

Presentation Objectives

- Introduction/Overview
- Purpose of Budgeting/Roles
- Components of a Budget
- Development of Budget Process
 - Revenues
 - Expenditures
- Adoption/Implementation of Budget
- Arizona Statute Deadlines
- Questions/Discussions

Purpose of Budgeting



- To meet organization's strategic goals
- Process to determine what & how services will be delivered to citizens
- How the services will be financed

Purpose of Budgeting

- Internal Control mechanism for planning and controlling operations
- One of the most important activities undertaken by governments
- Revenues MUST = Expenditures
- Bottom line, you can add revenues, reduce expenditures, or a combination of both!

Purpose of Budgeting



Simplistic Version

“On what basis shall it be decided to allocate X dollars to activity A versus activity B?”

Not as easy as it sounds.....

Roles in Budgeting



Roles in Budgeting

- Citizens
- Elected Officials
- Public Employees



Roles in Budgeting

Citizens:

- Voice heard as to priorities/service levels and cost of providing desired priorities/service levels

Elected Officials:

- Set Policy Guidelines, Establish Priorities, Communicate Position to Constituents, Resolve Conflicts

Roles in Budgeting

Public Employees:

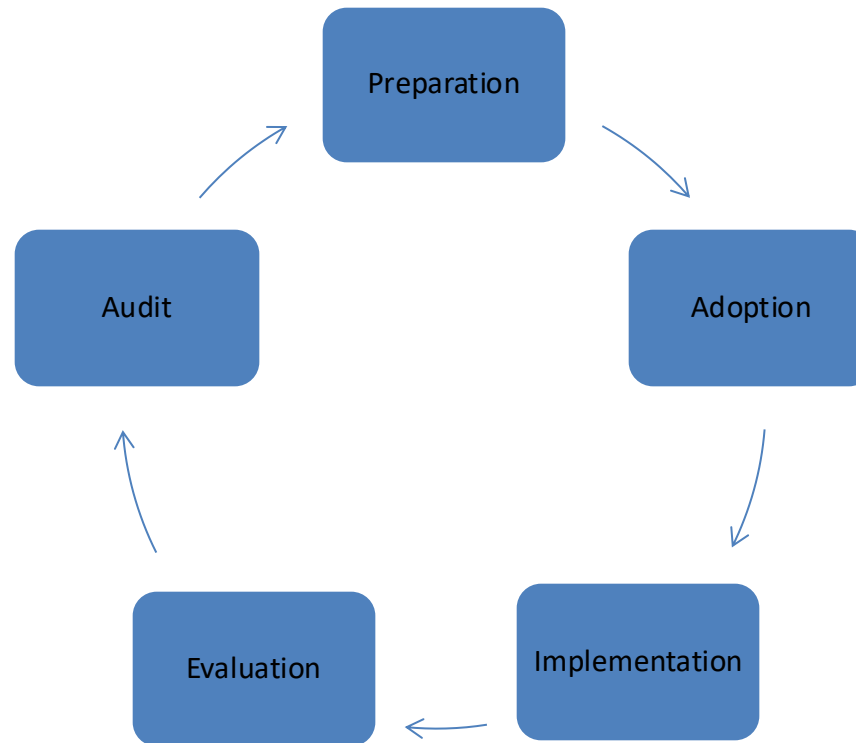
- **Department Staff** - Develop Program Objectives; Identify Service Levels; Prepare Budget Requests
- **Executive Management** - Prepare a Recommended Balanced Budget; Incorporate Elected Priorities; Assess Service Levels



Building a Budget



Never Ending Cycle



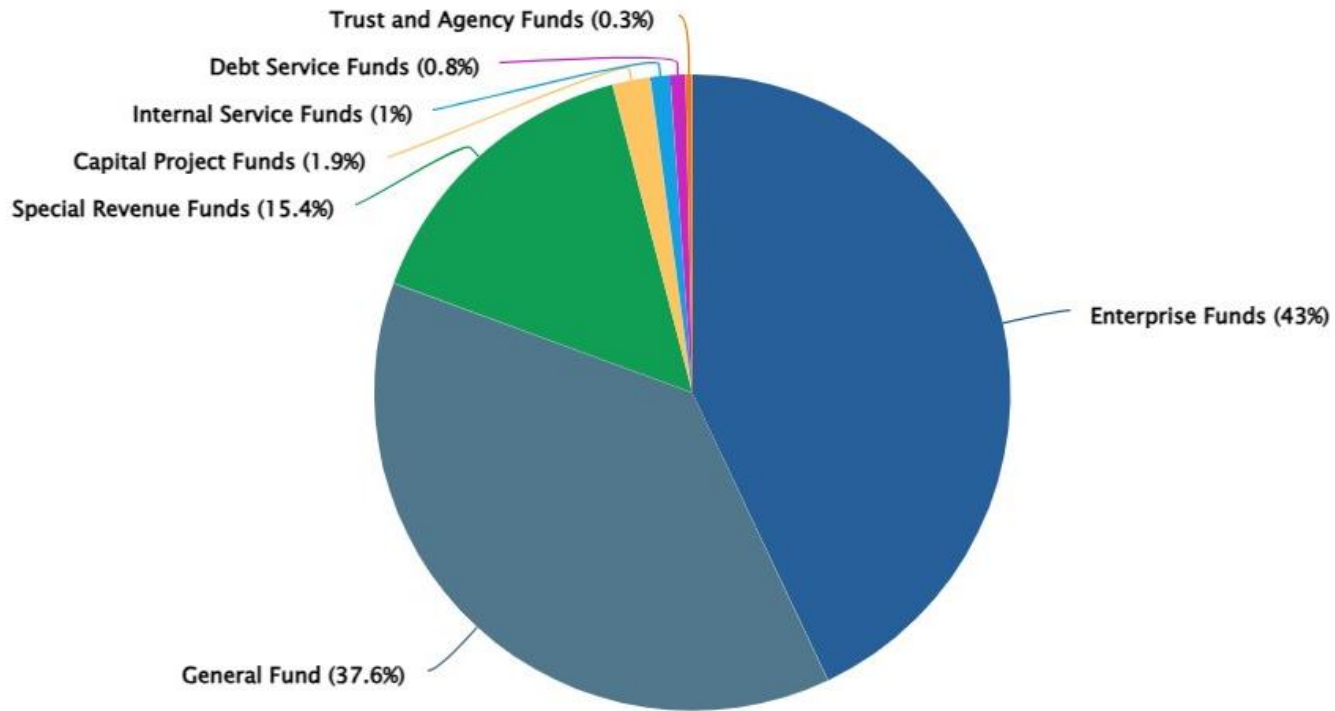
Budget Process

- Project your Revenues –
 Identify One-time versus Ongoing
- Project your Expenses –
 Identify One-time versus Ongoing
- Fund balances (carryover funds)

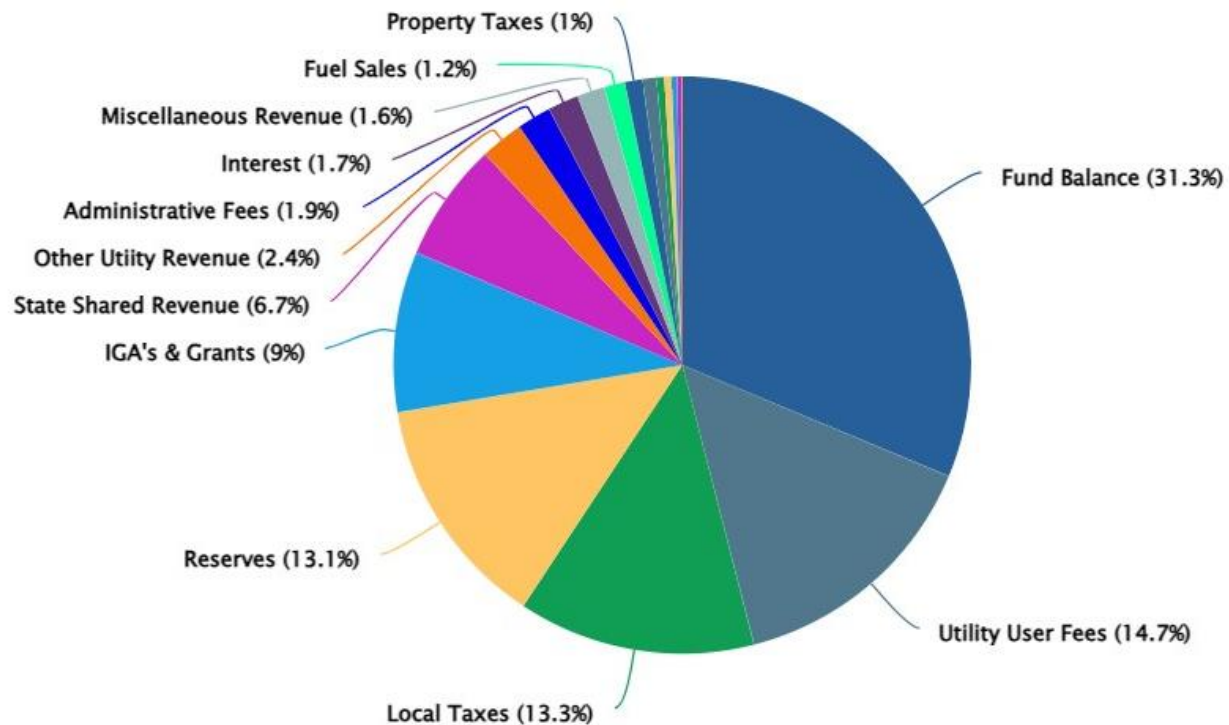
Components of a Budget



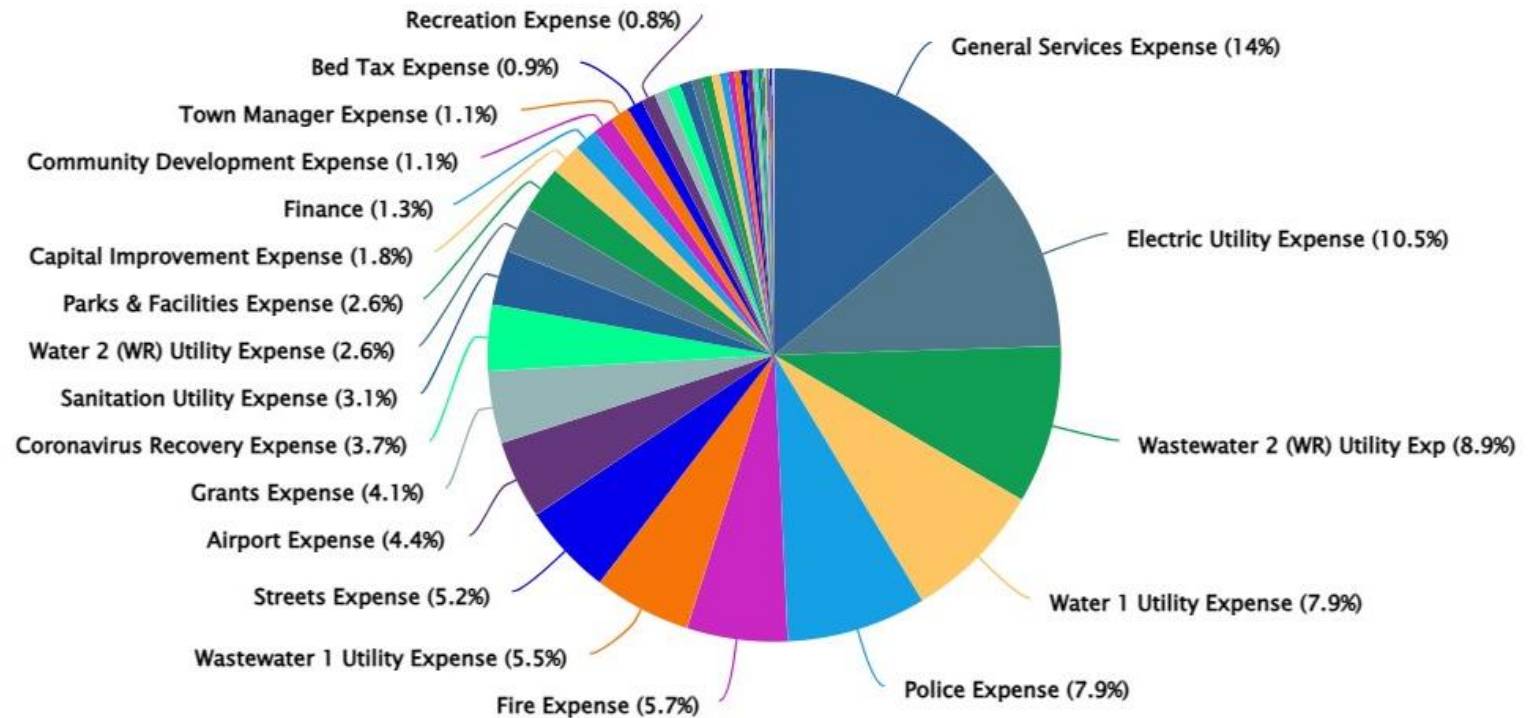
Revenues by Fund



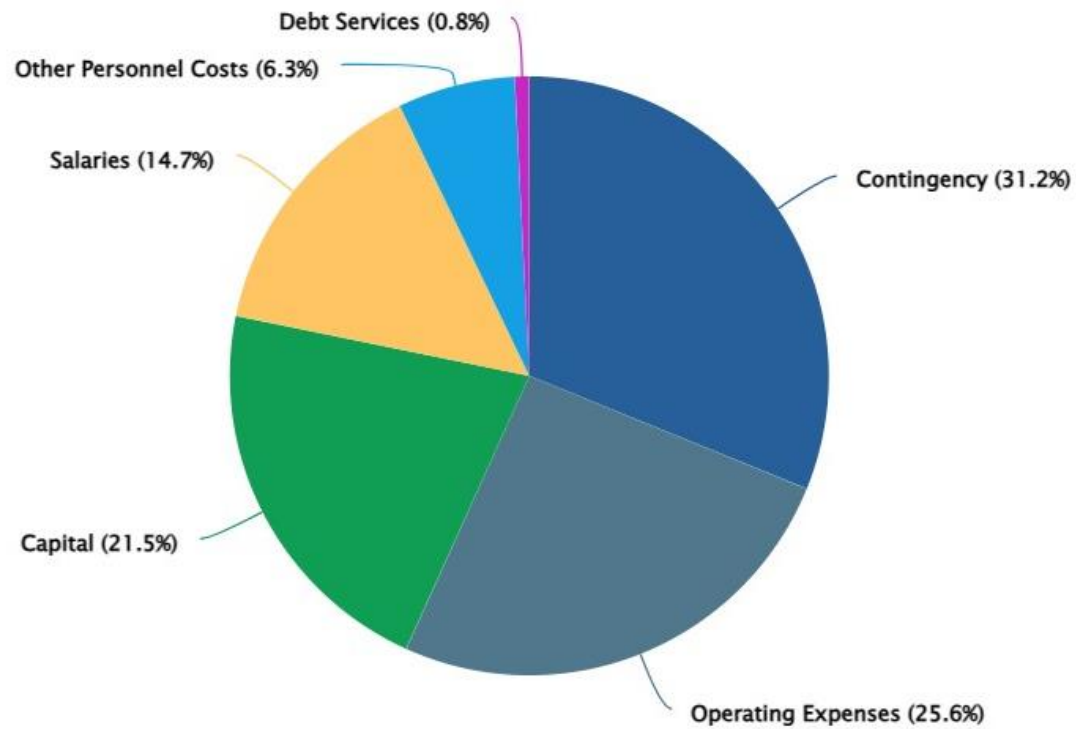
Revenues for All Funds



Expenditures by Function



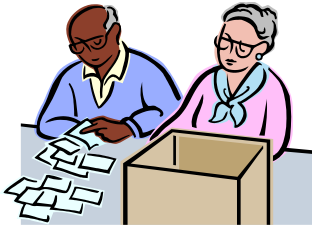
Expenditures by Expense Type



Funds

- General Fund
- Special Revenue Funds
- Internal Service Funds
- Capital Projects
- Debt Service
- Enterprise Funds
- Fiduciary Funds

General Fund Required by Statute



- Revenues to be used for any municipal purpose
- Contains most departments in the City/Town

Special Revenue Funds

- Revenues collected for specific purpose and are restricted in their use
- Highway User Revenue Fund (HURF) required by statute
- Grants
- Federal Funds such as AZ Cares Act & ARPA

Internal Service Funds

- Fleet Management
- Risk Management
- Print/Copier Funds
- Information Technology

Capital Budgets (CIP)

- Multi-year and of considerable value (5 to 10 years)
- Finance by pay-as-you-go, grants, or borrowing
- First year of CIP becomes part of annual budget



Enterprise Funds



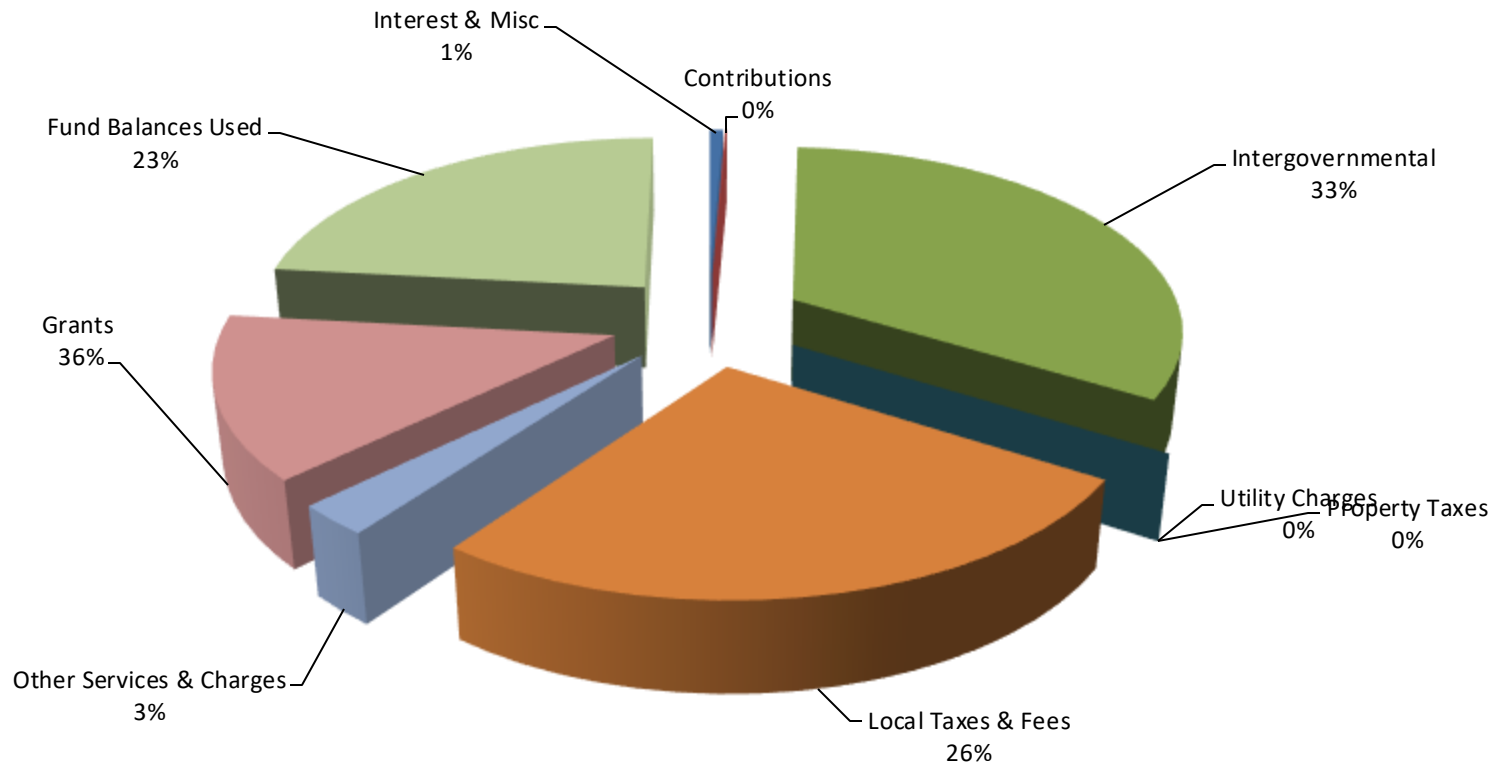
- Most Common Enterprise Funds:
Utilities (Water, Sewer, Electric)
- Like a business, needs to be “self supporting”
- Revenues cover cost of providing service
- User-fees versus tax-based revenues

REVENUES



Summary of Revenues

WHERE THE MONEY COMES FROM
Total Resources \$8,205,385



Preparation of Budget

- Revenue Forecasting
- Producing a “balanced budget”
- Phantom deficit reductions that will catch up with you
 - Unrealistic revenue projections
 - One-time versus Ongoing
 - Ducking the decision

Revenues

- Local revenues
 - Sales tax
 - Franchise taxes
 - Licenses, permits & fees
 - Fines
 - Property taxes



Sales Taxes

- Major Revenue Categories:
 - Retail
 - Construction
 - Utilities
 - Rental
 - Restaurant & Bar
- Taxpayer Confidentiality!

Franchise Taxes

- Permission for utilities to use City/Town's right-of-way (ROW) for underground lines
- Must be approved by vote of the people
- Usually based on % of gross sales
- Cannot exceed 25 years



Property Taxes – Municipal

- Primary tax rate can be used for any municipal purpose
- Establishing a “new” primary property tax requires a vote of the people
- Election is held 3rd Tuesday in May
- Secondary rate can only be used for payment of debt service (principal and interest) on bonds approved by voters

State Shared Revenues

- State Sales tax (TPT)
- Income tax (URS)
- Vehicle License Tax (VLT)
- Highway User Revenue Fund (HURF)

Each is based on a formula
found in statutes

Controlled by legislature



Other Finance Sources

- Bonds
 - General Obligation Bonds
 - Revenue Bonds
 - Highway User Revenue Bonds
 - Special Improvement District Bonds
 - Municipal Property Corporation Bonds
 - Water Infrastructure Financing Authority (WIFA)

What is Council's role?

- Understand the various revenue sources and their restrictions (if any)
- Understand how the estimates were derived and if the assumptions are sound
- Okay to ask what assumptions were used to get to revenue projections if not presented. (Good idea to have in presentations though!)

Expenditures



Expenditure Limitation

- State Expenditure Limitation
 - Base is 1979-80 Revenues
 - Increases by Inflation + Population growth
- Alternatives?
 - Home Rule
 - Permanent Base Adjustment
 - One-time override

Preparation of Requests

- Council vision and goals
- Fiscal picture for next year
(Revenue projections / Expenditure estimates)
- Instructions/rules to follow in preparation (i.e., CPI figure, budget schedules, merit or CPI salary increases, etc.)
- Budget justification – Why they need it and what will happen if they don't get the request
- Cost Estimations

Budget Issues Impacting Arizona

- Compensation
- Growth-Related Issues
- Revenue Reliance
 - Leakage
 - Competition
 - Unfunded Mandates
- Industry Attraction/Retention
- Water supply
- Regional Transportation
- Community Development

What is Council's Role?

- City or Town Manager are responsible for presenting a budget to Council
- Usually (almost always) more requests than resources
- Align expenses with Council goals
- Keep out of the weeds and look at policy level
- Approve a balanced budget

Budgeting in Arizona – Keeping it Legal



Budgeting in Arizona

- Must adopt a balanced budget
- Tentative budget must be adopted by third Monday in July
- No requirement for final budget unless City/Town has property tax
- Property Tax must be adopted by 3rd Monday in August but 14 days after final budget adoption
- Various restrictions on funds – HURF, Impact Fees

Budgeting in Arizona

- Tentative budget is required to be itemized per *Auditor General Forms*
- Published once a week for two consecutive weeks
- *Notice of hearing* date for final budget
- Both tentative and final must be *published on City/Town website* 7 business days after adoption
- Must remain posted for 60 months (five years)

Important Budget Related Statutes

- 9-499.15. Proposed municipal taxes and fees; notification required; exception
 - If New or increased tax rate or fee, post written notice of the proposed increase on the home page of the municipality's website at least 60 days before the date the proposed new rate is approved or disapproved by the governing body of the municipality.

Important Budget Related Statutes

- 9-511.01. Water and wastewater business; rates; procedures; responsibility for payments
 - Water & Wastewater rate, fee or service charge must file a written report supporting increase at least 30 days prior to a public hearing
 - Council adopt a “notice of intention” at a regular council meeting and set the public hearing date, but must be within 60 days.

Important Budget Related Statutes

- 9-511.01. Water and wastewater business; rates; procedures; responsibility for payments (Cont'd)
 - Must publish notice of intention in local newspaper with public hearing date, time & place no less than 20 days before public hearing
 - After public hearing, Council can adopt by resolution or ordinance rate, fee or service charge increase

Important Budget Related Statutes

- 9-511.01. Water and wastewater business; rates; procedures; responsibility for payments (Cont'd)
 - Increase does not become effective until 30 days after the adoption of the resolution or ordinance

Truth in Taxation

- Levy versus rate!
- Bottom line, if current AV goes up, truth in taxation may be required
- Citizen perspective: If you had a house that was valued at \$100K last year and it is valued at \$110K this year and the rate stays the same, your levy is going up!

Budget Related Elections

Bonds

- General Obligation Bonds – Yes!
- Revenue Bonds – Yes! (Exception of utility for Cities/Towns under 50,000)
- Highway User Bonds – Yes!
- Excise Tax Bonds – No! (POB's)
- Municipal Property Tax Corporation Bonds – No!

Budget Related Elections

- Establishment of a Primary Property Tax
- Alternative Expenditure Limitation (Home Rule) every 4 years
- Permanent Base Adjustment
- One-time override

Arizona Legislation

- Proposition 207 – Smart and Safe Fund
- Elimination of residential rental tax over 30 days begins January 1, 2025 (FY24-25 Budget!)
- Flat rate income tax (2.5%) with City/Town portion at 18% goes into full effect FY24-25
- Income Tax is from two years ago and starting to see slight decrease now and projected to see decline in the future
- Watch what is going on in AZ legislature, i.e., State budget concerns, local Food tax, etc.

Resources

AZ Auditor General Office

asd@azauditor.gov

AZ League of Cities & Towns-Budget and
Finance Manual

azleague.org

Pat Walker Consulting LLC

pwalkerconsulting@aol.com

Questions?

