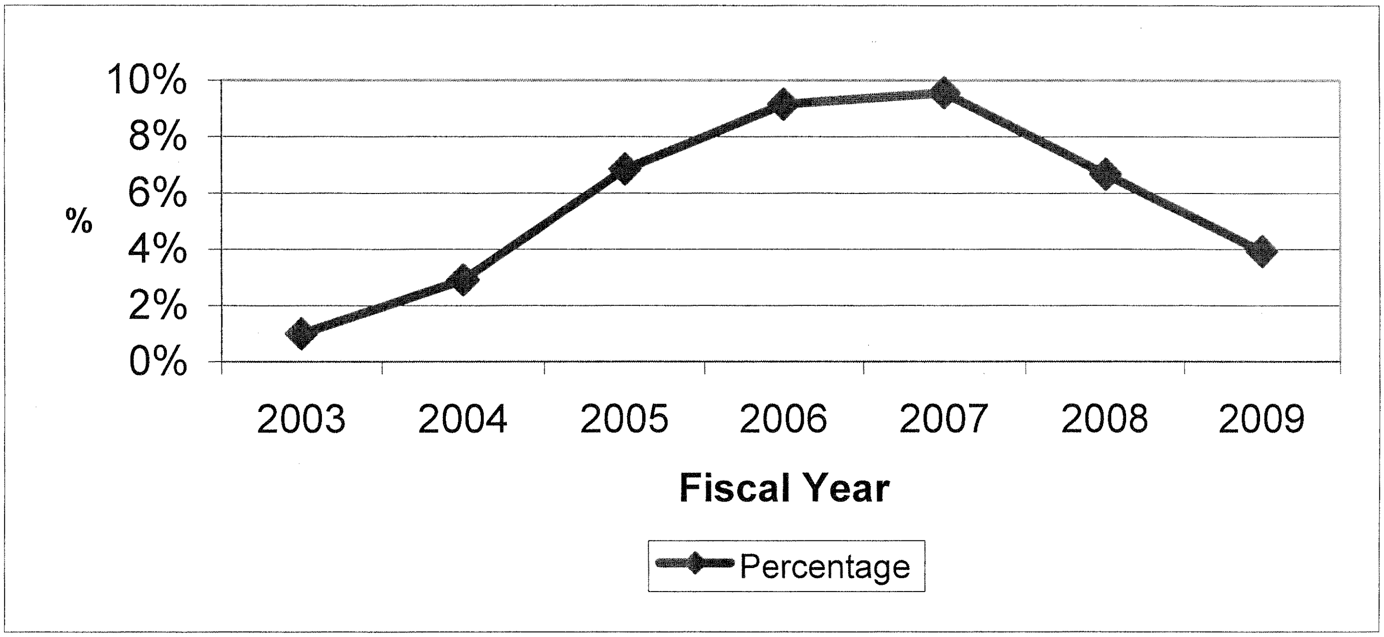
Year	State-Shared Revenues 000's	Operating Revenues 000's	Percentage %
2003	108,437	352,404	30.77%
2004	106,317	374,263	28.41%
2005	114,663	413,555	27.73%
2006	127,429	450,871	28.26%
2007	136,288	457,080	29.82%
2008	147,062	467,089	31.48%
2009	141,188	433,094	32.60%

The purpose of this indicator is to assess the extent to which the City relies on state shared revenues to fund its general obligations. State shared revenues can change based on legislative action, so an increase in the percentage indicates an increase in the dependence on a revenue stream that the City does not have direct control over. This reliance can also produce a reluctance to raise required revenues locally.

State-shared revenues include: 1) Sales Tax; 2) Auto-Lieu Taxes and 3) Income Tax. Operating revenues include all general fund revenues that fund the day-to-day operations.

The trend increase is an indication of the City's growing reliance on state-shared revenues to meet day-to-day obligations. State-shared revenues are highly responsive to changes in the economy. These revenues increase during good economic periods and decline during poor times, even though the tax rate remains unchanged.

General Fund
Financial Indicator:
Unreserved/Undesignated Fund Balance to Operating Revenues



Year	Unreserved/ Undesignated Fund Balance 000's	Operating Revenues 000's	Percentage %
2003	3,481	352,404	0.99%
2004	10,872	374,263	2.90%
2005	28,316	413,555	6.85%
2006	41,258	450,871	9.15%
2007	43,664	457,080	9.55%
2008	31,125	467,089	6.66%
2009	17,000	433,094	3.93%

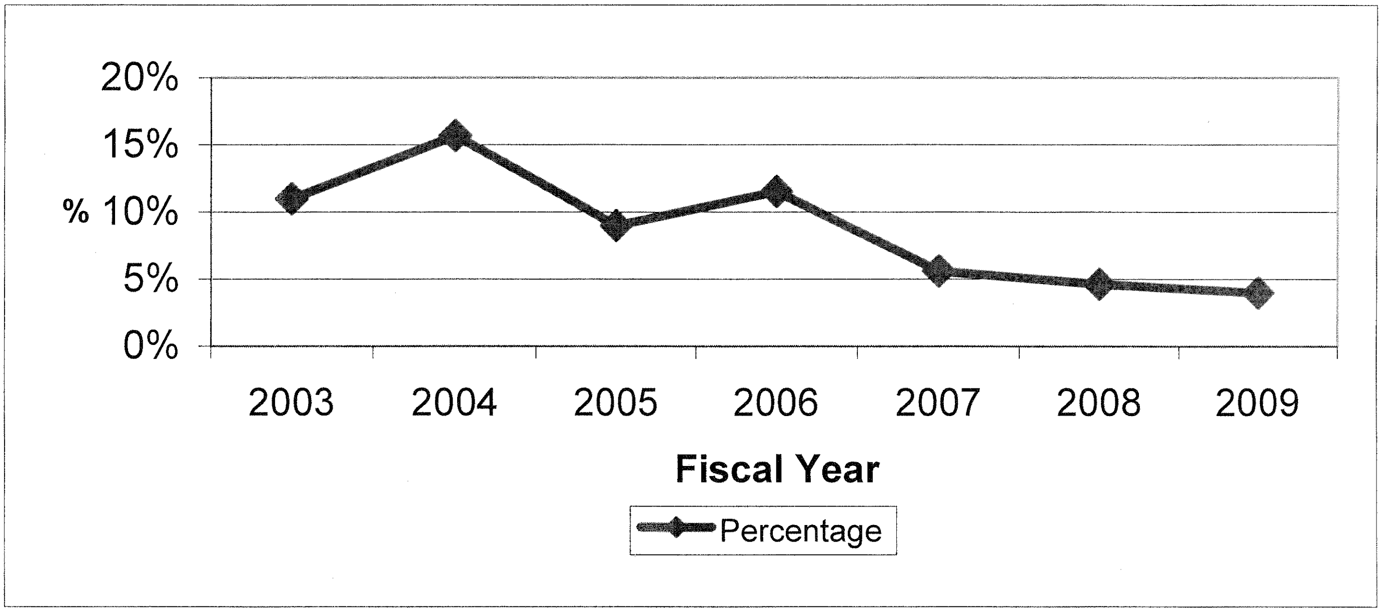
The purpose of this indicator is to evaluate the ability of the City to withstand financial emergencies. The City's financial policies state that the General Fund must maintain an unreserved and undesignated fund balance of at least 10% of the total fund expenditures.

Unreserved and undesignated fund balance is defined as the amount of fund balance that is neither legally restricted nor voluntarily designated for specific purposes. Some call this the "rainy day fund". General Fund operating revenues are the revenues available for day-to-day operations prior to deducting expenditures.

During the econimic downturn, which began in FY 2008, the City has had to fall back on using this fund balance to close our budget deficits. Decreasing the fund balance means that the City may not be able to meet a future need.

Despite the economic times, the City does have a Financial Recovery Plan to increase the unreserved and undesignated fund balance to 5.8% of expenditures by the end of FY 2013.

General Fund
Financial Indicator:
Surplus (Deficit) to Operating Revenues



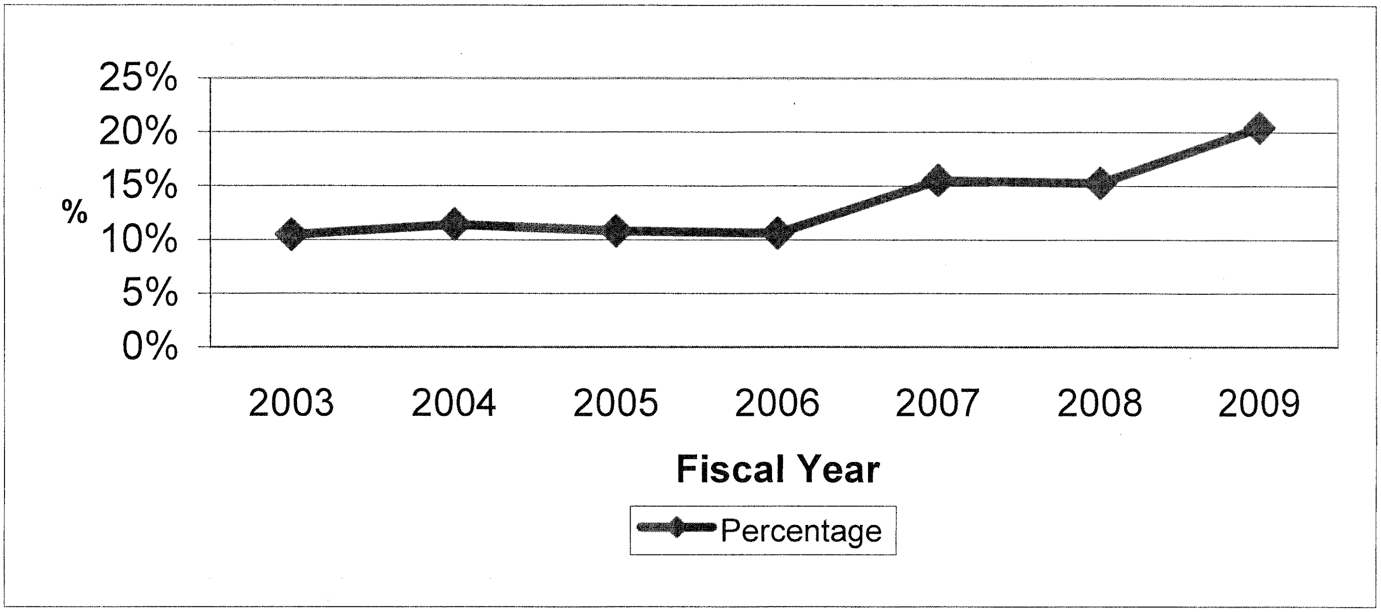
Year	(Deficit)/Surplus 000's	Operating Revenues 000's	Percentage %
2003	38,658	352,404	10.97%
2004	58,630	374,263	15.67%
2005	37,091	413,555	8.97%
2006	51,901	450,871	11.51%
2007	25,562	457,080	5.59%
2008	21,580	467,089	4.62%
2009	17,202	433,094	3.97%

The purpose of this indicator is to evaluate the City's balance between revenue structure and expenditures. A pattern of operating deficits can be one of the first signs of imbalance in the General Fund.

An operating surplus occurs when current revenues exceed current expenditures, and an operating deficit occurs when current expenditures exceed current revenues. It is a positive indicator when an operating surplus occurs. Reserves are built up through the accumulation of operating surpluses and may be created intentionally by budget decision or unintentionally because of trends in the regional or national economy.

While the City has been maintaining a positive trend in the six years shown, the operating surplus is declining due to the economic downturn. This indicates less available excess revenues for budgeting in the following fiscal year.

General Fund
Financial Indicator:
Current Liabilities to Operating Revenues



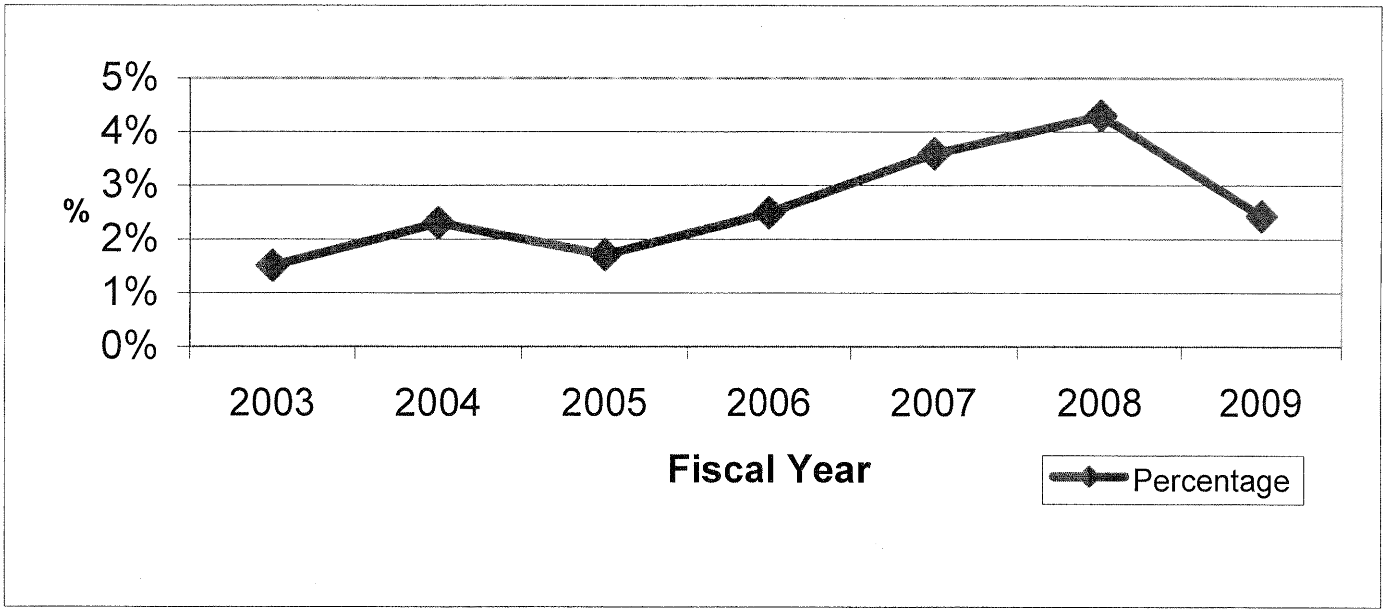
Year	Current Liabilities 000's	Operating Revenues 000's	Percentage %
2003	36,901	352,404	10.47%
2004	42,717	374,263	11.41%
2005	44,716	413,555	10.81%
2006	55,468	523,370	10.60%
2007	78,100	503,641	15.51%
2008	72,584	475,394	15.27%
2009	88,632	433,094	20.46%

The purpose of this indicator is to measure the City's ability to pay its short-term obligations in the General Fund. Current liabilities calculated as a percentage of net operating revenues measures our commitment to paying off current bills with revenues received during the year.

Current liabilities represent outstanding obligations that are due within a one year period. They do not include liabilities to be paid from restricted assets. Operating revenues are defined as all revenues other than operating transfers in and revenues restricted or mandated for specific spending purposes. Current liabilities calculated as a percentage of net operating revenues measures our commitment to paying off current bills with revenues received during the year.

The increasing trend line shown in the graph is a warning that the City is heading toward liquidity problems and may have difficulties paying obligations.

General Fund
Financial Indicator:
Debt Service to Operating Revenues



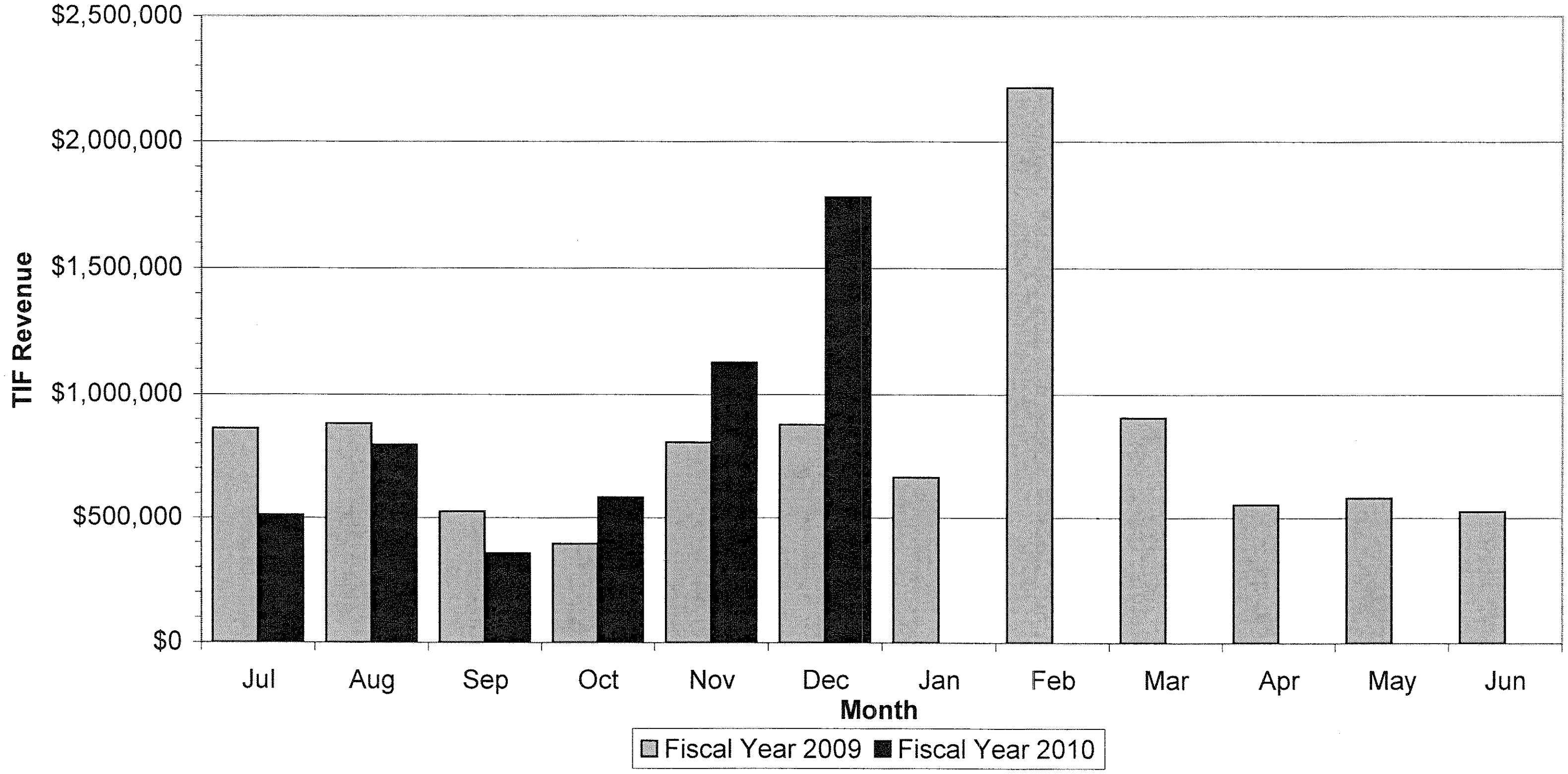
Year	Debt Service 000's	Operating Revenues 000's	Percentage %
2003	5,306	352,404	1.51%
2004	8,622	374,263	2.30%
2005	7,049	413,555	1.70%
2006	11,239	450,871	2.49%
2007	16,411	457,080	3.59%
2008	20,081	467,089	4.30%
2009	10,518	433,094	2.43%

The purpose of this indicator is to measure the City's flexibility in managing General Fund costs during times of change. As the debt service increases, it adds to the City's obligations and reduces the City's expenditure flexibility. Debt service can be a major part of the City's fixed costs and its increase may indicate excessive debt and fiscal strain.

Debt service is defined as the amount of principal and interest the City must pay each year on long-term debt plus the interest it must pay on direct short-term debt. Operating revenues include all revenues that fund day-to-day operations. The City's debt service in the General Fund includes principal and interest payments on certificates of participation (COPs) and capital leases.

Since fiscal year 2005, the level of debt service as a percent of operating revenues has been increasing in the General Fund. This increase is due to the City utilizing COPs and capital leases to finance capital assets instead of other debt obligations. For Fiscal Year 2009, the City refunded or refinanced COPs to lower debt service payments. The principal refinanced will be repaid in later years.

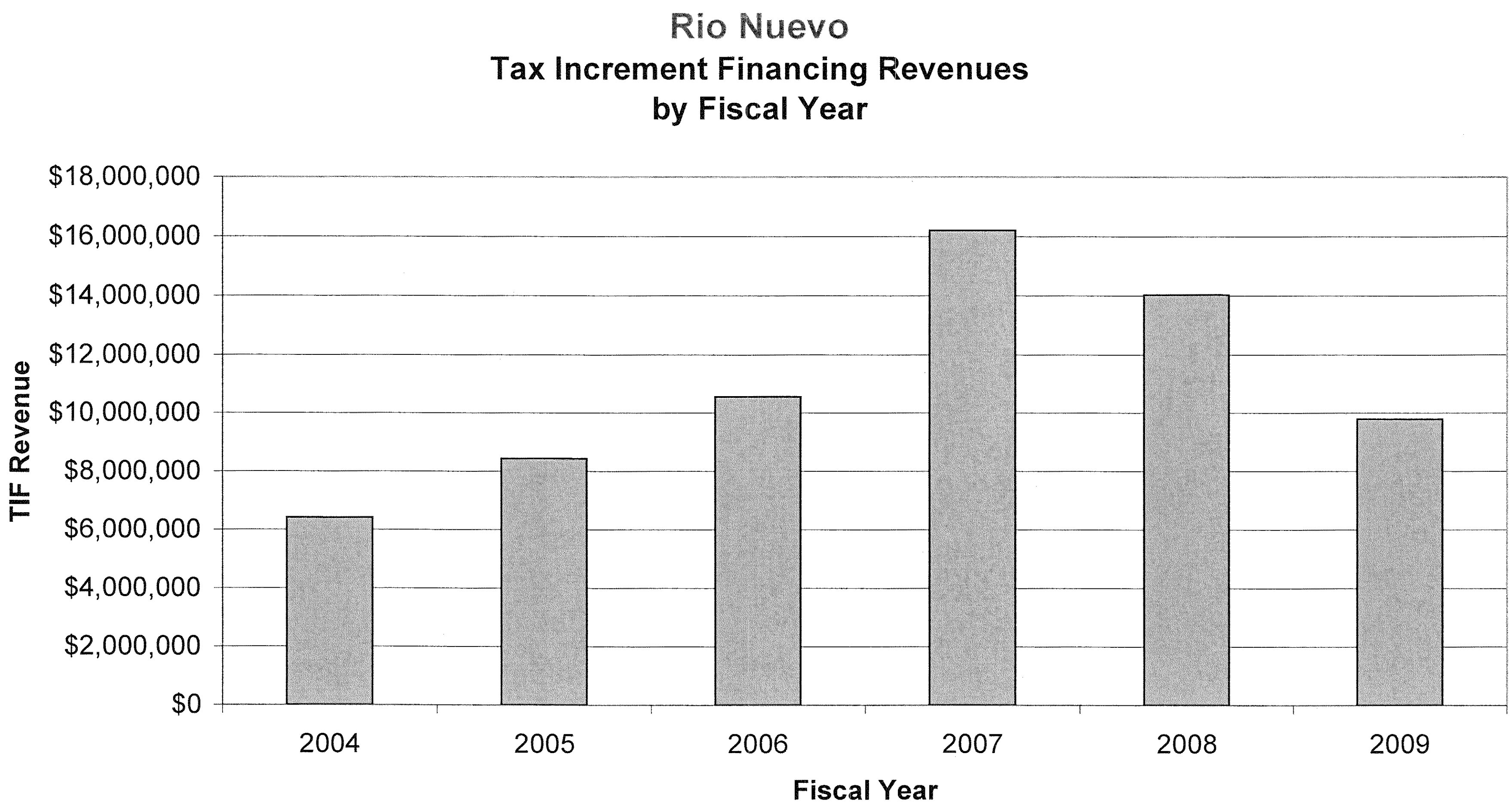
Rio Nuevo
Tax Increment Financing Revenues
Comparison of Fiscal Years 2009 and 2010



Tax Increment Financing, or TIF, is a public financing method which is used for redevelopment and community improvement projects. Voters approved the creation of the Rio Nuevo tax increment district in 1999. However, it was not until 2004 that sufficient revenue started to accumulate to support projects and planning. In 2006 the State Legislature approved a revenue extension.

The graph above shows the revenues received for fiscal year 2010 as compared to the revenues received in fiscal year 2009. The significant increase in February, 2009 is due to a large contractor catching up with their report filings. There was also a reclassification due to other businesses reporting revenues in the wrong category.

The increase to TIF revenues in November and December, 2009 is mainly do to the State of Arizona correcting taxpayer filings and positive responses due to audits of delinquent taxpayers who filed incorrectly with the State.



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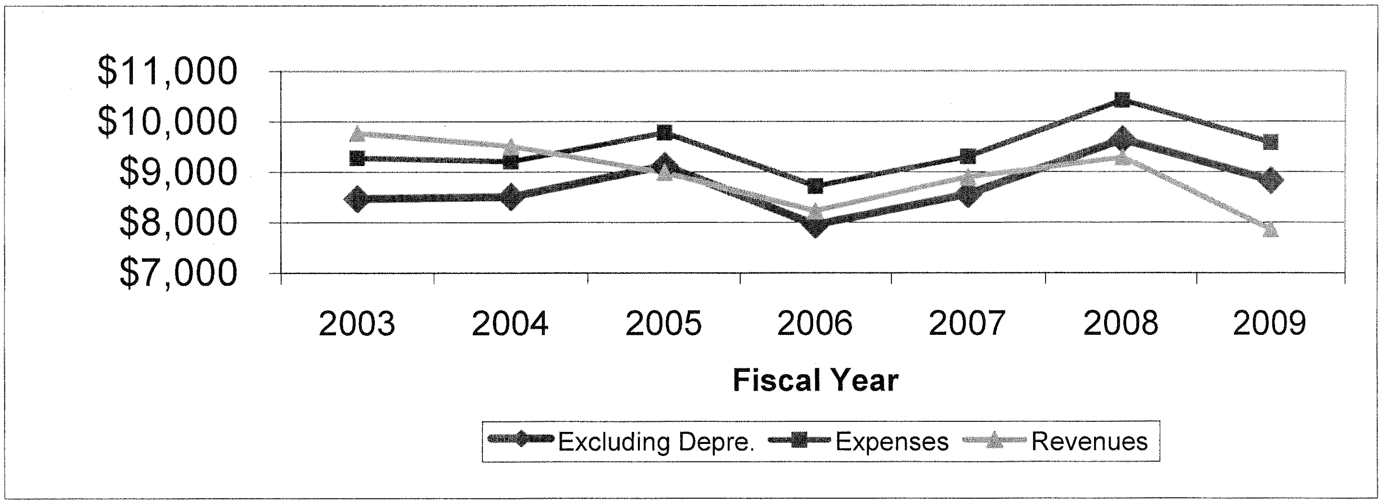
The above graph plots TIF revenues by fiscal year. The TIF revenues have been declining since the peak in Fiscal Year 2007 due to the downturn in the economy.

Tucson Golf Course
Financial Indicator:
Operating Revenues vs Operating Expenses



Fiscal Year	Operating Revenues 000's	Operating Expenses 000's	Operating Exp. Excluding Depre. 000's
2003	$9,769	$9,280	$8,466
2004	$9,514	$9,212	$8,508
2005	$8,980	$9,779	$9,120
2006	$8,231	$8,713	$7,952
2007	$8,901	$9,302	$8,554
2008	$9,285	$10,416	$9,642
2009	$7,861	$9,582	$8,829

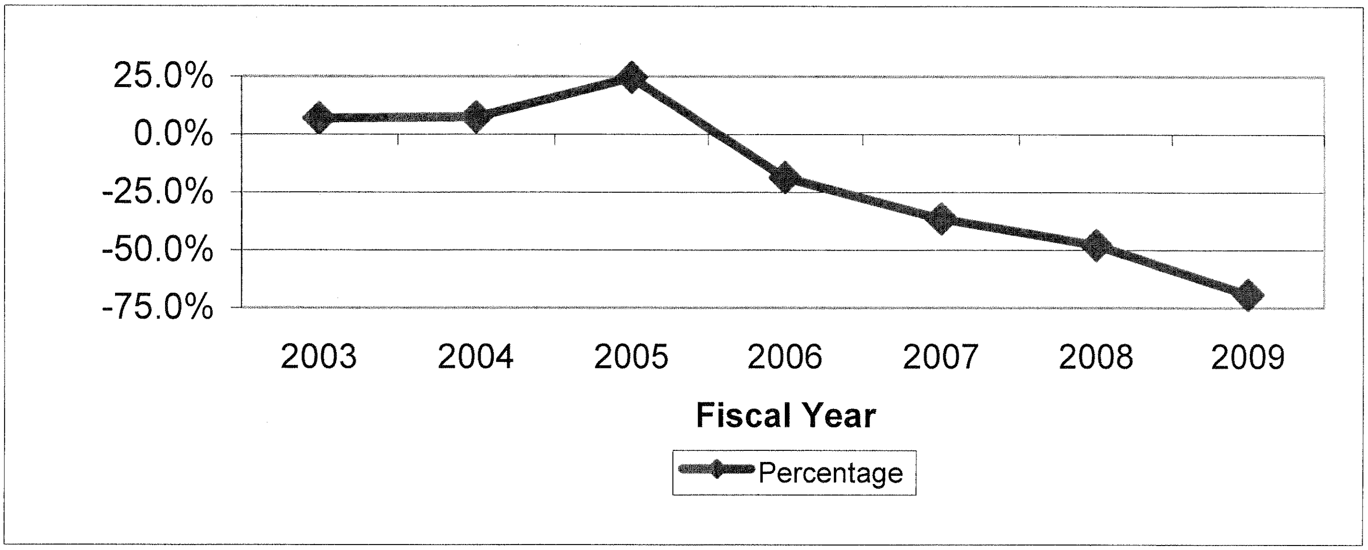
The purpose of this indicator is to evaluate whether or not the Tucson Golf Course revenues cover operating expenses.

Operating revenues include all user charges such as green fees, cart fees, retail sales from pro shops and miscellaneous fees. Operating expenses include personnel costs, utilities and maintenance of the golf courses. Expenses do not include depreciation.

The trend line indicates that operating expenses are exceeding operating revenues beginning in fiscal year 2005. Golf course closures have contributed to lower revenues during the five year period. The El Rio and Silverbell golf course have been closed for renovations at various times. Even though the courses were closed, operating expenses still existed at these facilities, incurring deficits.

The action plan toward addressing the deficit will be accomplished with a combination of expenditure decreases (e.g., non-permanent personnel reductions, rotation of one course closure each summer, and reduction in contracted building maintenance) and revenue increases (e.g., increased green fees at specific courses during peak operating seasons and minimal increase for cart rentals and range balls at all courses.)

Tucson Golf Course
Financial Indicator:
Unrestricted Cash to Operating Revenues



Fiscal Year	Unrestricted Cash 000's	Operating Revenues 000's	Percentage %
2003	$671	$9,769	6.9%
2004	$718	$9,514	7.5%
2005	$2,211	$8,980	24.6%
2006	($1,536)	$8,231	-18.7%
2007	($3,250)	$8,901	-36.5%
2008	($4,450)	$9,285	-47.9%
2009	($5,448)	$7,861	-69.3%

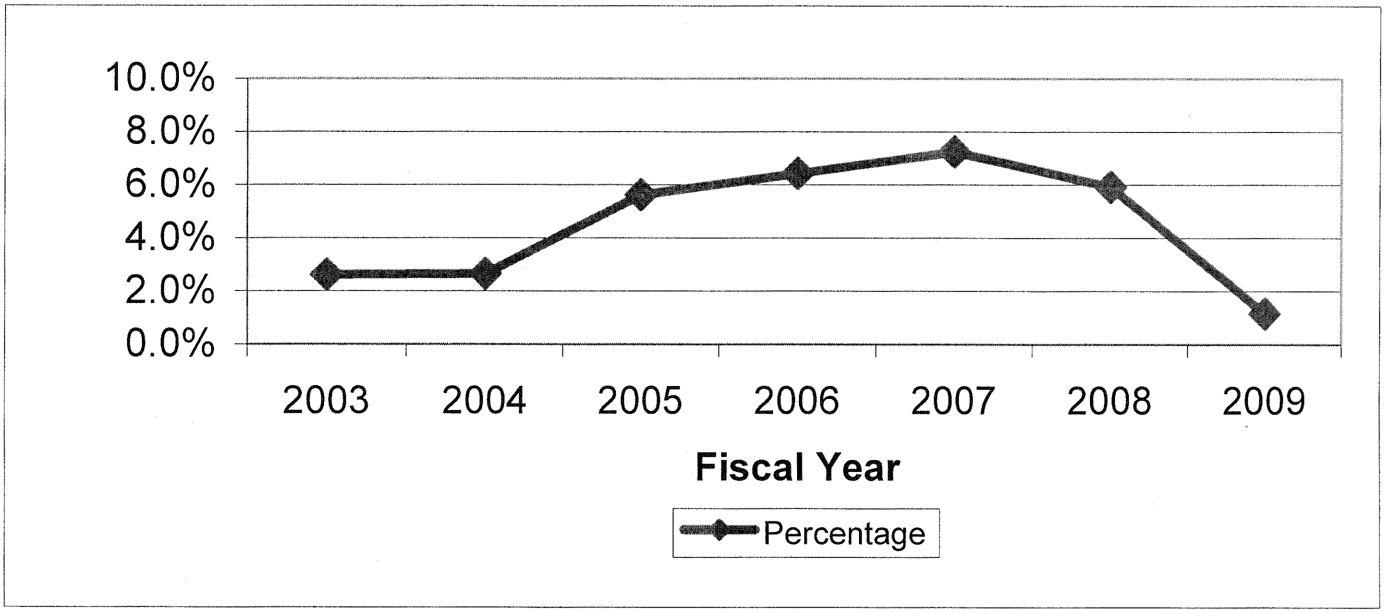
The purpose of this indicator is to measure the ability to meet short-term obligations and withstand financial emergencies.

Unrestricted cash is considered to be a liquid asset that is readily available to meet short-term obligations. Operating revenues include all user fees such as green fees, cart fees, retail sales from pro shops and miscellaneous fees.

The graph shows volatile operating cash positions. The spike in the cash for fiscal year 2005 is due to the sale of land and the drop in cash position is primarily due to golf course improvements. Since Tucson Golf does not have a strong operating position, the General Fund will most likely have to subsidize the enterprise fund in the event of a financial emergency.

The City does have an action plan toward addressing the financial issues with the Golf Course fund. The plan will be accomplished with a combination of expenditure decreases and revenue increases. Cash flows will be improved by ensuring that the fund expends less than the revenue received.

Tucson Golf Course
Financial Indicator:
Percentage of Debt Service to Operating Revenues



Fiscal Year	Debt Service Payments 000's	Operating Revenues 000's	Percentage %
2003	$243	$9,280	2.6%
2004	$244	$9,212	2.6%
2005	$549	$9,779	5.6%
2006	$560	$8,713	6.4%
2007	$673	$9,302	7.2%
2008	$549	$9,285	5.9%
2009	$92	$7,861	1.2%

The purpose of this indicator is to assess the ability to pay debt service and measure the percentage of revenues tied to nondiscretionary costs. Increase in debt service reduces expenditure flexibility and may increase fiscal strain.

Debt service is the amount of principal and interest that must be paid each year on long-term debt. For Tucson Golf, debt service is paid on Certificates of Participation (COPs). Operating revenues include all user charges such as green fees, cart fees, retail sales from pro shops and miscellaneous fees.

The percentage of debt service to operating revenues was increasing until Fiscal Year 2007. An increasing trend line is an indication of a possible inability for the fund to use revenues for operations. In Fiscal Year 2008 the City took action to mitigate the impact that the debt had on the operations of the fund. The COPs outstanding debt ($3,614,000) was refunded or refinanced with proceeds received from issuing lower-cost debt obligations. Interest rates from the refunding range between 3.00% to 5.25%.