City of Maricopa

Legislation Text

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The Mayor and City Council shall hear a presentation by Tom Duensing, Finance Director, regarding the City's mid-year financial review.

This mid-year financial forecast, or five-year forecast, is a review of the City's two primary operating funds, the General Fund and the Highway User Revenue Fund (HURF). Staff will seek Council feedback on 1) utilizing a methodology to address the General Fund structural deficit over the next few years, 2) proceeding with accounting changes to the Debt Service and Capital Improvement Project (CIP) Funds and 3) proceeding with the operating budget.

The City's General Fund is the chief operating fund of the City. Currently, the General Fund accounts for most operating activities of the City and the portion of CIP activities that are not accounted for in dedicated CIP funds. The HURF Fund accounts for the City's share of state "gasoline taxes" and distribution is based on City's population compared to the county-wide population.

As most of the City operational costs are funded from the General and HURF funds, it is important that the Mayor and Council are continually informed about the financial status of the funds now and into the future. Additionally, this presentation will provide the guidance needed to set the budgetary parameters for departments' operational budgetary requests. Finally, as part of the annual budget process, staff will be updating this forecast and presenting it to the Mayor and Council annually.

FINANCIAL INFORMATION

General Fund - FY11-12 Revised Estimates

The General Fund accounts for the vast majority of the City's operating costs such as police and fire protection, parks and recreation, development services and other City functions. Approximately 90% of the General Fund revenues, totalling $27.3 million, consist of local taxes and intergovernmental revenues. Local taxes consist of property and local sales taxes estimated at $16.3 million in the current fiscal year. Intergovernmental revenues consist of state-shared sales taxes, income taxes and vehicle license taxes estimated at $8.9 million in the current fiscal year.

Approximately 66%, or $18.4 million, of General Fund expenditures are personnel costs. These costs consist of salaries/wages and employer-paid benefits. Contracted and other services comprise 12% of the City's expenditures and include costs such as utility costs, vehicle maintenance costs and citywide liability costs. Professional & technical expenditures, comprising 11% of the City's expenditures, include legal services, fire and police dispatch services and publication services.

Beginning in FY12-13, it is estimated that annual General Fund expenditures will exceed revenues by approximately $3.6 million. This projection assumes no changes in service levels or programs other than the addition of $1.44 million in annual appropriation debt expenditures by financing the City Hall project. This "structural deficit" is estimated to grow through the FY16-17 forecast period. Although a strong unreserved fund balance is available to offset the annual deficits at least through FY15-16, it is recommended that steps be instituted beginning in FY12-13 to stabilize the General Fund.

Staff is presenting four options to the Mayor and Council for consideration and feedback to address the General Fund structural deficit.

- Option 1 - Do nothing.
- Option 2 - Address the deficit to a greater extent in the early years and to a lesser extent over the next five years.
- Option 3 - Address the deficit evenly over the next five years.
- Option 4 - Address the deficit to a lesser extent in the early years and to a greater extent over the next five years.

Based on the ***General Fund - Structural Deficit Analysis***, staff is recommending that the FY12-13 General Fund operating budget be developed around Option 3, which assumes the issue is addressed evenly over the next five years for the following reasons.

- The significant unreserved fund balance can sustain General Fund losses for several years.
- Revenue increases could possibly outperform the annual estimated increases in this forecast.
- If achieved through cost-cutting measures, Option 2 proposes an 8% reduction in FY12-13 operating costs; whereas, Option 3 proposes a 3% reduction in FY12-13 operating costs.

Not included in the five-year forecast are 1) capital improvement project (CIP) budgeted expenditures and 2) debt service revenue and expenditure budgets. As of June 30, 2011, the General Fund had a CIP reserve balance of approximately $35 million. The intent of this reserve is to fund FY11-12 CIP expenditures and capital projects into the future. Staff would like to establish a separate CIP fund in the current fiscal year and transfer the FY11-12 budget and expenditures from the General Fund into this newly created fund. In addition, through the CIP budget process, staff would like to budget all future CIP projects funded from the CIP reserve in this newly established fund. This will allow better accountability of current and future year CIP projects.

Currently, general obligation bonds of $20 million are financed from secondary property taxes. Both the secondary property tax revenue and general obligation debt service expenditures are budgeted and accounted for in the General Fund. Staff would like to transfer the FY11-12 budget and expenditures from the General Fund into the already established Debt Service fund. Through the operating budget process, staff will then budget all future year debt service revenues and expenditures in this fund.

HURF Fund - FY11-12 Revised Estimates

Unlike the General Fund, HURF Fund annual recurring expenditures for personnel (20% of fund expenditures) and contracted and other services (21% of fund expenditures) are much less significant to the fund. Therefore, it is estimated that there is adequate fund balance available in this fund for streets and highway purposes and no steps should be taken to address any structural issues. Staff will continue to monitor this fund annually and bring forward recommended adjustments as needed.

Staff recommends the Council hear the presentation and provide appropriate feedback.