

FINANCIAL POLICIES and PRACTICES

In addition to legal requirements set by State law and the City Charter, the Mayor and Council adopted Comprehensive Financial Policies as recommended by the Government Finance Officers Association (GFOA) in December 2012 and approved a revision to the Policies in November 2014. These policies establish guidelines for the City's overall fiscal planning and management and are intended to foster and support the continued financial strength and stability of the City as reflected in its financial goals. Following these principles will enhance the City's financial health as well as its image and credibility with its citizens', the public in general, bond rating agencies, and investors. It will protect the Council's policy-making ability by ensuring important policy decisions are not controlled by financial problems or emergencies.

The Comprehensive Financial Policies are available in their entirety on the City Finance Department's website at https://www.tucsonaz.gov/files/finance/Comprehensive_Financial_Policies_Nov_2014.pdf.

Balanced Budget

The city shall adopt a balanced budget so expenditures approved for City purposes will not exceed the estimate of income expected from all sources, including available balances from prior years. This policy applies to expenditures and revenues within each fund such that each fund is individually balanced. Furthermore, one-time funding sources should only be used for one-time expenditures to avoid a future imbalance caused by funding recurring expenditures with one-time revenues or balances from prior years.

Pursuant to the adopted Policies, the City of Tucson has adopted a structurally balanced budget and considered the long-term impact on the City's financial health. The City will continue to maintain balanced operating budgets and reduce liabilities as quickly as possible.

Operating Management Policies

- Department directors are expected to manage their areas with the overall financial health of the City in mind and to look for effective and efficient ways to deliver quality services to our citizens while meeting the goals of the City Council.
- All personnel requests must be fully justified to show they will either meet new program purposes or maintain or enhance service delivery.
- Revenue projections will be based on historic trends by developing base lines for ongoing types of revenues. Conservative but realistic revenue projections will be prepared to assess the limits of budget appropriation.
- User fees and charges, which are approved by the City Council, will be periodically analyzed and updated to ensure sufficient cost recovery.
- Development fees will be reviewed each year and adjusted if necessary.
- Each department will create performance measurements to make sure the goals and objectives of the department are obtained in an efficient and effective manner.
- Investments of cash funds will be maintained in accordance with the City Charter and State Statutes.
- The City will pursue outstanding collections through revenue collectors and perform audits on businesses to ensure compliance with the State and City Tax Code.

Capital Management Policy

The purpose of the Capital Improvement Program (CIP) is to systematically plan, schedule, and finance capital projects to ensure cost-effectiveness as well as conformance to established policies.

- The City will develop, maintain, and revise when necessary a continuing CIP.
- The CIP must include a list of proposed capital improvements with cost estimates, funding sources, time schedules for each improvement, and estimated operating and maintenance costs.
- The CIP will cover a five-year planning horizon, identifying infrastructure and facility projects along with the funding sources available for projected expenditures.

Revenue Diversification

The City cannot meet the growing demand for services without diversifying its revenue base. Although the State places certain restrictions on raising revenues, restrictions due to the City Charter can be lifted if approved by the voters. The City must continue in its efforts to expand revenues such as fees for services, and to remove limitations set by the City Charter where feasible.

General Accounting Policies

- The City complies with Generally Accepted Accounting Principles (GAAP) and Governmental Accounting Standards Board (GASB) statements in accounting for and presenting financial information.
- The modified accrual basis of accounting is used for all governmental fund types, while other fund types, including enterprise funds, comply with the full accrual basis of accounting.
- An annual audit is performed by an independent public accounting firm. The audit opinion is included in the City's Comprehensive Annual Financial Reports (CAFR).
- The City's CAFR will be submitted to the GFOA Certification of Achievement for Excellence in Financial Reporting Program.
- Financial systems will be maintained to monitor revenues and expenditures.

Budgetary Policies

Arizona Law Title 42 Arizona Revised Statutes (ARS) requires the City Council to annually adopt a balanced budget by purpose of public expense. The City budgets revenues and expenditures on the basis of a fiscal year which begins on July 1 and ends on the following June 30.

- The budget will be prepared using the best practices and procedures set out by the GFOA and the GASB.
- The budget will be prepared in accordance with the policies and priorities of the Mayor and Council, including the City's Comprehensive Financial Policies and approved strategic plan.
- The budget will reflect the needs being met, services provided, resources used, and sources of funds.
- Annually, the Mayor and Council is to adopt a balanced budget on or before the third Monday in June preceding the beginning of the fiscal year, which sets out that year's revenues and appropriations for each program and item of expenditures.
- The City will adopt a balanced budget without using non-recurring funding sources to defray recurring expenditures.
- Consistent with the annual budget process, a five-year capital improvement program will be approved.
- The adopted annual budget is the basis for the implementation, control, and management of that year's programs and use of funds.
- The City's budget will be submitted to the GFOA Distinguished Budget Presentation Program.

Fund Balance Policy

An important component of good fiscal practice for any organization is to have a policy on the amount of reserves to be maintained, the purposes for which their use is allowed, and the manner in which reserves are restored after use. Fund balance is an important indicator of the City's financial position.

Fund Balance is comprised of Non-spendable, Restricted, Committed, Assigned, or Unassigned components. This policy refers to unrestricted fund balance which would include the latter three fund balance components: Committed, Assigned, or Unassigned.

The City of Tucson's General Fund unrestricted fund balances will be maintained to provide the City with sufficient working capital and a comfortable margin of safety to address emergencies and unexpected declines in revenue without borrowing. This is needed to maintain the City's creditworthiness and to adequately provide for economic and legislative uncertainties, cash flow needs, and contingencies.

Committed Fund Balance

- Mayor and Council action is required to “commit” and “un-commit” funds for a specific purpose.
- The City will maintain a stabilization fund or “rainy day fund” as a committed fund balance in the General Fund of 10% of General Fund revenues. The City is currently not in conformity with this goal but will strive to achieve it within five years.
- The stabilization fund may only be used if specific action is taken by Mayor and Council after the unassigned/contingency fund balance is depleted. The stabilization fund will be funded from balances having remained unspent in assigned fund balance after one fiscal year.
- In the event the stabilization fund must be used to provide for temporary funding, the City must restore it to the ten percent level over a period not to exceed five fiscal years following the fiscal year in which the event occurred. If the depletion of the stabilization fund was a result of an ongoing economic downturn, the City’s goal is to restore the fund balance within five years of revenue stabilization.

Assigned Fund Balance

- The Business Service Director will approve any designation to “assigned” fund balance as deemed appropriate for potential future needs. Typically, the year-end assigned fund balance represents those fund balance monies budgeted for use in the following fiscal year or for known expenditures in the future.
- If fund balance is assigned, Mayor and Council will be informed within 180 days after the June 30th fiscal year-end. We inform Mayor and Council of this during the budget process.

Unassigned Fund Balance

- A target of a minimum of 7% of General Fund revenues will be “unassigned/contingency”, with the intention to provide additional stability to the General Fund recognizing the cyclical nature of the economy and the volatility of the major revenue sources of the City.
- Funds in excess of the seven percent target will be retained in the unassigned General Fund balance and may be considered to supplement “pay as you go” capital outlay expenditures or may be used to prepay existing City debt.
- These funds may not be used to establish or support costs that are recurring in nature.

Investment Policy

The Tucson City Charter and State Statutes authorize the City to invest in obligations of the U.S. government, its agencies and instrumentalities, money market funds consisting of the above, repurchase agreements, bank certificates of deposit, commercial paper rated A-1/P-1, corporate bonds and notes rated AAA or AA, and the State of Arizona Local Government Investment Pool. Investment maturities shall be scheduled to enable the City to meet all operating requirements which might be reasonably anticipated. Surplus and idle money related to the day-to-day operation of the City may be invested in authorized investments with a final maturity not exceeding five years from the date of investment.

Comparison to the Basis of Accounting for the CAFR

- The structure of City funds is generally the same in the budget and the CAFR. However, because the CAFR uses either a modified accrual or full accrual basis of accounting, there are differences in how revenues and expenses are treated in specific areas.
- Where the General Fund contributes to a special revenue fund, those special revenue funds do not carry an unreserved fund balance because only the amount of General Fund required to cover expenses and obligations are transferred. This treatment is essentially the same in both the budget and the CAFR.
- The budget does not record expenditures such as depreciation that are accrued under GAAP.