

PROPOSED 1/2 CENT TAX INCREASE & FUND BALANCE OVERVIEW

Presentation: July 8, 2020

TODAY'S DISCUSSION:

- 1.) What's at stake
- 2.) Financial history to date
- 3.) How much money is on hand?
- 4.) What is the plan?
- 5.) Impact on consumer

I.) WHAT'S AT STAKE

Public Safety Services

Police

Fire

Street Repairs

2.) FINANCIAL HISTORY TO DATE

Based research documented on Memo to Council Dated: June 27, 2019

Up thru 2014

- General Fund Revenue Budget = structurally imbalanced
- Economic Downturn

Since 2015

- Revenue generating options
- Cost savings
- Major Challenges

General Fund Revenue Budget is Structurally Imbalanced

Research shows the City of South Tucson's Revenue Budget has always been structurally imbalanced.

What this means: Unlike other cities and towns, revenue sources are NOT diversified or balanced out.

As a result: Not enough money comes in to pay for operating costs.

Reason: keep taxes low for residents at all cost.

General Fund Revenue Budget is Structurally Imbalanced

Example of Revenue Budget for FY 2020:

Revenues

City Sales Tax 60%	\$2.9 million
State Shared Revenues 31%	\$1.5 million
Permits & Licenses 6%	\$307,248
Court Fines & Fees 2%	\$90,000
Primary Property Tax 1%	\$55,000

TOTAL REVENUE: \$4.9 million

Expenditures

Police Department 37%	\$2 million	Police Pension Expense:	\$685,478
Non-Departmental 25%	\$1.3 million		
Administration & Public Works 18%	\$965,352		
Fire Department 15%	\$777,084	Fire Pension Expense:	\$224,998
Courts 4%	\$218,189		

TOTAL EXPENDITURES: \$5.3 million

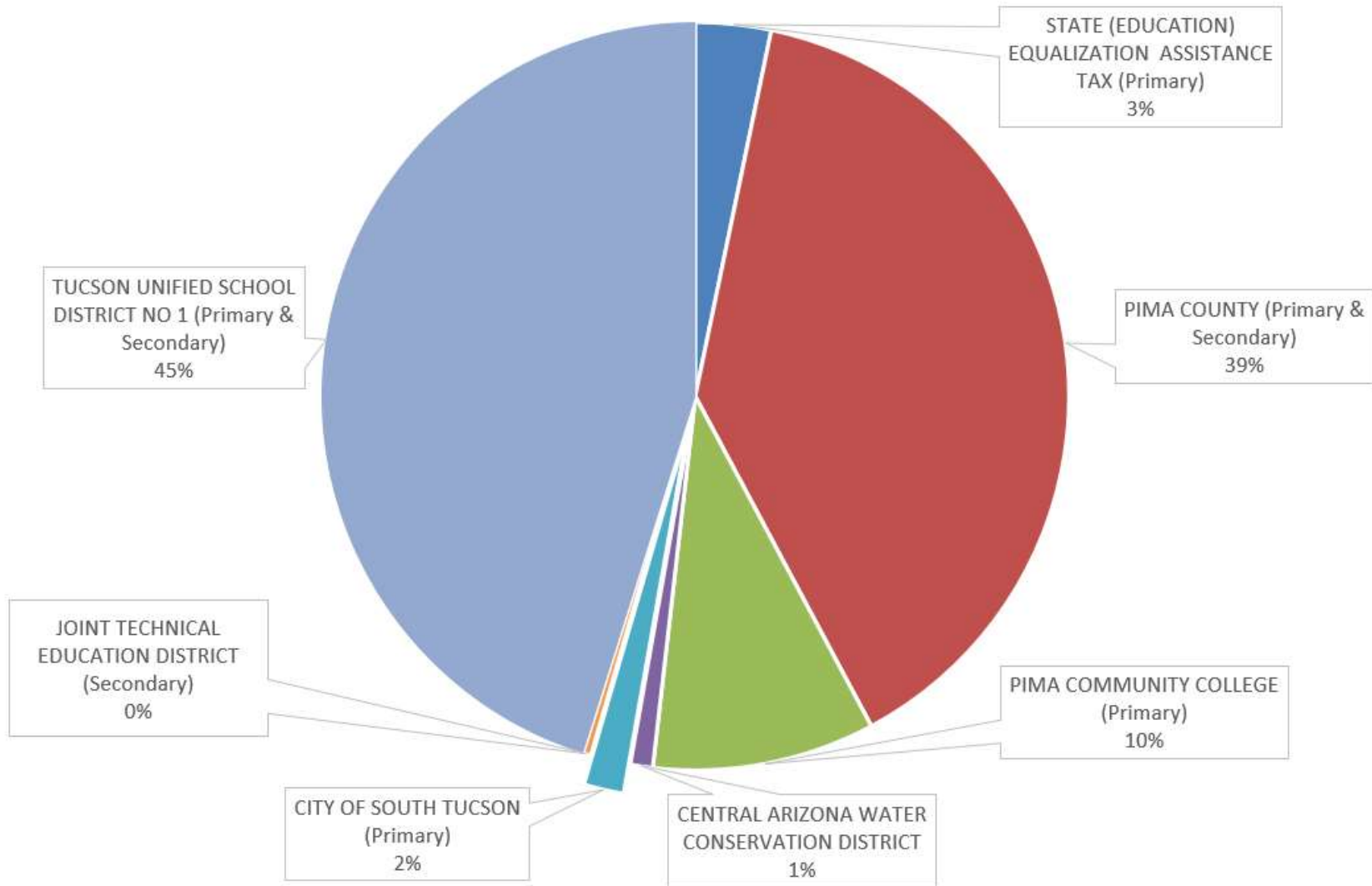
Mayor & Council Presentation Dated: March 25, 2019

Example of Property Tax Rates:

Property Tax Rates Per Hundred Dollar Value

Jurisdiction	2018 Tax Rates	South Tucson	Pima County	TUSD	Pima College	All Other
PIMA COUNTY PRI	\$4.0696		\$ 4.0696			
COUNTY ROAD PRI	\$0.0000		\$ -			
SCHOOL EQUAL	\$0.4741			\$ 0.4741		
TUSD MAINT & OPER	\$4.0002			\$ 4.0002		
TUSD UNRES CAPITAL	\$0.0945			\$ 0.0945		
TUSD ADJACENT WAYS	\$0.0076			\$ 0.0076		
TUSD DESEGREGATION	\$1.9279			\$ 1.9279		
PIMA COLLEGE PRI	\$1.3983				\$ 1.3983	
SOUTH TUCSON PRI	\$0.2512	\$0.2512				
COUNTY BONDS SEC	\$0.6899		\$ 0.6899			
TUSD SCH DIST SEC	\$0.5255			\$ 0.5255		
JNT TECH ED SEC	\$0.0500					\$ 0.0500
CEN ARIZ WTR SEC	\$0.1400					\$ 0.1400
PIMA CO FLD SEC	\$0.3336		\$ 0.3336			
LIBRARY DISTRICT	\$0.5154		\$ 0.5154			
FIRE DIST ASSIST	\$0.0449					\$ 0.0449
TOTAL TAX RATE:	\$14.5226	\$ 0.2512	\$ 5.6085	\$ 7.0297	\$ 1.3983	\$ 0.2348
	Percent of total tax rate:	1.7%	38.6%	48.4%	9.6%	1.6%

Property Tax Rates Charged to South Tucson Property Owners



Economic Downturn (Recession)

From 2008 – 2011

- Severe drop in sales tax revenue

From levels of \$5.4 Million in 2007 to \$3.4 Million in 2012

(currently collections are projected at \$2.9 Million for FY 2020)

Steps taken to help make up for the shortfall...

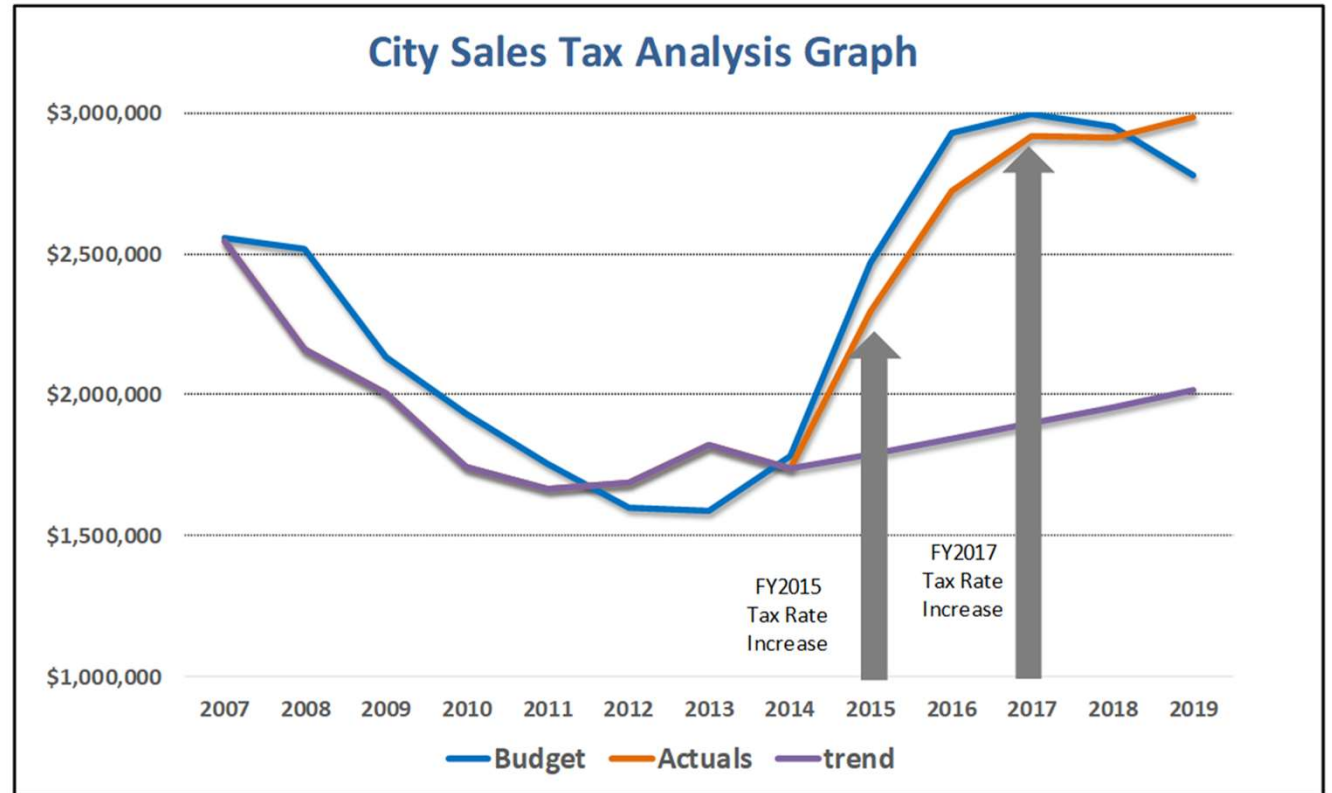
- Mass reduction in staffing levels
(currently still at 50% of what they once were in 2001)
- Employee Salary Cuts
- Unpaid Holidays
- Furloughs
- Major cuts to operating budgets

Still, the cumulative deficit for 2008-2011 was -\$952,000

Revenue Generating Options

In 2015 & 2017:

Sales tax rates had to be increased in order for the city to continue providing services to the community



The increase in sales tax collections can be attributed to sales tax rate increases in FY 2015 and FY 2017, not sales tax trend.

Slide 10

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MAKE SURE TO MENTION ON 7/8/19 - According to research, the timeline shows the secondary property tax was implemented from 2012-2014 to help offset the revenue losses of the recession. This allowed the city to continue providing services to the community. Once the secondary property tax was suspended in 2014, sales tax rates had to be increased in 2015 to help offset the loss of revenue in the amount of \$600K/year.

Lourdes Aguirre, 7/10/2019

Cost Savings

By 2015:

General Fund Balance (reserves) = depleted down to \$153K

Steps taken since then:

- Adopting budgets with conservative estimates
- Taking savings in personnel vacancies
- Every department operates with minimal operating budgets and as well as minimal staffing

Result

General Fund Balance (reserves) = anticipated to reach \$782K at 6/30/2019.

Major Challenges

By Fiscal Year 2019:

General Fund Balance (reserves) = anticipated to reach \$782K

City has been able to grow its fund balance by \$629K in 4 years, despite:

POLITICAL CHANGE

4 Mayors & 4 City Managers from 2013 to date

LAWSUITS & LIABILITIES = \$16M+

Waste Management (\$300K), Pasadera (\$2.4M), Secondary Property Tax (\$1.8M),
Unpaid Jail Fees (\$900K), Pensions (\$12M)

3.) HOW MUCH MONEY IS ON HAND?

General Fund Balance (reserves) = anticipated to reach \$782K

GENERAL FUND BALANCE RESERVES SHOULD BE USED TO COVER EMERGENCIES.

Examples of emergencies are: recession, drop in sales taxes, natural disaster and unfunded mandates.

Unfortunately, for Fiscal Year 2020, the City anticipates having to utilize a portion of fund balance to pay for operations, in spite of cutting 2% of the overall general fund budget.

Fiscal Year 2020 General Fund Budget

General Fund Balance (reserves) = anticipated to reach \$782K

* Issue at hand - Fiscal Year 2020 General Fund Budget:

	General Fund FY 2020	Rolling Fund Balance
Fund Balance at 6/30/2019		\$782,620
Starting Deficit	-\$312,237	470,383
Internal Budget Savings	90,296	560,679
Remaining Deficit (out of Fund Balance)	-\$221,941	

4.) WHAT IS THE PLAN?

SHORT-TERM:

A ½ Cent Sales Tax Increase, while “long-term” planning takes place.

LONG-TERM PLANNING:

- 1.) Finding ways to diversify revenue streams
- 2.) Continued economic development efforts

How will it help?

The 1/2 cent sales tax has been proposed as a measure that will help sustain current levels of operation which we believe are inadequate.

That is why the situation is critical. Even the following table shows a side by side comparison of the “projected deficit” with and without a 1/2 cent sales tax.

Without it:

Fiscal Year	Projected Deficit	Running "Unassigned" Fund Balance
Projected "Unassigned" Fund Balance at 6/30/2019		\$782,620
FY 2020	-\$244,824	\$537,796
FY 2021	-\$220,796	\$317,000
FY 2022	-\$196,396	\$120,603
FY 2023	-\$171,619	-\$51,016

With it:

Fiscal Year	Projected Deficit	Running "Unassigned" Fund Balance
Projected "Unassigned" Fund Balance at 6/30/2019		\$782,620
FY 2020	-\$97,624	\$684,996
FY 2021	-\$31,796	\$653,200
FY 2022	-\$7,396	\$645,803
FY 2023	\$17,381	\$663,184

5.) IMPACT ON THE CONSUMER:

While the increase will affect both business and residents, we estimate the impact will be minimal, conservative and across the board.

	<u>Retail Sales</u> (ST 017)	<u>Utility</u> (ST 004)	<u>Communications</u> (ST 005)
State Tax Rate	6.1%	6.1%	6.1%
City Tax Rate	4.5%	5.0%	5.0%
Total Tax Rate	10.6%	11.1%	11.1%
City Proposed ½ Cent Increase	0.5%	0.5%	0.5%
Total Tax Rate with Increase	11.1%	11.6%	11.6%

Result of the increase in dollars: For Retail Purchase (Non-Food), Utility or Communication Bill

Purchase/bill in the amount of:	\$1	\$10	\$100	\$1,000
Result of tax rate increase:	\$0.01	\$0.05	\$0.50	\$5.00