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City Budget 101

***BOND PROJECT ADVISORY COMMITTEE
November 20, 2013***



How is Government different from the Private Sector?

PRIVATE SECTOR

- Exists to enhance owner's wealth
- Are free to provide only those goods and services they feel will enhance their profits
- Harmony in purpose, make a **PROFIT**
- Are **NOT** restricted to use resources in certain areas of their business
- Budgets are used for **INTERNAL** purposes and are **NOT** a force of law

GOVERNMENT

- Exist to provide goods and services to their constituents
- Are required by law to provide specific services
- Different agendas and different politics
- **Financial resources have restrictions**
- **Budgets are used BOTH internally and externally and ARE a force of law**



Users of Financial Information

PRIVATE SECTOR

- Shareholders
- Securities Exchange Commission
- Lending Institutions
- Internal Management

GOVERNMENT

- Taxpayers
- Bond Rating Agencies
- Investors
- Grantors
- Political Groups
- Donors



Objectives of Financial Reporting

- Fulfill government's duty to be publicly accountable to constituents
- Assess level of services provided
- Assess financial position
- Disclose restrictions and risk potential from loss of revenue sources
- Evaluate operating results for the year



The Budget

- Budgets are used internally and externally
 - Provides a financial plan for government officials, management, and taxpayers
- Is a force of law
- Is a means of establishing policy
 - Accomplished through the allocation of resources
 - Instrument of translating community goals into government programs
 - Defines how departments may spend their appropriations



The Budget

- Defines the specific period for appropriations
- Revenues are classified by category
- Revenues may be restricted or unrestricted



State Legal Requirements

- On or before the third Monday in July of each fiscal year, the Mayor and Council must adopt a tentative budget
- Once this tentative budget has been adopted, the expenditures may not be increased upon final adoption
- After the tentative budget adoption, it must be published once a week for at least two consecutive weeks



State Legal Requirements

- Mayor and Council must adopt the final budget for the fiscal year by a roll call vote at a special meeting
- The adopted budget becomes the amount proposed for expenditure in the upcoming fiscal year
- Once adopted, no expenditures shall be made for a purpose not included in the budget and no expenditures shall be made in excess of the amounts specified for each purpose



State Legal Requirements

- Limit on the City's legal budget capacity
 - Mayor and Council cannot authorize expenditures of local revenues in excess of the expenditure limitation determined annually by the State of Arizona's Economic Estimates commission
- Property tax levy limitation system
 - Primary Property Tax Levy
 - The levy is limited to an increase of 2% over the previous year's maximum allowable primary levy plus an increased dollar amount due to a net gain in property not taxed the previous year
 - Secondary Property Tax Levy
 - May be levied in an amount to make necessary debt service payments on general obligation debt



City Charter Legal Requirements

- The fiscal year begins the first day of July of each year
- Property Tax Levy Limitation
 - Sets an upper property tax limit of \$1.75 per \$100 assessed value
 - City cannot levy a combined primary and secondary property tax that exceeds \$1.75
- The City Manager presents a recommended budget due on or before the first Monday in May of each year
- Public hearings will be held on the tentative adopted budget and the property tax rates before final adoption



Our Ethical Obligation

Manage critical public resources responsibly through budget development, balancing, and monitoring





For financial reporting purposes the City is not treated as one large organization. Instead, it is viewed as a collection of accounting units known as “funds.”



What is a Fund?

- A self contained accounting entity with its own asset, liability, revenue, expenditure or expense and fund balance or other equity accounts.
- The City of Tucson has approximately 30 funds reported in the budget and the financial statements (Comprehensive Annual Financial Report)



Fund Types

GOVERNMENTAL FUNDS

- General Fund
- Special Revenue Fund
- Capital Project Fund
- Debt Service Fund
- Permanent Fund

PROPRIETARY FUNDS

- Enterprise Funds
- Internal Service Funds

FIDUCIARY FUNDS

- Agency Funds
- Pension Funds
- Investment Trust Funds
- Private Purpose Trust Funds



How is a budget prepared?

- Estimate revenues
- Set priorities for City spending
- Develop estimates of expenses
- Proposed budget is presented to Mayor and Council

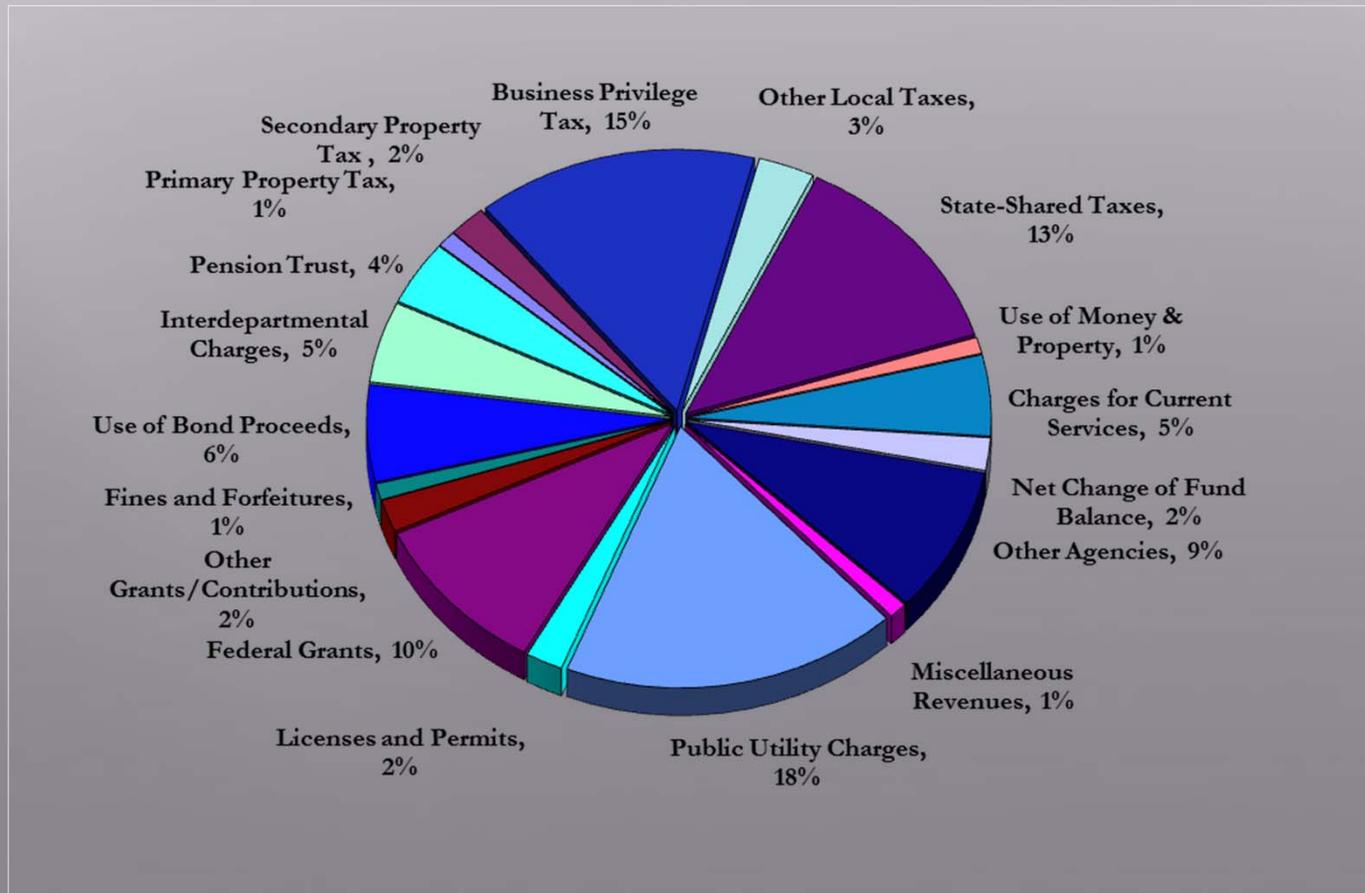


Arizona Local Government

- Funding (traditional revenue sources for cities and towns)
 - Locally imposed taxes such as property or sales taxes
 - A percentage (%) of state-imposed taxes shared with municipalities (sales, income, vehicle license)
 - Service fees, for example charges for refuse collection, water, or building permits
 - Fines and Forfeitures



City of Tucson Fiscal Year 2014 Funding Sources \$1.272 billion



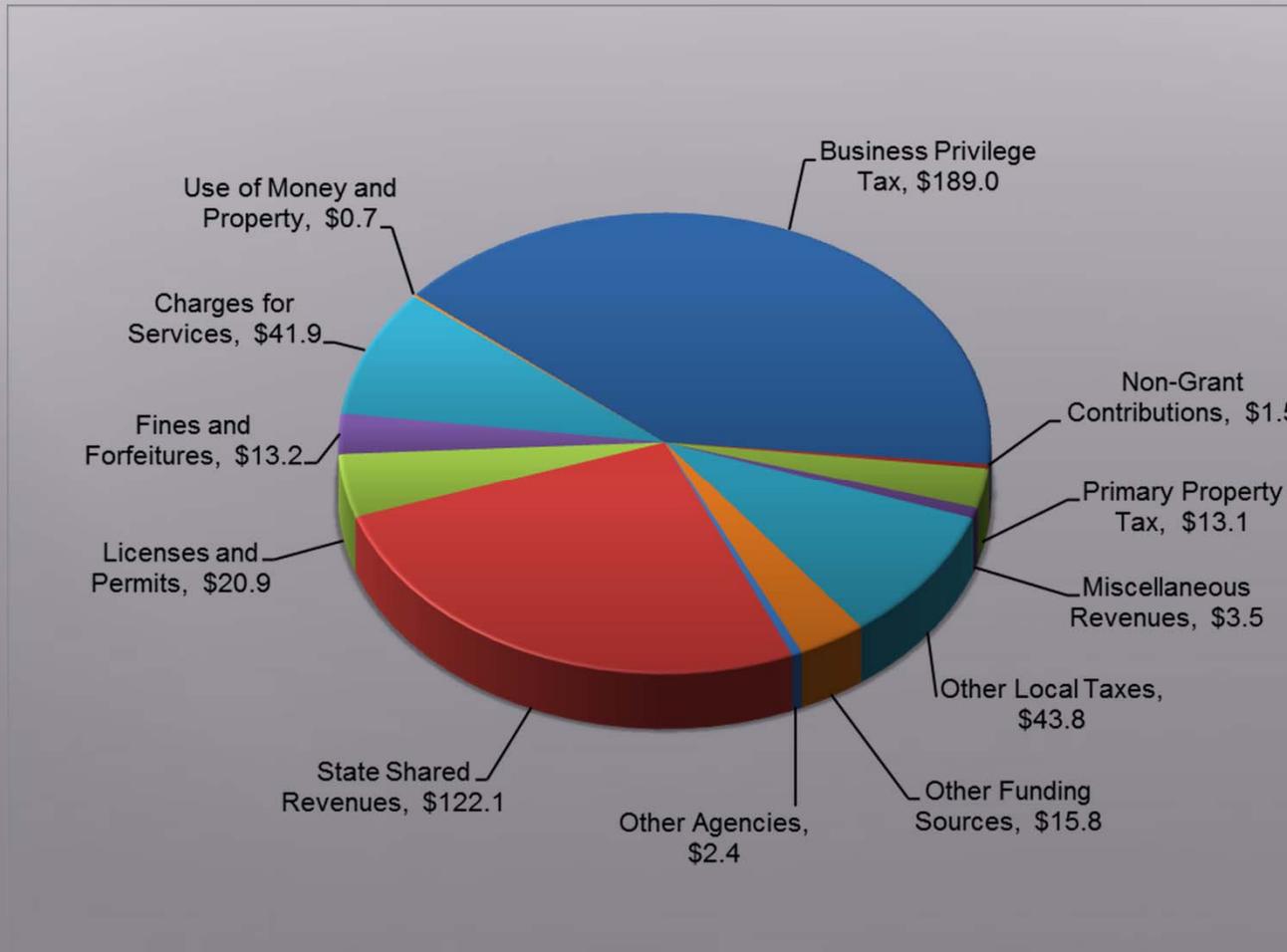


General Fund Major Revenues

- Business Privilege Tax
- State Shared Revenue
 - State Income Tax
 - State Sales Tax
 - Auto Lieu Tax
- Public Utility Tax
- Primary Property Tax
- Charges for Services



Fiscal Year 2014 General Fund Revenues \$467.9 million



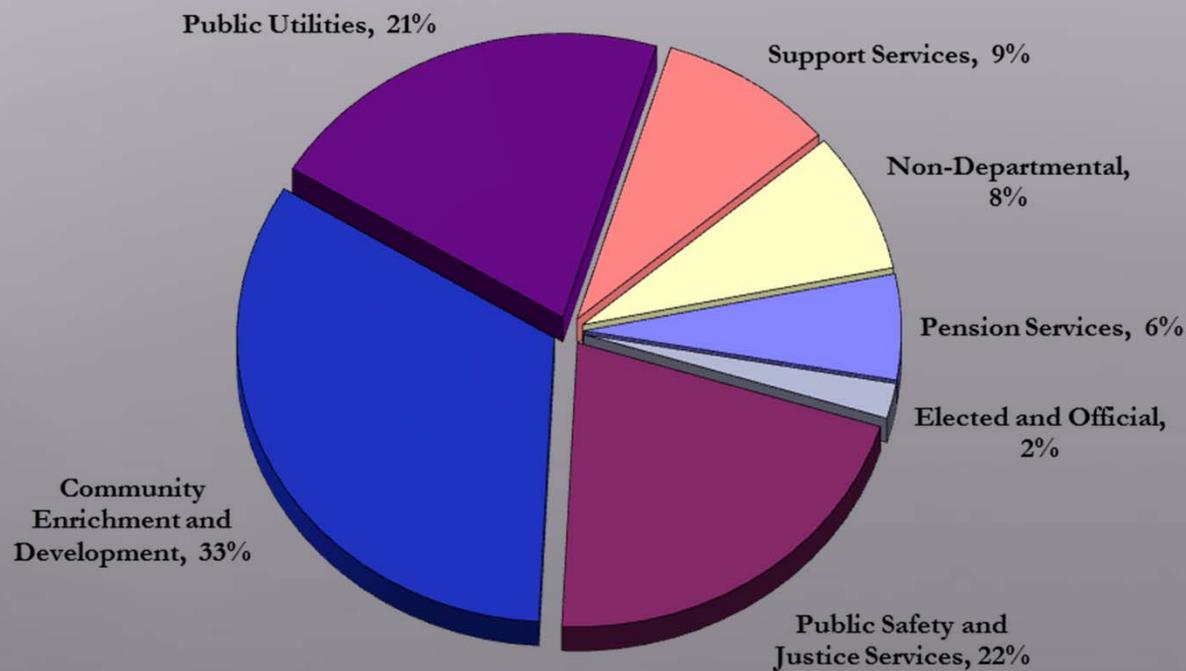


Fiscal Year 2014 Expenditures \$1.272 billion

- Elected and Official \$24.6 million
- Public Safety and Justice Services \$273.0 million
- Community Enrichment and Development \$418.4 million
- Public Utilities \$272.4 million
- Support Services \$109.4 million
- Non-Departmental \$104.2 million
- Pension Services \$70.0 million

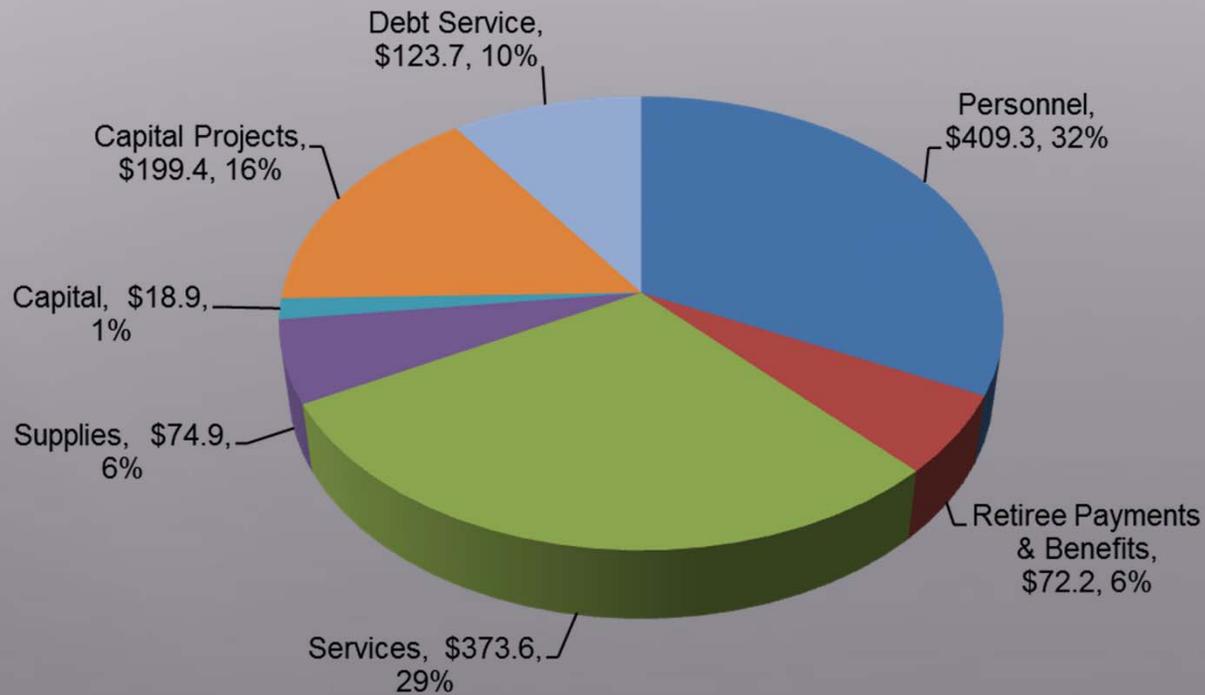


Fiscal Year 2014 City of Tucson Expenditures by Function \$1.272 billion



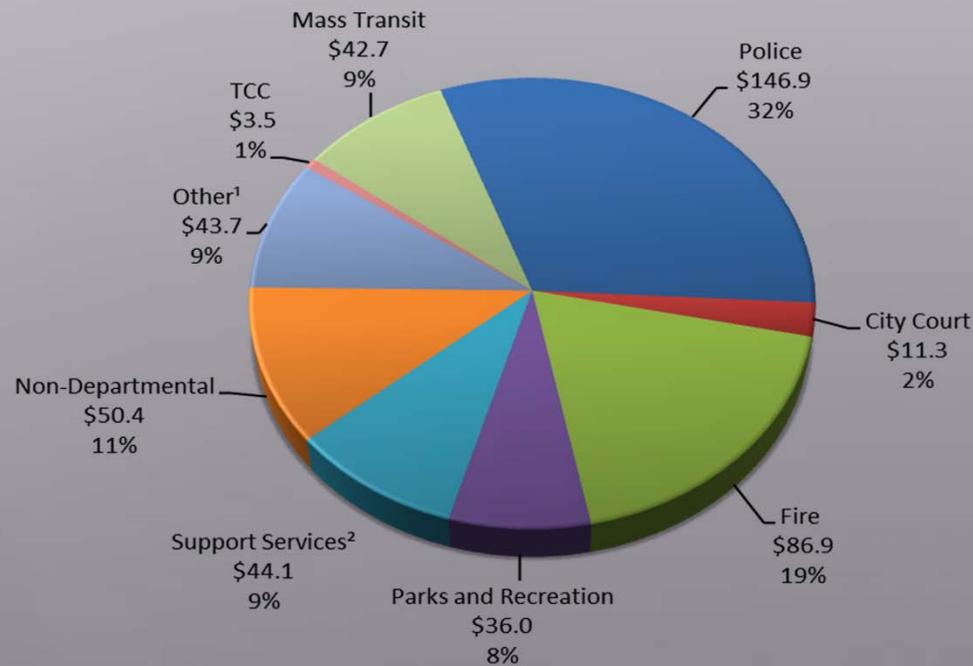


Fiscal Year 2014 City of Tucson Expenditures by Type \$1.272 billion





Fiscal Year 2014 General Fund Expenditures \$467.9 million

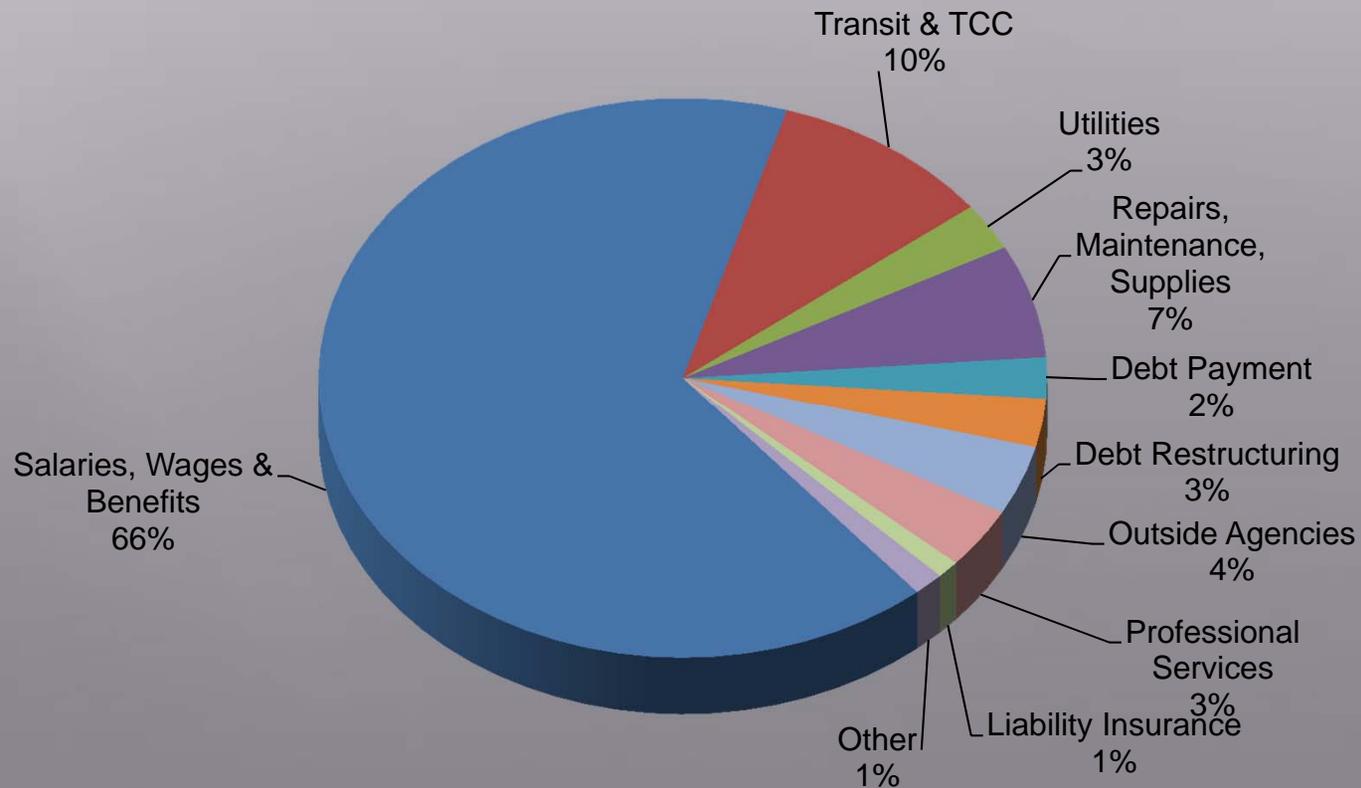


¹Mayor and Council, City Clerk, City Manager's Office, City Attorney, Equal Opportunity Programs and Independent Police Review, General Services, Housing and Community Development, Public Defender, Planning and Development Services, and Transportation.

²Budget and Internal Audit, Finance, Human Resources, Information Technology, and Procurement.



Fiscal Year 2014 General Fund Expenditures by Type \$467.9 million





Ongoing and Future Fiscal Challenges for the City

- Continued annual employee benefit cost increases and potential adjustments to compensation plan
- Adequate funding to address aging infrastructure, replace old vehicles and equipment, invest in technology
- Unforeseen impact of Federal and State legislation
- Fund balance deficits (HURF, self-insurance, golf)
- Public safety federal grants expiring in FY 2015
- Transit system operating costs (including SunLink)



Opportunities to Strengthen City's Financial Position

- Renewed focus on economic development
- Annexation as high priority; makes sense from an economic and municipal service perspective
- Improvement of transportation corridors will incentivize property revitalization and contribute to City's tax base
- Further development and utilization of Five-Year Financial Model will strategically improve decision making to facilitate responsible management and dedication of future revenue growth



The goal is that the City provides services it can afford with cost structures and business practices that are prudent for the long-term.



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Questions?