City of Bisbee Annual Budget Workshop

April 19, 2017

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Agenda

- Introduction/Overview
- Budget “101”
- Baseline Financial Forecast 2016-17 through 2021-2022
- Next Steps
- Questions?

Purpose of Budgeting

- To meet organizations strategic goals
- Process to determine what & how services will be delivered to citizens
- How the services will be financed
- Pursue politically chosen goals for citizens

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……

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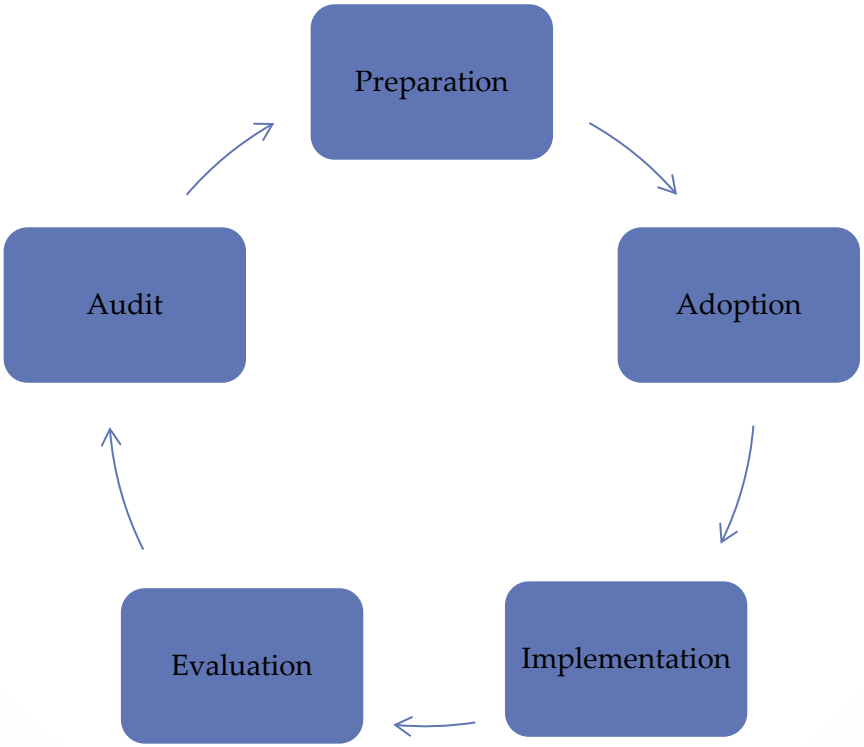
Never Ending Cycle



Two Sides to the Equation

Citizen Perceptions

Staff Perceptions

Headlines

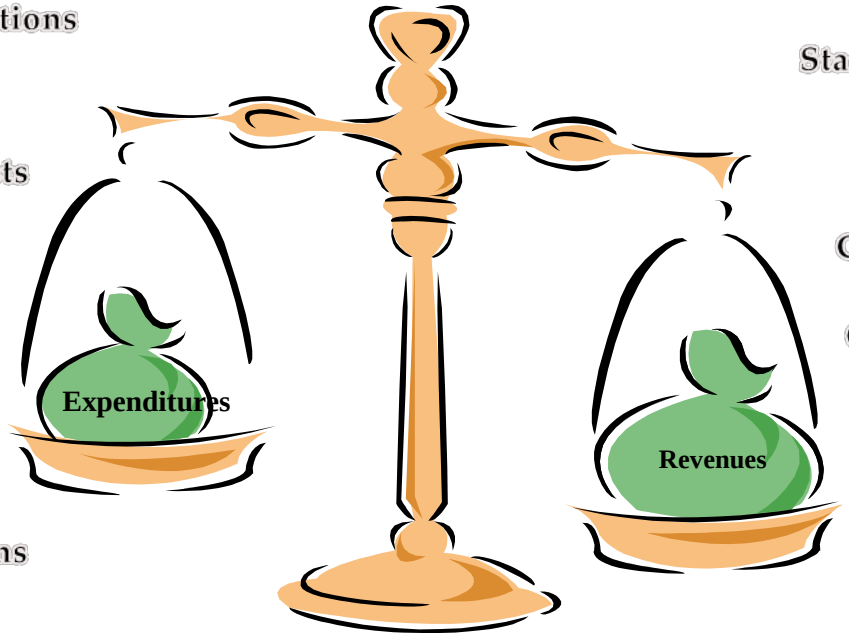
Stakeholder Interests

Strategic Vision

Cost Drivers

Economic Conditions

Gov't Mandates



Economic Conditions

Statutory Requirements

Headlines

Changing Tax Base

Citizen Preferences

Regional Norms

Historical Norms

Budget Process

- Project out your revenues
- Expenses-One time versus on-going
- Fund balances

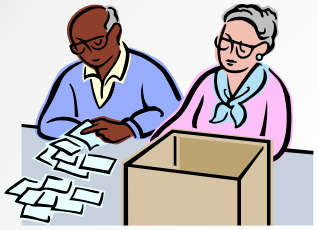
Components of a Budget

The Operating Budget

- Identifies both revenues and expenses
- May include traditional line items
- May include program and performance components
- Should identify ongoing vs. onetime expenditures

Funds

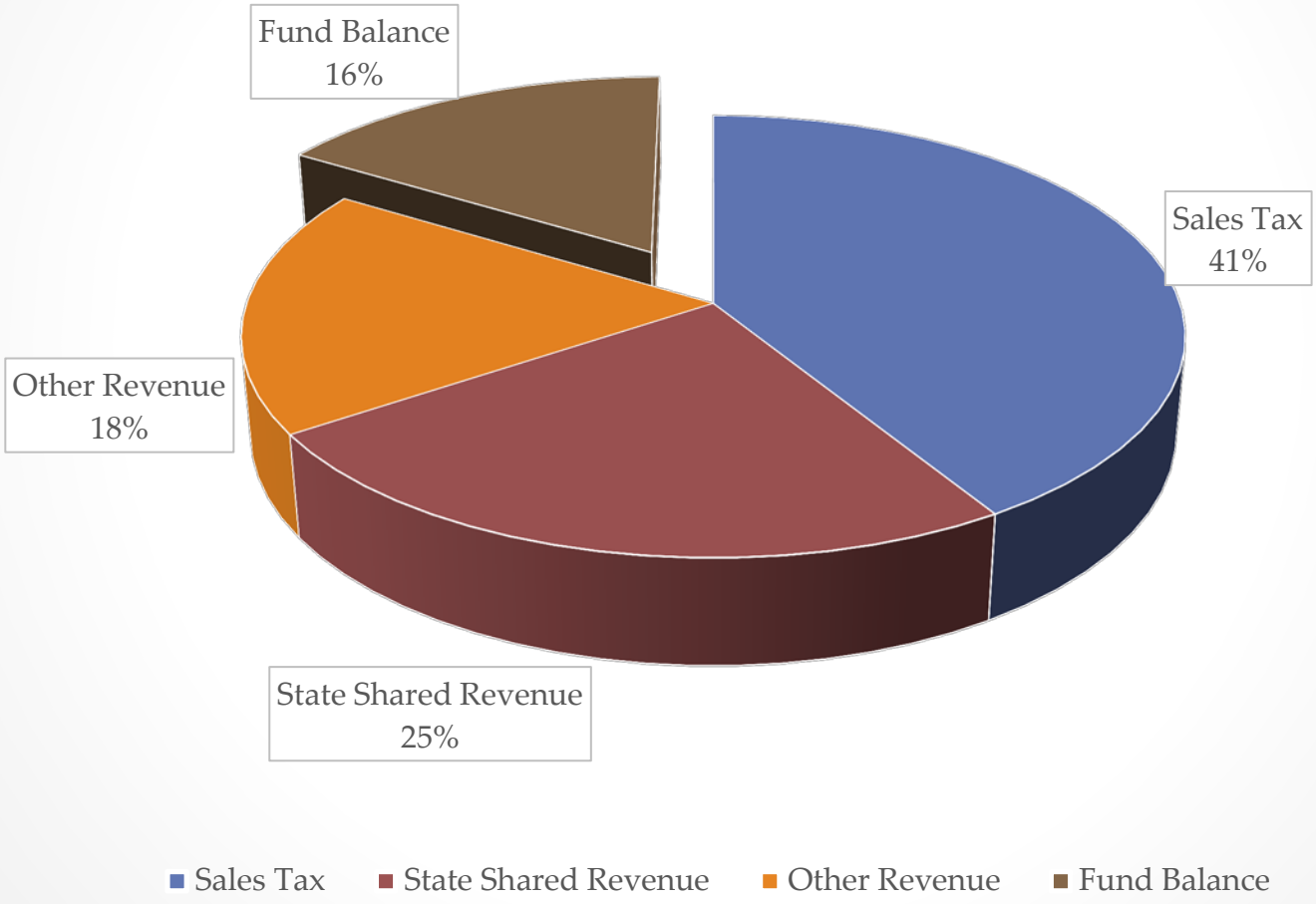
- General Fund
- Special Revenue Funds
- Internal Service Funds
- Capital Projects
- Debt Service
- Enterprise Funds
- Fiduciary Funds



General Fund

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

Where the Money Comes from, Resources



Sales Taxes

- Major Revenue Categories:
  - Retail
  - Construction
  - Utilities
  - Rental
  - Restaurant/Bar

Sales Tax Forecasting

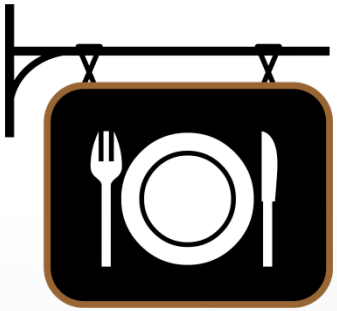
- Retail
  - Seasonality fluctuations
  - CPI
  - Consumer confidence
  - New or expanding businesses
  - Closing of businesses
  - Tax Law changes

Sales Tax Forecasting

- Construction
  - Engineering news record for construction – western region
  - One time versus on-going
  - Housing market, prices go up, construction could go down
  - Know the projects in your community
  - Mortgage rates

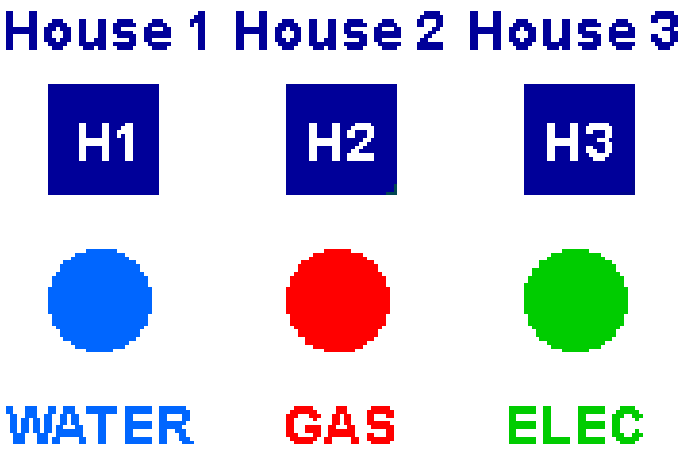
Sales Tax Forecasting

- Hotel/Motel & Restaurant & Bar:
  - Overall economy
  - Are you a tourist attraction?
  - Seasonal fluctuations
  - Hotels/Motels know # of rooms, rates, vacancy rates
  - New businesses/renovations/closures



Sales Tax Forecasting

- Utilities
  - Proposed rate incre
  - Population increase
  - New homes/busine
  - Weather
  - Most consistent sales tax source



Franchise Taxes

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

Property Taxes- Municipal

- Two types of property taxes in AZ
- Primary tax rate can be used for any municipal purpose
- 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
- Income tax
- Auto Lieu
- Highway User Revenue

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State Shared Income Taxes

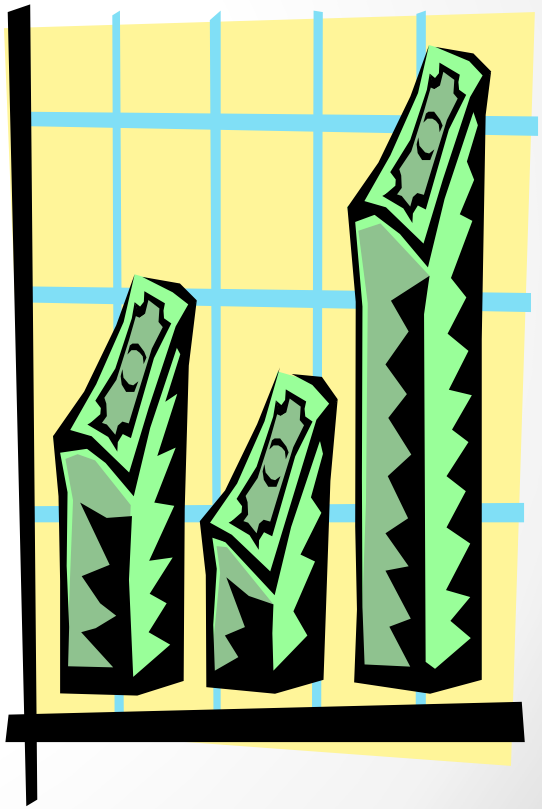
- Estimates are from 2 years ago collections
- Influenced by economic activity
- Complexity
  - Tax Exemptions
  - Tax Credits
- Withholding rates

Other Revenues

- Building permits
- Fines and forfeitures
- Recreation and park fees
- Library fees

Inter-fund Transfers

- Police Special Revenue
- Wastewater
- Sanitation
- Queen Mine Fund



Fund Balances

- "Net" funds at end of fiscal year
- Example: Town started out with $2 million in FY17 (FY16), added revenues, subtracted out expenditures to come up with "fund balance" which could be a positive or a deficit.

Fund Balances

- Difference between fund balance and cash.
- **Example:** At the beginning of the year you have $1,000 in your savings account. You are paid on a monthly basis, so you add $1,000 so you have $2,000. You pay your house payment and other bills for the month and use up the $1,000 but your fund balance is still $1,000.

Fund Balances

- **Cont'd Example:** However, your car breaks down and you need to spend $500 so your fund balance goes down to $500. The next month you make your $1,000 in pay, your electricity bill went down by $500 so your expenses are $500 less, moving your fund balance back to $1,000.

Fund Balances

- One checking account all funds go into
- Cash goes up and down but at the end of the year, as long as revenues meet budget collections and exp. don't exceed budget, the Town still has their fund balance amount they started out with at the beginning of the fiscal year.

Fund Balances

- Bisbee started FY17 with approximately $2 million that included around $500K in receivables, primarily ambulance
- If you even receive half of receivables, you have $1.8 million in GF fund balance starting FY17.
- In FY17 estimated projections the Town will end up approximately the same with exception of receivable may change it to some degree.
- The City exceeded GF revenues by approximately $82K, using your contingency reserve.

Special Revenue Funds

Special Revenue Funds

- Revenues collected for specific purpose and are restricted in their use
- Highway User Revenue Fund (HURF), Visitor Center, Donation Fund, Grants, Arts Commission, Bus Fund

Capital Project Funds

Capital Budgets (CIP)

- Multi-year and of considerable value
- Operating Impact of CIP
- Finance by pay as you go, grants, or borrowing

Capital Budgets

Major Revenue Sources

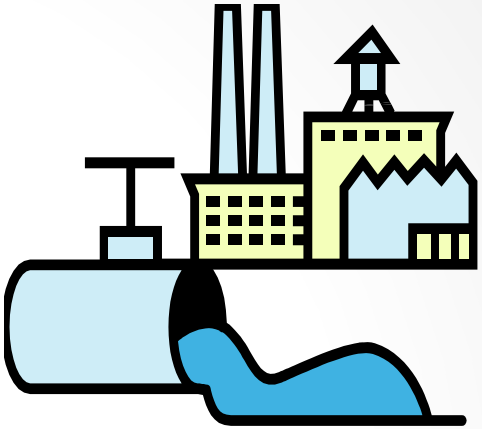
- Bonds
- Impact Fees
- Grants
- Current Revenues

Capital Project Fund Bisbee

- FY17 Budget was $816,000
- FY18 Budget is $55K for a vehicle
- Repair/maintenance cost will continue to increase
- Infrastructure and Facilities may deteriorate

Debt Service

- GO Bonds
- Revenue Bonds
  - Highway User Revenues
  - Utilities
- Lease purchase



Enterprise Funds

Enterprise Funds

- Like a business, needs to be “self supporting”
- Revenues cover cost of providing service
- User based versus tax based revenues
- Enterprise Funds:
  - Sewer
  - Bisbee Bus Fund
  - Ambulance
  - Sanitation

“Expenditures”…

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Expenditure Limitation

- State Expenditure limitation
- Alternative?
  - Home Rule
  - Permanent Base Adjustment
  - One time override

Budget Processes

- Performance Based
- Program
- Zero Based
- Modified Zero-Based (Target)
- Incremental
- Expenditure Control Based (ECB)
- Line Item

Preparation of Requests

- Council vision and goals
- Fiscal picture for next year (Revenue Projections/Expenditure estimates)
- Instructions/rules to follow in preparation
- Budget justification
- Cost Estimations

Contingency Reserves

- Fund balance is an unappropriated contingency reserve or rainy day reserve
- Should be in all funds
- GFOA recommends for GF at least 2 months of expenditures
- Based on FY18 Budget, Bisbee spends $128,982 a week.
- Your contingency reserve is $100,000

Contingency Reserves

- If you appropriate for two months, it is $1,031,936 (15%)
- Four months would be $2,063,872
- Estimated FY17 FB is $1.7 but…..

Conflicts?

Requests Versus Available Resources

Advocates Versus Guardians

Collective Interests Versus Special Interests

Baseline Forecasts

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Impacts to Budget

- CPI at 2.5%
- Economy is improving (sales tax numbers)
- Gas prices increasing, utilities
- PSPRS Liabilities

Financial Forecast

- Long term plan to sustain the Town's financial health
- Long term financial plan to not create structural deficits
  - One time revenues funding on-going expenditures
- Include "high priority" areas that reflect the will of the community
- Setting goals and strategies to achieve them (work plan)
- Evaluate the impact of policy decisions on future fiscal health
  - Actions taken
  - Policies implemented

Financial Forecast

- BOTTOM LINE:

Not in stone, focal point of mutual agreement between Council members on how to sustain financial stability while maintaining quality services to Citizens

Forecast in January

CITY OF BISBEE

BASELINE GENERAL FUND ANALYSIS

	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22
	Estimated	Projected	Projected	Projected	Projected	Projected
REVENUES						
Revenues (1)	6,220,108	6,286,881	6,412,618	6,540,871	6,614,947	6,689,937
Carryforward FB USED	-	-	-	-	-	-
TOTAL REVENUES	**$ 6,220,109**	**$ 6,286,881**	**$ 6,412,618**	**$ 6,540,871**	**$ 6,614,947**	**$ 6,689,937**
EXPENDITURES						
Departmental Expenditures	7,417,501	7,661,501	7,661,501	7,661,501	7,661,501	7,661,501
Contingency Reserve (2)	-	-				
TOTAL EXPENDITURES	**$ 7,417,501**	**$ 7,661,501**	**$ 7,661,501**	**$ 7,661,501**	**$ 7,661,501**	**$ 7,661,501**
NET REVENUES OVER/UNDER EXPENSES (3)	**$ (1,197,393)**	**$ (1,374,620)**	**$ (1,248,883)**	**$ (1,120,630)**	**$ (1,046,554)**	**$ (971,564)**
Beginning Fund Balance	**2,096,000**	**898,607**	**(476,014)**	**(1,724,896)**	**(2,845,527)**	**(3,892,081)**
ENDING FUND BALANCE	**$ 898,607**	**$ (476,014)**	**$ (1,724,896)**	**$ (2,845,527)**	**$ (3,892,081)**	**$ (4,863,645)**
Contingency Reserve %		**0%**	**0%**	**0%**	**0%**	**0%**

FY17

- Exp. included $703K that was not transferred out
- Revenues increased by 7.4% primarily because of transfers in that increased by $383,321
- Taking those out, revenues went up by 1.4%
- Expenditures went up by 4.5%
- Based on this, forecast was built….

CITY OF BISBEE

BASELINE GENERAL FUND ANALYSIS

	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22
	Estimated	Projected	Projected	Projected	Projected	Projected
REVENUES						
Revenues (1)	6,338,530	6,807,571	6,902,877	6,999,517	7,097,511	7,196,876
Carryforward FB USED	-	-	-	-	-	-
TOTAL REVENUES	**$ 6,338,531**	**$ 6,807,571**	**$ 6,902,877**	**$ 6,999,517**	**$ 7,097,511**	**$ 7,196,876**
EXPENDITURES						
Departmental Expenditures	6,420,247	6,707,571	7,009,412	7,324,835	7,654,453	7,998,903
Contingency Reserve (2)	-	100,000				
TOTAL EXPENDITURES	**$ 6,420,247**	**$ 6,807,571**	**$ 7,009,412**	**$ 7,324,835**	**$ 7,654,453**	**$ 7,998,903**
NET REVENUES OVER/UNDER EXPENSES (3)	**$ (81,716)**	**$ 100,000**	**$ (106,535)**	**$ (325,318)**	**$ (556,942)**	**$ (802,028)**
Beginning Fund Balance	**1,800,000**	**1,718,284**	**1,818,284**	**1,711,749**	**1,386,431**	**829,489**
ENDING FUND BALANCE	**$ 1,718,284**	**$ 1,818,284**	**$ 1,711,749**	**$ 1,386,431**	**$ 829,489**	**$ 27,462**
Contingency Reserve %		**1%**	**0%**	**0%**	**0%**	**0%**

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CITY OF BISBEE

SCENARIO A GENERAL FUND ANALYSIS

	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22
	Estimated	Projected	Projected	Projected	Projected	Projected
REVENUES						
Revenues (1)	6,338,530	6,807,571	6,902,877	6,999,517	7,097,511	7,196,876
Carryforward FB USED	-	931,936	46,435	48,527	50,710	52,992
TOTAL REVENUES	**$ 6,338,531**	**$ 7,739,507**	**$ 6,949,312**	**$ 7,048,044**	**$ 7,148,221**	**$ 7,249,868**
EXPENDITURES						
Departmental Expenditures	6,420,247	6,707,571	7,009,412	7,324,835	7,654,453	7,998,903
Contingency Reserve (2)	-	1,031,936	46,435	48,527	50,710	52,992
TOTAL EXPENDITURES	**$ 6,420,247**	**$ 7,739,507**	**$ 7,055,847**	**$ 7,373,362**	**$ 7,705,163**	**$ 8,051,896**
NET REVENUES OVER/UNDER EXPENSES (3)	**$ (81,716)**	**$ -**	**$ (106,535)**	**$ (325,318)**	**$ (556,943)**	**$ (802,028)**
Beginning Fund Balance	**1,800,000**	**1,718,284**	**786,348**	**679,813**	**354,496**	**(202,447)**
Contingency Reserve		**(931,936)**	**(46,435)**	**(48,527)**	**(50,710)**	**(52,992)**
ENDING FUND BALANCE	**$ 1,718,284**	**$ 786,348**	**$ 679,813**	**$ 354,496**	**$ (202,447)**	**$ (1,004,475)**
Contingency Reserve %		**15%**	**15%**	**15%**	**15%**	**15%**

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Discussion of Financial Policies

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Financial Policies

- Sets the standards for strong financial management over City's resources
- Eight types of financial policies:
  - Operating
  - Capital
  - Reserves
  - Debt
  - Long-Range Financial Planning
  - Grant Management
  - Investment Management
  - Accounting, Auditing & Financial reporting

Financial Policies

- Recommending three to consider for FY18:
  - Operating
  - Reserves
  - Long-term Financial Planning
- Review Handout

Next Steps

Questions?