

# City of Tucson Comprehensive Financial Policies

## Fiscal Year 2025

In addition to meeting the legal requirements set forth by State law and the City Charter, the Mayor and Council adopted Comprehensive Financial Policies in December 2012, following recommendations from the Government Finance Officers Association (GFOA). These policies were further revised in November 2014 to enhance fiscal oversight. They serve as a framework for the City's financial planning and management, reinforcing long-term financial stability and resilience. Adhering to these principles strengthens the City's financial health and bolsters public trust and credibility with citizens, bond rating agencies, and investors. Furthermore, these policies safeguard the Council's ability to make strategic policy decisions without undue financial constraints or emergencies.

## Balanced Budget Policy

The City is committed to maintaining a balanced budget, ensuring that expenditures do not exceed projected revenues, including available carryover balances from prior years. This policy applies to each individual fund, requiring that all funds remain structurally balanced. Additionally, one-time revenue sources will be allocated solely for one-time expenditures to prevent future financial imbalances arising from using temporary funding for ongoing costs.

In alignment with these principles, the City of Tucson has adopted a structurally balanced budget, incorporating long-term financial planning. The City remains dedicated to maintaining balanced operating budgets and proactively reducing liabilities.

## Operating Management Policies

City department directors are responsible for efficiently managing resources while upholding the City's financial integrity and delivering high-quality services to residents. To support these objectives:

- Personnel requests must be justified by demonstrating their necessity for new programs or service enhancements.
- Revenue projections will be developed based on historical trends, applying conservative yet realistic forecasting methods.
- User fees and charges will be periodically reviewed and adjusted as needed to ensure appropriate cost recovery.
- Development fees will be evaluated annually and adjusted when necessary.
- Each department will establish performance metrics to ensure objectives are met effectively and efficiently.
- Cash investments will be managed in compliance with the City Charter and State statutes to maximize returns while preserving liquidity and security.
- The City will actively pursue outstanding collections and conduct business audits to ensure compliance with State and City tax regulations.

# Capital Management Policy

The Capital Improvement Program (CIP) is designed to facilitate cost-effective planning, scheduling, and financing of capital projects, ensuring alignment with City policies.

- The CIP will be regularly reviewed and updated as necessary.
- It will include detailed cost estimates, funding sources, and projected operating and maintenance expenses for proposed projects.
- The CIP will span a five-year planning horizon, identifying infrastructure and facility improvements along with available funding sources.

# Revenue Diversification Policy

To meet growing service demands, the City must continuously seek diversified revenue sources. While State-imposed restrictions limit revenue generation, City Charter constraints can be modified with voter approval. The City will explore opportunities to expand service fees and remove charter-imposed revenue limitations where feasible.

# General Accounting Policies

The City adheres to Generally Accepted Accounting Principles (GAAP) and Governmental Accounting Standards Board (GASB) directives in financial reporting.

- The modified accrual basis of accounting is used for governmental funds, while other funds, including enterprise funds, follow full accrual accounting.
- An annual independent audit is conducted, and its findings are included in the Annual Comprehensive Financial Report (ACFR).
- The City's ACFR will be submitted for consideration under the GFOA's Certificate of Achievement for Excellence in Financial Reporting Program.
- Financial systems will be maintained to ensure accurate tracking of revenues and expenditures.

# Budgetary Policies

Arizona Title 42, Arizona Revised Statutes (ARS) mandates that the City Council adopts a balanced budget annually. The City's fiscal year begins July 1 and ends June 30.

- The budget will be prepared using best practices outlined by the GFOA.
- It will align with Mayor and Council priorities, the City's Comprehensive Financial Policies, and the approved strategic plan.
- The budget will clearly outline services provided, expenditures incurred, and funding sources.
- The Mayor and Council must adopt a balanced budget by the third Monday in June, setting the financial framework for the upcoming fiscal year.
- Recurring expenditures will not be funded with one-time revenue sources.
- The City will approve a five-year Capital Improvement Program as part of the budgeting process.
- The City's budget will be submitted for recognition under the GFOA Distinguished Budget Presentation Program.

# Fund Balance Policy

Maintaining adequate reserves is essential for financial stability, creditworthiness, and risk mitigation. The City's General Fund unrestricted balance consists of:

- **Committed Fund Balance:** Requires Mayor and Council action for allocation or reallocation. The City will strive to maintain a 10% stabilization fund (rainy-day fund) within the General Fund, aiming to meet this goal within five years. In cases of economic downturns, the fund must be replenished within five fiscal years after stabilization.
- **Assigned Fund Balance:** Designated by the Business Services Director for future needs. Council will be informed of assigned balances within 180 days post-fiscal year-end.
- **Unassigned Fund Balance:** A minimum of 7% of General Fund revenues will be reserved as an unassigned contingency to provide financial stability. Excess funds may be used for capital outlays or debt prepayments but not for recurring costs.

# Investment Policy

The City's investment strategy follows the Tucson City Charter and State Statutes, allowing investment in:

- Obligations, agencies, and instrumentalities of the U.S. government
- Money market funds
- Repurchase agreements
- Bank certificates of deposit
- Commercial paper (rated A-1/P-1)
- AAA or AA-rated corporate bonds and notes
- State of Arizona Local Government Investment Pool

Investment maturities will be structured to ensure liquidity for operational needs while maximizing returns. Investments unrelated to daily operations will not exceed five years in maturity.

# Comparison of Budgetary & Accounting Policies

While the City's budget structure aligns with its financial reporting practices, differences arise due to the accounting basis used in the ACFR:

- Transfers from the General Fund to special revenue funds cover only actual expenses, ensuring no unreserved balances remain in special revenue accounts.
- The budget does not account for depreciation, which is recorded under GAAP.