



**SURPRISE**  
ARIZONA

# Budget Overview

City Council Work Session  
February 7, 2017

# The City Budget Is...

- A process to allocate scarce resources to programs, services, and infrastructure.



# Budget Framework

## ■ State Expenditure Limitation

(AZ Const. Article IX, Section 20; A.R.S. 41-563)

- FY2017 limit is \$981,408,916
- FY2017 budget is \$271,901,700

## ■ State Budget Calendar (A.R.S. 42-17XXX)

- Tentative Budget due by third Monday in July
- Final Budget due at least 14 days before Property Tax Levy
- Property Tax Levy due by third Monday in August
- Fiscal year is from July 1 to June 30
- State Auditor Forms

# Budget Framework (cont.)

- Comprehensive Financial Management Policies
  - Balanced Budget
  - Revenue Dedication
  - Reserves
  - Level of Budget Adoption
    - Fund
    - Department
    - Projects
    - Contingency
- Updated by Council action



# Budget Framework (cont.)

- Budget Amendment Policies and Procedures
  - Council Authority- Fund and Department, Personnel, Grants, Projects, All Contingency
  - City Manager- Non-CIP, Minor CIP, Between Full & Part Time
  - Chief Financial Officer- Targeted Savings
  - Department Director- Between Divisions
  
- Updated by Council Action



# Budget Framework (cont.)

- Municipal Code

- City manager is the awarding authority for:

- “...budgeted line items specifically identifying one-time operational or recurring products or services approved by the city council in review and adoption of the annual budget...”

- Section 2-338 (c) (2)



# Budget Process

Month	Activity
November	Budget Kick-Off with Staff
November	Departments Meet with Finance
November-January	Departments Enter Budget Requests
February-April	Council Work Sessions
February-April	City Manager's Recommend Budget is Prepared
April	Recommended Budget Issued
May	Tentative Budget Adoption
June	Final Budget Adoption Property Tax Levy

# Budget Overview

## Sources

\$325.9M

- Expected resources available
  - Revenues, Transfers In, Fund Balance, Borrowing

## Uses

\$325.9M

- Planned outflows of resources
  - Operations, Transfers Out, Debt Service, Capital Improvement, Contingency

All figures are from the FY2017 Adopted Budget

# Sources

## Revenues

\$186.3M

- Income received
  - Taxes
  - Fees & Charges for Services
  - Intergovernmental

## Transfers In

\$54.0M

- Contribution of resources from another City fund



# Sources

## Fund Balance

\$85.6M

- Excess of resources over expenditures

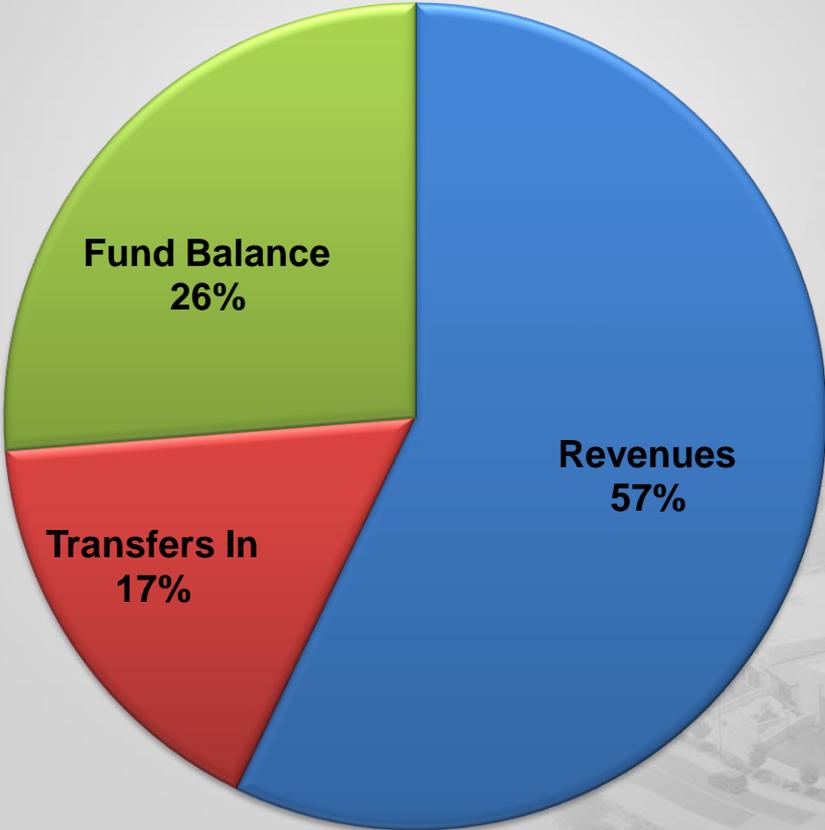
## Borrowing

\$ -

- Obtaining loans
- Issuing bonds



# FY2017 Sources



**Total \$325.9 million**

# Revenues

- Local Sales Tax \$45.6M
  - Transaction Privilege Tax
  - Retail, Restaurants, Entertainment, Utilities
  - Capital Restrictions for Contracting
  - Council Authority- 120 days



# Local Sales Tax

Why does my \$10 purchase cost me \$10.85?

Purchase	\$ 10.00
State sales tax	0.56
County sales tax	0.07
<b>Surprise sales tax</b>	<b>0.22</b>
<hr/>	
Total	\$ 10.85

# Revenues

- Intergovernmental Revenue \$40.6M
  - State-shared Sales Tax, Income Tax, Vehicle License Tax
    - Divided up to cities based on population
    - Subject to change by the State Legislature
  - Grants
    - Federal, State, County, Other



# Revenues

- Charges for Services
  - Fees for specific programs
    - Recreation, building permits
  - Set to recover all or part of the costs
  - Council authority-60 days
    - Water/Sewer-90 days

\$85.2M



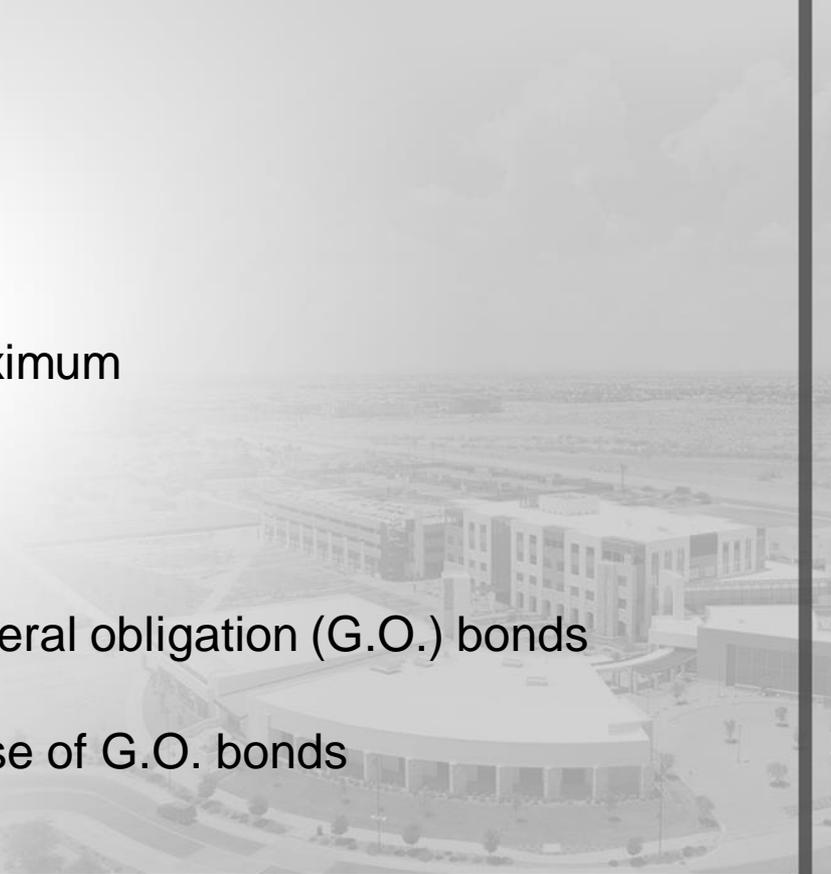
# Revenues

- Property taxes \$9.6M
  - Amount based on valuation of property
  - Uncollected amount tied to the property
  - Can be included as a part of home mortgage
  - Levy amounts and rates adopted annually by Council



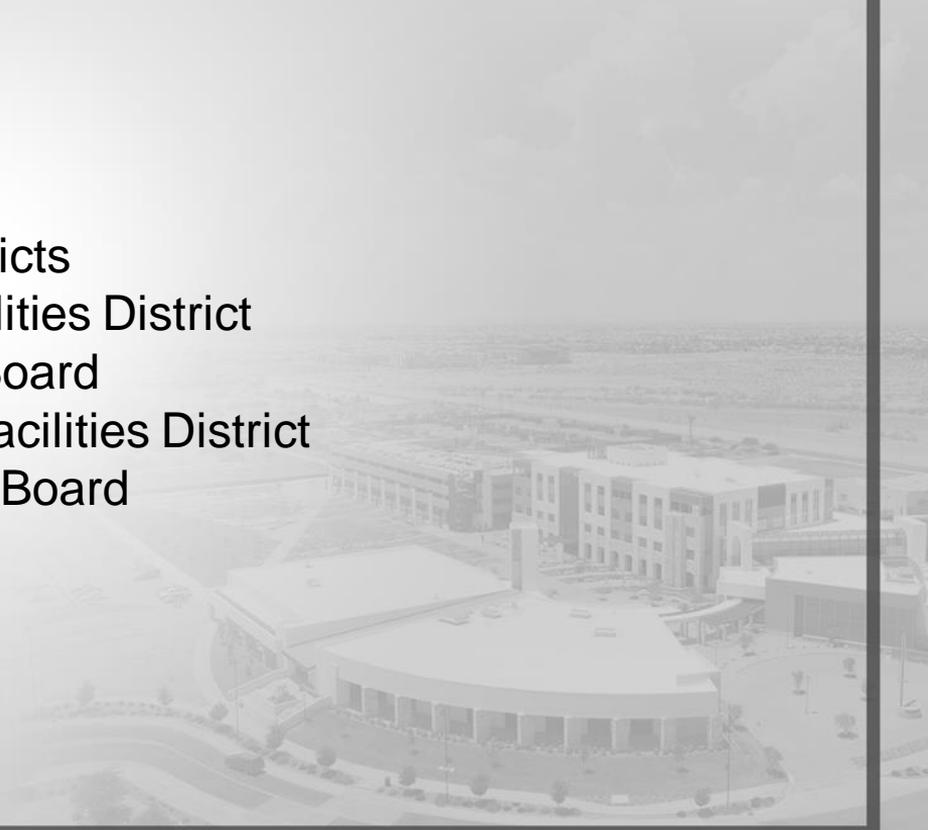
# Revenues

- Property taxes (cont.)
  - Primary
    - Used for operations
    - Council authority up to state maximum
    - \$2.2M below max
  - Secondary
    - Used to pay debt service on general obligation (G.O.) bonds
    - Council authorizes an election
      - Election sets amount and use of G.O. bonds



# Revenues

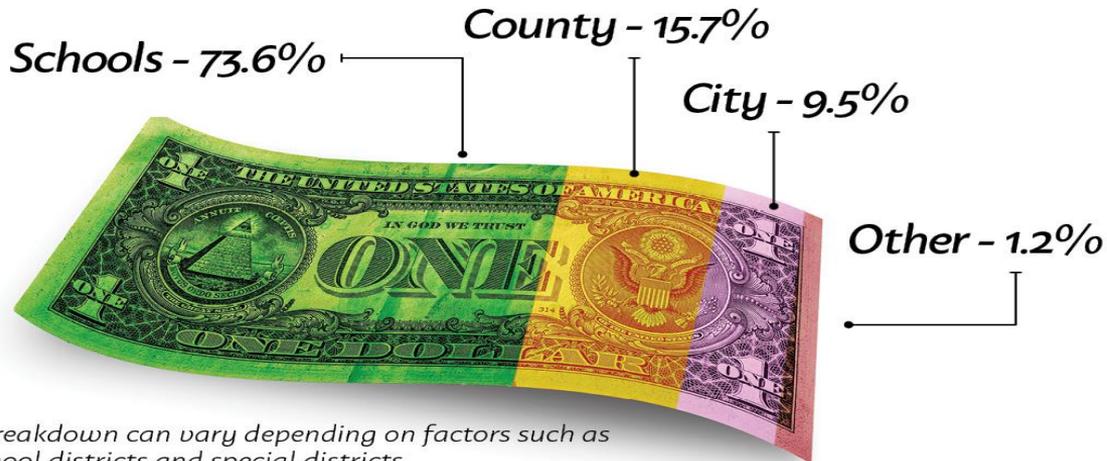
- Property taxes (cont.)
  - Special Districts
    - Streetlight Improvement Districts
    - Marley Park Community Facilities District
      - Council acts as District Board
    - Saguaro Acres Community Facilities District
      - Residents act as District Board



# Property Tax Distribution Sample

- City of Surprise (COS) collects approximately 9.5% of total

Surprise has a current primary property tax rate of \$0.7591 per \$100 of assessed property valuation. Most of that primary property tax goes to entities other than the city of Surprise. Here's the breakdown\*:



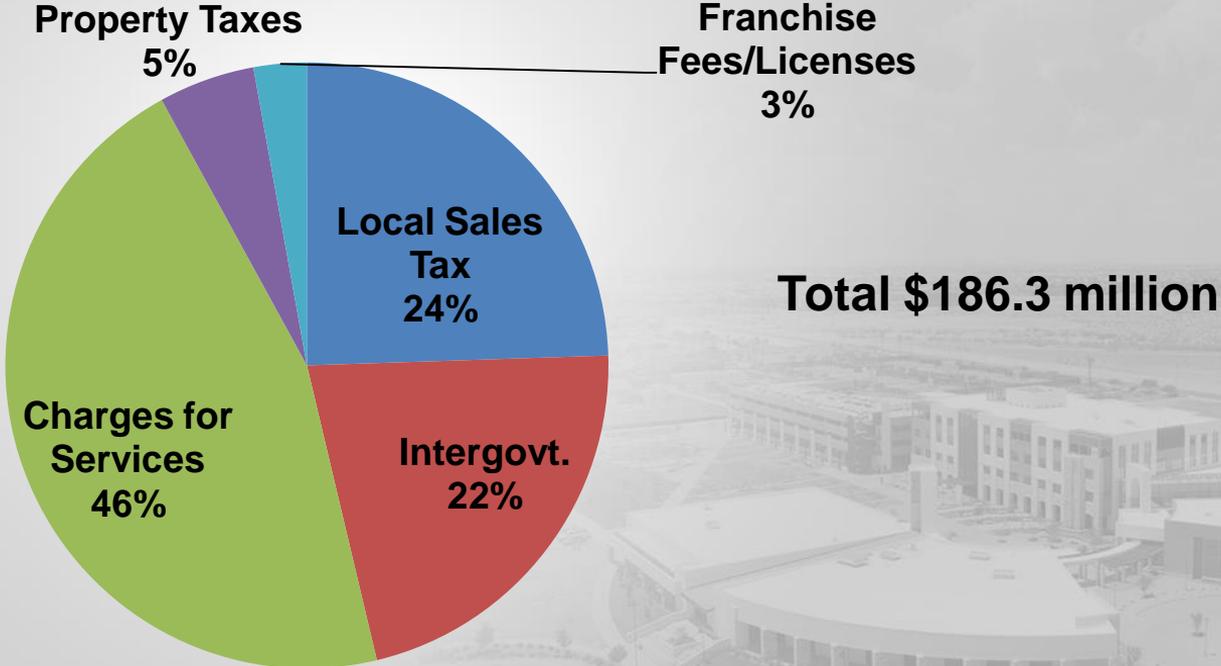
*\*Breakdown can vary depending on factors such as school districts and special districts.*

# Revenues

- Franchise Fees/Licenses \$5.3M
  - Fee to conduct utility business within the City
    - Cox Communications
    - Southwest Gas
    - Arizona Public Service
    - EPCOR
  - Council authorizes agreement with a utility
  - Business Licenses
    - Council authority-60 days



# FY2017 Revenues



# Uses

Operations \$156.4 M

- Day-to-day operating and maintenance costs

Transfers Out \$54.0 M

- Contribution of resources to another fund where they are expended

Debt Service \$7.9 M

- Payment of principal, interest, and related service charges on obligations resulting from the issuance of bonds or other loans

# Uses

Capital Improvements	\$53.0 M
■ Capital Improvement Plan Projects	\$33.0M
■ At least \$100,000, 3+ year useful life	
■ Asset Replacement	\$ 6.2M
■ Vehicle Replacement	\$ 9.3M
■ Pavement Preservation	\$ 4.5M



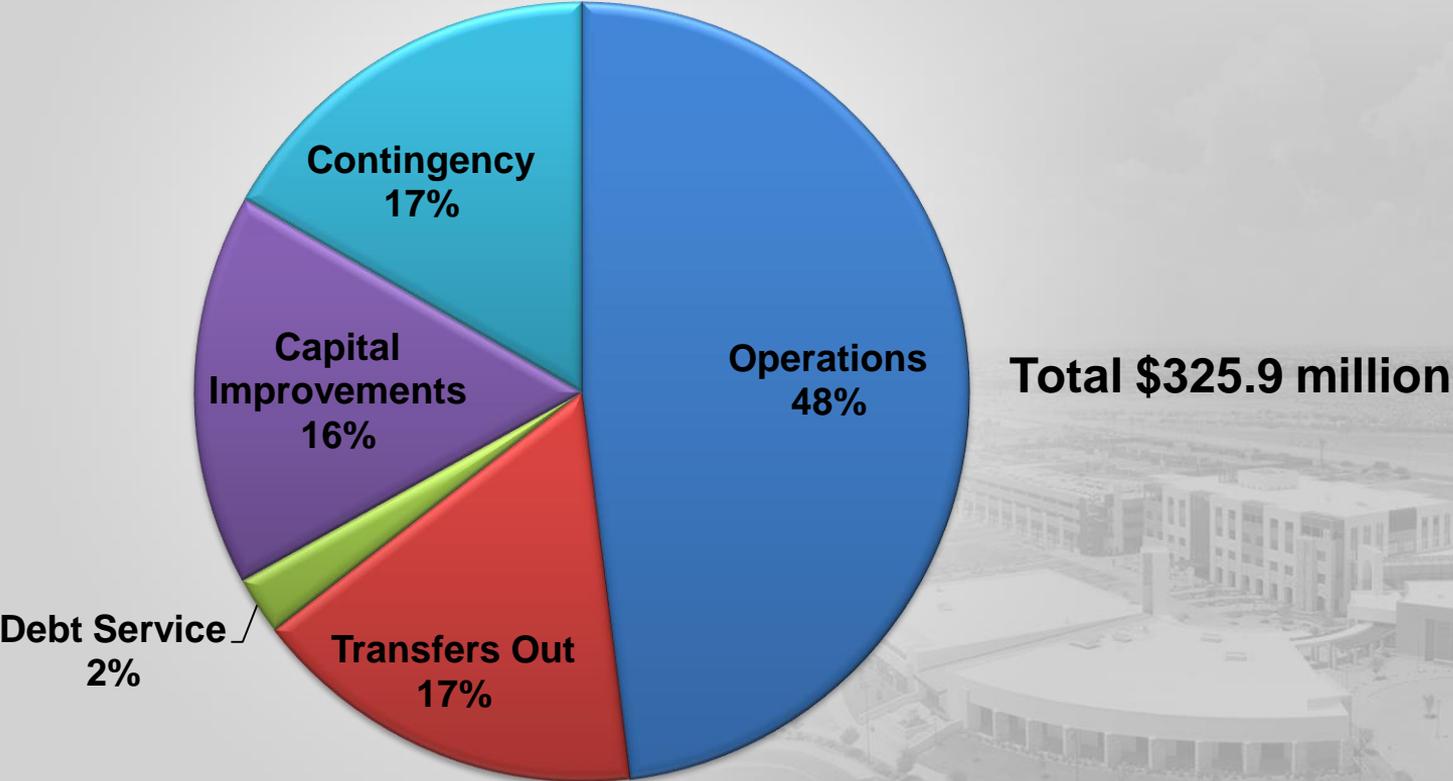
# Uses

## Contingency

\$54.6 M

- Budget authority that has not been allocated to any specific purpose
- Budget authority moved to other use categories
- May only be utilized with Council approval
  
- Backed by fund balance \$42.1M
  - Held for future, planned purpose
- Backed by unforeseen revenue \$12.5M
  - Budget authority located in the Grants Fund

# FY2017 Uses



# Operations

## Personnel

\$87.5M

- City employee associated costs
- Salaries, wages, benefits, pensions

## Supplies

\$10.8M

- Expendable, tangible items <\$10,000
- Radios, fuel, chemicals, books



# Operations

## Services

\$57.4M

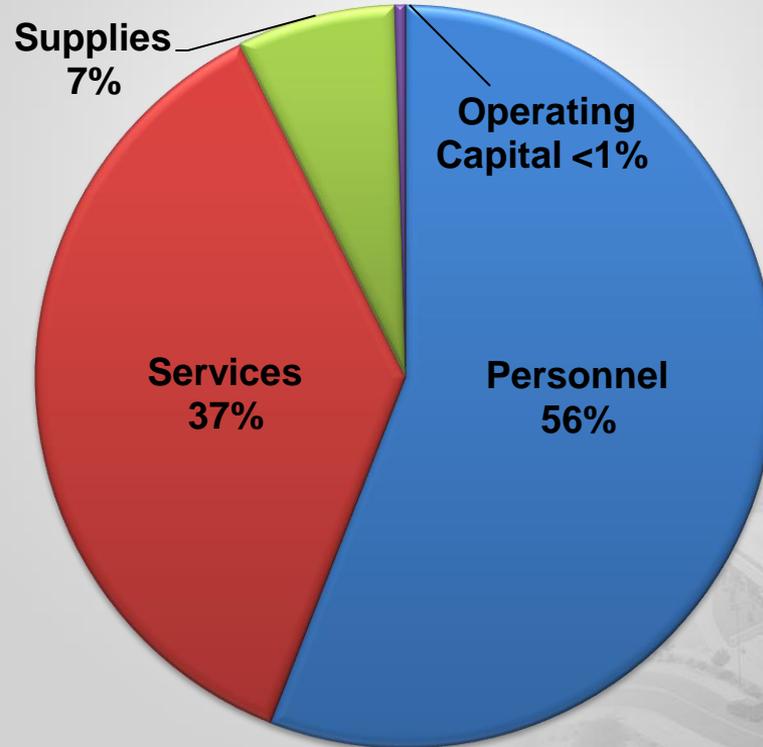
- Fees paid to outside entities
- Specialized skills, infrequent need, practical
- Utilities, equipment rental, audit, jail

## Capital

\$ 0.7M

- Tangible items
  - Cost of \$10K or greater
  - Life of more than 2 years
  - A betterment or improvement
- Operating equipment—IT, Parks, Utilities

# Operations by Category



**Total: \$156.4 million**

# Fund Accounting

- **Restricted Funds**
  - Can only be used for specific purposes
  - Highway User Revenue—streets only
- **Enterprise Funds**
  - Run like a business
  - Solid Waste, Water, Sewer utilities
  - Will reimburse other funds for services provided
- **Capital Project Fund**
  - Resources that provide for acquisition or construction of capital projects, asset and vehicle replacement, pavement

# Fund Accounting (cont.)

## ■ Internal Service Funds

- Account for financing goods or services provided department or agency to other departments
- Health Insurance, Risk Management, Workers Compensation

## ■ Debt Service Funds

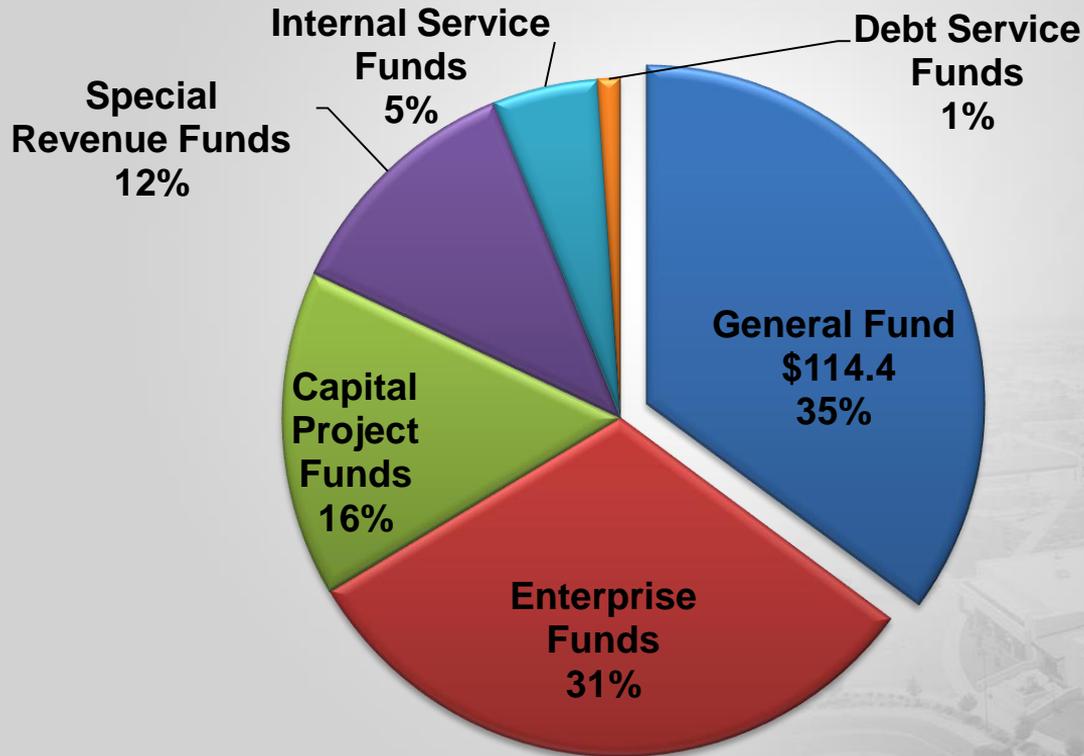
- Payment of general long-term debt principal and interest

## ■ General Fund

- Can be used for any purpose

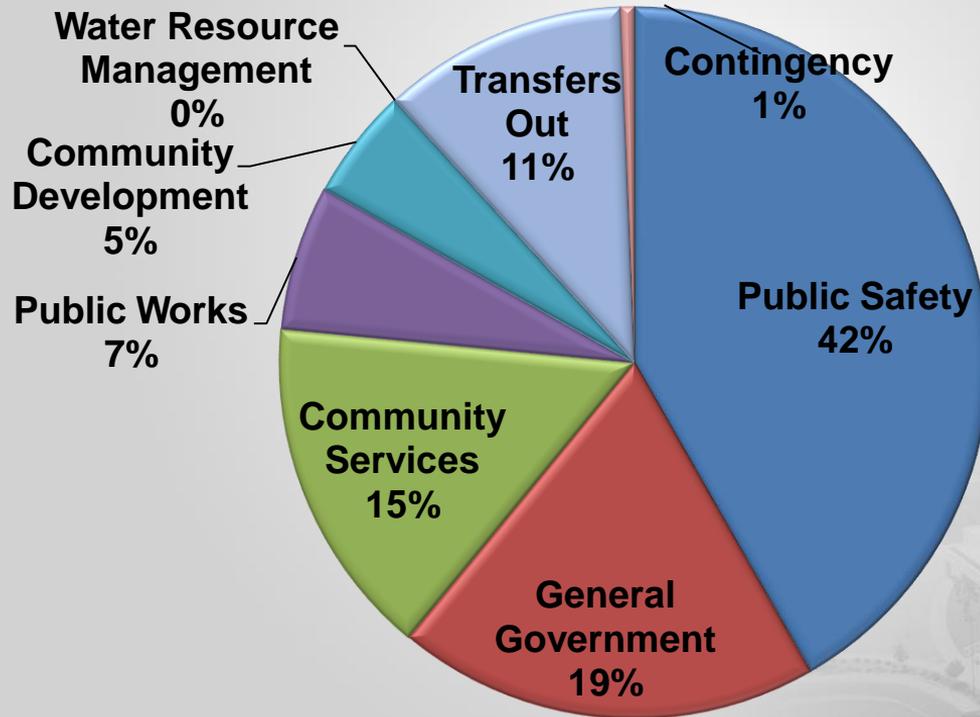


# FY2017 Uses by Fund



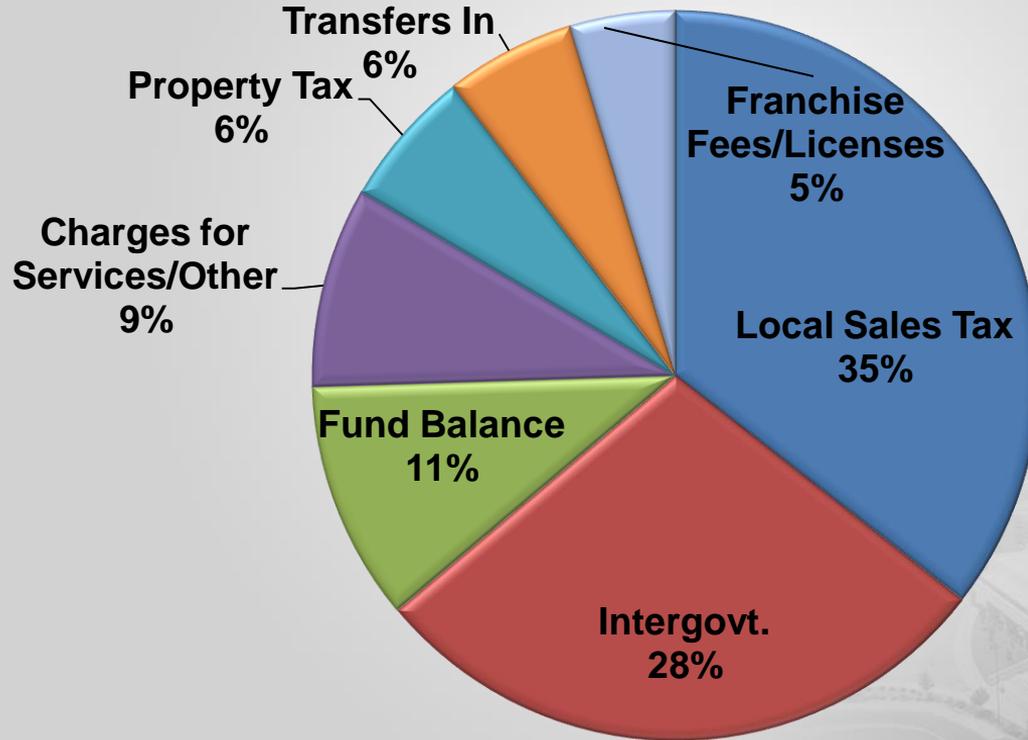
**Total \$325.9 million**

# General Fund Budget by Service Category



Total \$114.4 million

# FY2017 General Fund Sources



**Total: \$114.4 million**

# Ongoing and One Time

- One Time Sources and Uses
  - Inconsistent, volatile
  - Event-oriented
  - Contracting Sales Tax, Capital projects
  - Fund Balance, Contingency
- Ongoing Sources and Uses
  - Consistent, relatively stable
  - Planned to occur into the future
  - Local Sales Tax, Personnel costs



# Known Pressures

- Public safety retirement
- SAFER Grant
- COPS Grant
- Public safety dispatching
- Targeted savings
- Cost increases
- Workload increases
  
- Workers Compensation savings



# Tools available to Council

- Comprehensive Financial Management Policies
  - Revenue dedications, reserves
- Budget Amendment Policies
  - Carry forward
- Rates
  - Sales Tax 120 days
  - Property Tax June
  - Charges for Services 60 days (90 days Water/Sewer)
  - Franchise Fees No agreements

# Tools available to Council (cont.)

- Budget Adoption
  - Fund, Department, Projects, Contingency
- Procurements greater than \$50K
  - Adopt with budget
- Contingency
  - Backed by fund balance
  - Backed by unforeseen revenue



# Upcoming Calendar

- Work Sessions through March 21
  - Revenues and reserves
  - Enterprise utilities, Highway User Revenue
  - Capital Improvements, Assets, Vehicles, Pavement
  
- City Manager's Recommended Budget April 18
- Tentative Budget adoption May 2
- Final Budget adoption June 6
- Property Tax Levy adoption June 6





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**QUESTIONS OR  
COMMENTS?**

Thank You