

# **City of Tucson Comprehensive Financial Policies**

## **Fiscal Year 2026**

These policies establish the framework for sound financial management and long-term fiscal sustainability. They support accountability, transparency, and consistency in budgeting, revenue, debt, reserves, investments, and internal controls. They shall guide staff, elected officials, and stakeholders in decision-making and will be reviewed periodically.

The following link provides access to the entire policy document.

[Exhibit\\_a\\_to\\_resolution\\_23954-1.pdf](#)

## **Budgetary Policies**

The City of Tucson 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 that incorporates long-term financial planning. The City remains dedicated to maintaining balanced operating budgets and proactively reducing liabilities.

<https://www.tucsonaz.gov/Departments/Business-Services-Department/Budget/Tentative-Budget-Adoption>

## **Revenue Diversification Policy**

The City of Tucson is committed to maintaining a broad and diversified revenue base to protect against economic volatility and ensure long-term financial stability. Revenue projections will be developed using conservative and realistic assumptions, grounded in historical trends, current economic conditions, and independent analyses, with all growth assumptions clearly justified and documented. To safeguard the City's structural balance, grant funds and other non-recurring revenues will be allocated only to one-time capital projects or special programs, and not for ongoing operational costs. This approach supports fiscal responsibility, reduces reliance on any single funding source, and ensures that temporary revenues are not used to create unsustainable financial commitments.

## **Fund Balance Policy**

The City amended its fund balance policy on June 17, 2025, to change its combined stabilization and unassigned reserve level requirement from a *percentage of revenues* to a *flat dollar amount*. This change allows future revenue growth to be used for community priorities while maintaining a strong reserve of \$142 million, equal to about two months of operating revenues.

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

- **Committed Fund Balance:** Mayor and Council action is required to "Commit" and "Uncommit" 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 \$87.9 million. The stabilization fund may only be used if specific action is taken by the Mayor and Council after the Unassigned/Contingency fund balance, detailed below, is depleted. In the event the stabilization fund must be used to provide temporary funding, the City must restore it to \$87.9 million 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 Chief Financial Officer or Business Services Director will approve any designation to Assigned Fund Balance as deemed appropriate for potential future needs. Typically, the year-end Assigned Fund Balance represents amounts budgeted for use in the following fiscal year or for known expenditures in the near future. If the City Manager is recommending assigning a portion of the fund balance, Mayor and Council will be informed within 30 days prior to the finalization of the annual comprehensive financial report.
- **Unassigned Fund Balance:** An amount equal to \$54.1 million will be held as "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 City's major revenue sources. Funds in excess of the contingency 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.

## **Capital Management Policy**

The City of Tucson shall adopt a multi-year Capital Improvement Program (CIP) aligned with strategic and infrastructure priorities, ensuring projects are funded through reliable sources and life-cycle cost analysis, while issuing debt only for capital projects with maturities not exceeding asset lives, prohibiting debt for operating expenses, maintaining prudent debt burden limits, and actively managing bond ratings to preserve financial flexibility and credit strength.

## **Investment Policy**

The City of Tucson's investment strategy prioritizes the principles of safety, liquidity, and return, in that order, ensuring that public funds are managed prudently to support operational needs while earning a competitive yield within acceptable risk parameters. Investments will comply with all applicable state statutes and internal City policies, including restrictions on eligible instruments such as U.S. Treasuries, government securities, certificates of deposit, and repurchase agreements. Portfolio limits will be established to reduce concentration risk and promote diversification. To safeguard public assets, all securities will be held by a third-party custodian under a formal agreement, with the City maintaining full control over transactions and requiring timely, transparent reporting. The City will provide periodic investment reports detailing portfolio holdings, maturity schedules, yields, and compliance with policy guidelines. Investment performance will be measured against appropriate market benchmarks to ensure accountability and adherence to best practices.

## **Expenditure & Purchasing Controls**

The City of Tucson is committed to maintaining strong expenditure controls that ensure accountability, efficiency, and alignment with strategic priorities.

### Expenditure Approvals & Authorization Levels

Departments shall establish and document clear authorization levels for expenditures, purchase orders, contracts, and change orders. These approval structures must ensure proper segregation of duties to safeguard against errors, misuse, or fraud.

### Procurement & Contracting Standards

All procurement processes will be conducted in a transparent, fair, and competitive manner, consistent with applicable laws and City policies. The City places special emphasis on promoting participation from local, small, minority-owned, and women-owned businesses to encourage economic inclusion and equity in contracting opportunities.

### Encumbrance Policy

The City shall employ encumbrance accounting to reserve budgetary funds for approved purchase orders and contracts. This practice prevents overspending, provides greater budgetary control, and ensures commitments are properly tracked against available appropriations.

### Expenditure Monitoring & Variance Reporting

The Finance Department shall monitor expenditures across all departments throughout the fiscal year. Departments are required to review their budgets regularly and provide explanations for significant variances. Corrective actions must be proposed and implemented to maintain fiscal discipline and ensure compliance with the City's financial policies.

## **General Accounting Policies**

The City of Tucson is committed to the highest standards of financial reporting and accountability. All financial statements will be prepared in accordance with Generally Accepted Accounting Principles (GAAP) and comply with applicable pronouncements of the Governmental Accounting Standards Board (GASB) to ensure accuracy and consistency. An independent external auditor will be engaged annually to perform a comprehensive audit of the City's financial statements, evaluate internal controls, and review compliance with laws and regulations. Any audit findings will be addressed promptly to strengthen fiscal integrity.

Robust internal controls will be maintained over all financial operations, including accounts payable and receivable, payroll, procurement, asset management, and compliance functions. Periodic internal audits will be conducted to assess the effectiveness of these controls and mitigate risks. To promote transparency and public trust, the City will publish its Annual Comprehensive Financial Report (ACFR), budget documents, and key performance metrics, ensuring they are easily accessible to residents, stakeholders, and investors.

## **Operating Management Policies**

The City of Tucson recognizes that inter-fund transfers are sometimes necessary to allocate costs, support shared services, or ensure compliance with legal or policy requirements. All transfers between funds shall be clearly documented, justified by established policies or specific programmatic needs, and structured in a way that avoids creating an undue reliance on General Fund subsidies for enterprise or self-supporting activities. Transparency in documenting the purpose, amount, and duration of transfers will be maintained to strengthen accountability.

The City shall also ensure that Internal Service Fund charges—such as those for information technology, fleet maintenance, facilities, and centralized administration—are equitably allocated across departments. Charges will be based on a measurable factor.

## **Comparison of Budgetary & Accounting Policies**

The City of Tucson's Comprehensive Financial Policies shall be reviewed annually by the Business Services Department – Budget and Finance Division, in coordination with the City Manager, Mayor and Council. Recommended revisions will reflect evolving economic conditions, legislative changes, and operational needs, ensuring the policies remain current, effective, and aligned with best practices.

An exception and waiver process has been established to preserve flexibility while safeguarding accountability. Any exception to these policies must be fully documented in writing, include a clear justification, and receive approval at the appropriate level of authority (e.g., City Manager or Mayor and Council). All exceptions must be reported with complete transparency.

To promote consistency in application, policy communication and training will be provided to all relevant staff and department heads. New hires in financial, budgeting, or managerial roles will receive orientation on these policies as part of their onboarding process.

Finally, while the City's budget structure is designed to align with its financial reporting practices, differences may arise due to the accounting basis used in the Annual Comprehensive Financial Report (ACFR). These variances will continue to be disclosed and explained to ensure clarity and understanding for policymakers, staff, and the public.