



## Financial Considerations Charter Review Committee

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Finance Director  
January 11, 2016



## Agenda

- City's General Fund Financial Condition
- Debt Overview
- Charter Amendments – Financial
  - 1) Business transaction tax that exceeds 2%
  - 2) Property tax cap
  - 3) Pledging of excise tax revenue



## Budget

- Current Situation
  - Structurally unbalanced
  - Increasing costs above revenues
- City Manager's Goal
  - Operational Structural Balance by FY 17/18
    - June 30, 2018
  - Structural Balance with Capital by FY 19/20
    - June 30, 2020



## General Fund Operational Projection

Changes year to year (Expenditures exceed Revenues)

	FY 15/16	FY 16/17	FY 17/18	FY 18/19	FY 19/20
<b>Revenues</b>					
City Sales Tax	\$ 3,900,000	\$ 3,975,000	\$ 4,050,000	\$ 4,140,000	
State Shared Sales Tax	\$ 2,400,000	\$ 2,500,000	\$ 2,700,000	\$ 2,800,000	
State Shared Income Tax	\$ 2,500,000	\$ 2,600,000	\$ 2,000,000	\$ 1,000,000	
Auto Lieu (VLT)	\$ 1,100,000	\$ 1,300,000	\$ 1,400,000	\$ 1,500,000	
Fines/Forfeitures	\$ -	\$ 1,000,000	\$ 1,000,000	\$ 1,000,000	
Sale of Prop	\$ 2,000,000	\$ 2,000,000	\$ 1,000,000	\$ 1,000,000	
Other	\$ 1,100,000	\$ 600,000	\$ 500,000	\$ 500,000	
<b>Subtotal Revenues</b>	<b>\$ 13,000,000</b>	<b>\$ 13,975,000</b>	<b>\$ 12,650,000</b>	<b>\$ 11,940,000</b>	
<b>Expenditures</b>					
PSPRS	\$ 25,000,000	\$ 12,000,000	\$ 7,000,000	\$ 2,000,000	
TSRS	\$ -	\$ 2,000,000	\$ 1,000,000	\$ 1,000,000	
Fully Budget All Positions	\$ 6,184,000	\$ -	\$ -	\$ -	
Health Insurance	\$ 6,000,000	\$ 2,160,000	\$ 2,322,000	\$ 2,500,000	
Fuel	\$ 1,000,000	\$ 1,000,000	\$ 1,000,000	\$ 1,000,000	
Transit	\$ 1,670,000	\$ 1,010,000	\$ 5,450,000	\$ -	
COPS Hiring	\$ 870,000	\$ -	\$ -	\$ -	
SAFER Grant	\$ (1,783,000)	\$ 1,783,000	\$ -	\$ -	
Election	\$ 1,200,000	\$ 1,200,000	\$ -	\$ 1,200,000	
Debt Service	\$ 1,552,000	\$ 80,000	\$ 277,000	\$ (1,397,000)	
Other	\$ 871,000	\$ -	\$ -	\$ -	
Capital Investment	\$ -	\$ -	\$ 7,000,000	\$ 8,000,000	
<b>Subtotal Expenditures</b>	<b>\$ 42,564,000</b>	<b>\$ 21,233,000</b>	<b>\$ 24,049,000</b>	<b>\$ 14,363,000</b>	
<b>Total change per year</b>	<b>\$ (29,564,000)</b>	<b>\$ (7,258,000)</b>	<b>\$ (11,399,000)</b>	<b>\$ (2,423,000)</b>	
<b>Cumulative per year</b>	<b>\$ (12,700,000)</b>	<b>\$ (42,264,000)</b>	<b>\$ (49,522,000)</b>	<b>\$ (60,921,000)</b>	<b>\$ (63,344,000)</b>



## General Fund Revenues

### Total General Fund Revenues (\$ millions)

Funding Sources	Unaudited FY 2015	Adopted 2016 Budget	FY First Quarter 2016 Projection	Dollar Amount	
				Change from Adopted Budget	Percentage Change
Sales Tax	\$ 188.8	\$ 197.1	\$ 194.8	\$ (2.3)	-1.2%
Primary Property Tax	13.4	14.4	14.4	-	0.0%
Other Local Taxes	40.9	41.2	43.0	1.8	4.4%
State-Shared Revenues:					
Income Tax	62.9	63.2	63.2	-	0.0%
Sales Tax	47.7	48.9	49.5	0.6	1.2%
Auto Lieu	20.7	22.0	21.8	(0.2)	-0.9%
Licenses and Permits	28.2	21.2	21.8	0.6	2.8%
Fines and Forfeitures	16.0	14.3	11.0	(3.3)	-23.1%
Charges for Services	38.5	44.2	44.3	0.1	0.2%
Other Agencies	2.0	2.6	2.6	-	0.0%
Non-Grant Contributions (Raytheon)	2.9	3.5	3.7	0.2	5.7%
Sale of Property	3.6	9.2	9.2	-	0.0%
Use of Money and Property	0.5	0.6	0.5	(0.1)	-16.7%
Payment in Lieu of Taxes	1.6	1.6	1.6	-	0.0%
Miscellaneous Revenues	2.3	1.2	1.4	0.2	16.7%
<b>Total Revenues</b>	<b>\$ 470.0</b>	<b>\$ 485.2</b>	<b>\$ 482.8</b>	<b>\$ (2.4)</b>	<b>-0.5%</b>

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## Options for Increased Revenues

from City Manager's Financial Assessment Team

### Opportunities Requiring a Code Change by Mayor and Council

Revenue Option	Potential Action	Potential Financial Impact
Public Utility Tax	4% to 4.5%	\$1.7 M
Telecom, right-of-way	50% increase	\$1.6 M
Zoo Entrance Fee	Increase by \$3	\$1 M
Bed Tax	Increase by \$1	\$1 M
Advertising Tax	Set at 2%	\$1 M
Business License Fee	Increase by \$5	\$200,000
Increase existing fees	Parks and Recreation Planning & Development Fire Courts Parking Police	TBD
Establish a Storm Water Fee	\$0.10 per month per Water Acct	\$270,000
Bus Fares	Increase \$0.25	\$2.5 M
Graffiti Cleanup	Move to Environmental Services	\$1.7 M
Code Enforcement	Move to Environmental Services	\$2.3 M

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## Options for Increased Revenues

from City Manager's Financial Assessment Team

Opportunities Requiring Charter Change or Voter Approval		
Revenue Option	Potential Action	Potential Financial Impact
Food Tax	Set at 0.5%	\$10 M
Construction Tax	Set at 4%	TBD
Restaurant	Increase by 0.5%	\$1.4 M
Sales Tax	2% to 2.5%	\$48-50 M
Rental Tax	Increase 0.5%	\$3 M

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## Options to help balance FY 16/17

### Expenditure Reductions

- Institute hiring freeze
- Offer retirement incentive (TSRS)
- Evaluate probationary employees
- Begin combining functions
  - HR
  - Finance/Budget
- Reach out to potential partners
- Evaluate staffing resource distribution
- Reorganize Departments
  - Efficiency/effectiveness

### Revenue Enhancements

- Evaluate revenue options
- Prepare for election



## CRC 2015 Recommendations on Financial Sections

- 1) modify the \$1.75 per \$100 of assessed value limit on as valorem taxes so it does not apply to secondary property taxes
- 2) authorize Mayor and Council to propose to voters a business transaction tax that exceeds 2%
- 3) authorization to pledge City excise tax revenue



## DEBT OVERVIEW



## City Debt Types

- Three Major Types of Debt Issuances
  - General Obligation (GO) Debt
  - Revenue Pledged Debt (Water, HURF)
  - Certificates of Participation (COPs, CREBs)

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## City Debt Types

### General Obligation (GO) Debt

- Voter approved
- State limitation
  - Limited to % of Secondary Assessed Valuation
  - Current GO debt capacity totals \$599 million
- City Charter limitations
  - Limited to combined tax rate  $\leq$  \$1.75 per \$100 of AV
  - Current primary & secondary tax rate is \$1.596/\$100 of AV
  - Current GO debt capacity totals \$75 - \$100 million
- Debt service paid by secondary property tax
- Typically highest rated debt = lowest interest rates

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## Outstanding Indebtedness

As of 7/1/2015

Issue Type	Principal Outstanding	% Total
Sr. Lien Water System Revenue Bonds & Obligations	\$461,465,000	40.27%
Jr. Lien Water System Revenue WIFA Loans	58,220,269	5.08%
Clean Renewable Energy Bonds	12,580,100	1.10%
Certificates of Participation	242,365,000	21.15%
General Obligation Bonds	213,495,000	18.63%
Sr. Lien Highway User Revenue Bonds	82,975,000	7.24%
Improvement District Bonds	1,139,000	0.10%
Rio Nuevo COPs, Series 2009	10,205,000	0.89%
Rio Nuevo Excise Tax Revenue Bonds, Series 2008*	63,415,000	5.53%
<b>Total</b>	<b>\$1,145,859,369</b>	<b>100.00%</b>

\* The Rio Nuevo Excise Tax Revenue Bonds, Series 2008 are not a direct debt obligation of the City of Tucson. The City has committed to consider an annual appropriation only in the event that TIF revenue is insufficient to make annual debt service payments.

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## City Debt Types

- Revenue Pledged Debt (Water, HURF)
  - Voter approval may be required in certain issuances
  - Specific revenue stream pledged for debt service
  - Reserve fund and coverage covenant typically required
- Certificates of Participation (COPs, CREBs)
  - Voter approval not required
  - Debt service pledged from assets of the General Fund
  - Annual appropriation feature
  - No State mandated limitation
  - Limitation of issued debt based on affordability
  - M&C cap of 10% of General Fund revenues
  - Most expensive

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## PROPERTY TAXES



### Property Tax Basics

- Levied by multiple jurisdictions
  - Cities, Counties, School Districts, Community Colleges, Special Districts, etc.
- Levied for two types of purposes
  - Primary - operations, maintenance, and tort
  - Secondary - principal & interest to repay voter approved bonds





## Calculating Tax Liability

- Net Assessed Value is the value of property on which tax rate is levied
  - Taxable Value multiplied by Assessment Ratio
  - Different uses of property have different Assessment Ratios
- A single assessed value, called the Limited Property Value (LPV) is now used for both primary and secondary tax levies
- Taxpayer Liability is combined jurisdictional tax rates applied per \$100 of LPV



## Assessment Ratios

- Class 1 – commercial & Industrial 18%
- Class 2 – vacant 15%
- Class 3 – residential 10%
- Class 4 – residential rental 10%
- Other classes between 1 and 18%



## Calculating Tax Liability

	Net Value	Rate	Tax
Year 1 House	\$ 100,000	\$ 1.50	\$ 150
Year 2 increases 5%	\$ 105,000	\$ 1.46	\$ 153
Year 2 increases 2%	\$ 102,000	\$ 1.50	\$ 153
Year 2 decreases 3%	\$ 97,000	\$ 1.58	\$ 153



## Limitations

- Primary Property Tax revenue is limited to a growth of 2% per year plus new construction and assessment for qualifying tort liability
- The annual growth in LPV is limited to 5%.
- Secondary Property Tax revenue is limited to the amount necessary to pay debt service plus an allowable allowance for uncollectible taxes
- City Charter has a combined limitation of \$1.75 for both primary and secondary combined
  - Tucson is unique in having this restriction



## City of Tucson Property Tax Revenue

FY 2015/2016	Rate	Levy
Primary	\$ 0.5326	\$16,635,720
Secondary	\$ 1.0634	\$33,217,410
Combined	\$ 1.5960	\$49,853,130

Citywide Assessed Taxable Value = \$3,123,670,375



## Options For Charter Amendment Property Tax

- Leave as is
- Modify the \$1.75 limit on ad valorem taxes so it does not apply to secondary property taxes
- Remove charter imposed cap of \$1.75 per \$100 of assessed value
- Increase \$1.75 cap on combined primary and secondary to higher amount



## **SALES TAX**



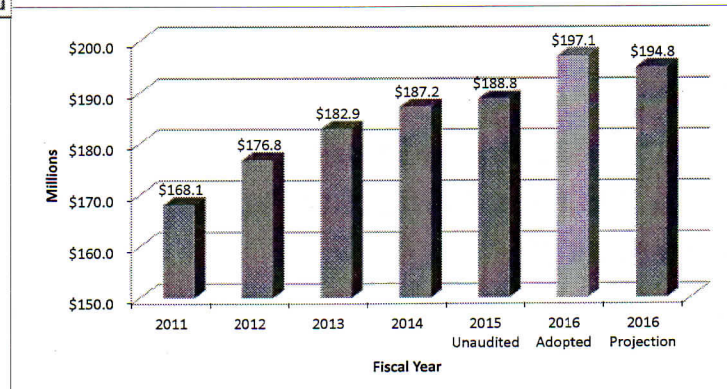
### **Business Privilege (Sales) Tax Limitations**

- Charter caps at 2%
- Restricts sales tax on food for home consumption





## Business Privilege Tax



- FY 2016 projection includes annexation (\$1.1 million) and tax amnesty collection (\$0.9 million)
- First quarter projection is 1% less than the FY 2016 budget and 3% greater than FY 2015 actual
- Retail is projected to increase by 5.2% from FY 2015 actual; restaurant projected increase is 5.8%; utilities projected to increase by 3.5%; and contracting to decrease by (36.8%)

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## Funding Opportunities

- Sales Tax
  - ½¢ ~ \$50M/yr for 5 years
  - 3-1/5¢ ~ \$20M/yr for 5 years
    - \$20M – transit
    - \$20M – capital replacement programs
      - \$5M Vehicles
      - \$5M Equipment
      - \$5M Facilities
      - \$5M Parks
    - \$20M – roads
      - Maintenance vs. capacity
- Property tax
  - \$75-100M in capacity – City
  - \$300M – County projects

*\$800 x 10<sup>6</sup> for roads = mixed need*



## Options for Charter Amendment Sales Tax

- Leave as is
- Authorize Mayor and Council to propose to voters a business transaction tax (sales tax) that exceeds 2%
- Leave as is unless voters approve an increase higher than 2%
- Keep a percentage cap but set at higher rate
- Take the cap off all together



## EXCISE TAXES



## Limitations

- Vote required to pledge city tax revenues
  - Unique – only city in AZ that has this limitation
- Can't issue revenue bonds
  - Certificates of Participation are issued instead
  - Paying more interest on debt issued
  - Approximately 50 basis points higher than excise tax secured bond
  - Example \$100m level 10 year amortization would cost the City \$5 million more in interest expense



## Options for Charter Amendments Excise Taxes

- Leave as is
- Authorize the City the ability to pledge City excise tax revenues