FINANCIAL POLICIES

The financial policies establish the framework for overall fiscal planning and management and set forth guidelines for both current activities and long-range planning. These policies are reviewed annually to ensure the highest standards of fiscal management. The City Manager and the leadership team have the primary role of reviewing financial actions and providing guidance on financial issues to the City Council.

OVERALL GOALS

The overall financial goals underlying these policies are:

1. **Fiscal Conservatism**: To ensure that the city is in a solid financial condition at all times. This can be defined as:

   A. Cash Solvency - the ability to pay existing bills
   B. Budgetary Solvency - the ability to balance the budget (all operating, capital and debt service expenditures should be covered by the appropriate revenue sources and meet all statutory requirements prior to the beginning of the year)
   C. Long Run Solvency - the ability to pay future bills
   D. Service Level Solvency - the ability to provide needed and desired services

2. **Flexibility**: To ensure that the city is in a position to respond to changes in the economy or new service challenges without an undue amount of financial stress.

3. **Adherence to the Highest Accounting and Management Practices**: To comply with the Government Finance Officers' Association (GFOA) standards for financial reporting and budgeting, the Governmental Accounting Standards Board and other professional standards.

FUND BALANCE POLICY- GENERAL FUND

In this policy General Fund refers to the grouping of funds as reported in the Comprehensive Annual Financial Report (CAFR) under General Fund and on Schedule One of this budget book. This Fund should maintain a minimum unrestricted fund balance between 5 and 10% of General Fund revenues received less revenues associated with the sporting facilities, certain rental revenues, replacement fund revenues and monies set aside for library, court, art commission, marketing self sustaining and employee groups divisions.

As part of the budget resolution, council will annually commit the funding level of the minimum fund balance requirement. Any balance in excess of 10% may be used to support city operations on a one-time basis for such items as capital equipment and building improvements, new construction of city facilities, minimization of prolonged fluctuations relating to the local and national economic condition (i.e. recessions), and unforeseeable and unexpected financial situations (natural disasters, acts of terrorism etc.). If a situation arises where unrestricted fund balance ends the fiscal year with a balance less than the calculated minimum unrestricted fund

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balance the deficiency should be replenished in the coming fiscal years, not to exceed a total of five consecutive years, using revenues received and reducing appropriations.

ESTABLISHMENT OF FUNDS

Delegation of the authority to establish new funds shall rest with the City Manager and designees as they see the need to segregate funds received for particular services or functions that are desired to be tracked separately from the general fund.

OPERATING BUDGET

1. **Ongoing operating costs** should be supported by ongoing, stable revenue sources. This protects the city from fluctuating service levels and avoids crises when one-time revenues are reduced or removed. Some corollaries to this policy are:

   A. **Fund balance** should be used only for one-time expenditures, such as capital equipment and building improvements, or contingency appropriations and related purposes.

   B. **Ongoing maintenance costs** such as vehicle repair and maintenance, building maintenance, and swimming pool replastering should be financed through operating revenues, rather than through the issuance of debt.

   C. **Fluctuating federal and state grants** should not be used to fund ongoing programs.

2. **Revenues from growth or development** should be targeted to costs related to development, or invested in improvements that will benefit future residents or make future service provision efficient. While it is tempting to use growth-related revenue to support current operations, doing so can lead to a crisis when the growth rate decreases. This policy implies a commitment to identifying the portions of the city's revenue stream that result from growth.

3. **General Fund appropriations,** including sales tax funds, should include a contingency appropriation equal to at least 5 to10% of projected revenues for the upcoming fiscal year. This contingency appropriation essentially serves as the City's revenue stabilization account (i.e., rainy day account). As such, it can help to minimize the impact of prolonged fluctuations in sales tax revenues, which is the revenue source most sensitive to changes in the economy. It also can be used to mitigate the negative effects of unforeseeable and unexpected financial situations.

4. **Enterprise Funds** should include a sufficient unappropriated fund balance to absorb fluctuations in annual revenue. Enterprise funds should also be charged directly for overhead services whenever possible, rather than using an indirect cost allocation. These services include expenses related to employee fringe benefits, risk management and workers compensation insurance costs, telephone charges, and technology and vehicle replacement charges. Provisions should also be made for interdepartmental charges for services such as solid waste collection and disposal, as well as vehicle maintenance and repair.

5. **Replacement of vehicles and technological equipment** will be done through the Vehicle Replacement and Technology Replacement Funds. A rental rate structure will be established annually to provide sufficient funds for replacement of covered equipment. New equipment added to the existing fleet should be paid initially with operating capital by the requesting department. In addition, a corresponding rental rate payment for the new equipment should be included within the requesting department's operating budget on an ongoing basis. The Field Operations Department should review all vehicle-related purchases and the Information Technology Department all technology related purchases.

6. **A financial forecasting model** should be maintained to test the ability of the city to absorb operating costs due to capital improvements, and to react to changes in the economy or service demands. This forecast should cover at least five years and be updated annually.

7. **Salary policy and structure** should emphasize the provision of predictable salary increases, sustainable over time, that serve to recognize and reward the contributions of experienced and well-trained staff. To this end, the merit pay policy provides for merit increases of up to 6% annually to qualified employees based on the city's ability to pay. To reflect increases related to market pay range adjustments and inflation, Council sets a target that is based on a Human Resources market survey of other Valley cities and therefore will vary depending on whether the majority of city job classifications are below market, at market or above market.

8. **Laws and policies related to limitations on revenue sources** should be explicitly addressed in the budget process. These include:

   A. One-third of annual **Local Transportation Assistance Funds** (LTAF) must be devoted to transit (Regional Public Transportation Authority).

   B. No more than one-half of the prior year's **Highway User Revenue Fund** (HURF) can be used for debt service (A.R.S. 48-689).

   C. The city must maintain its level of **General Fund support in street maintenance and operations**, as provided by state law.

9. **Debt Management**

   A. **Short-term borrowing** or lease/purchase contracts should be considered for financing major operating capital equipment when the Executive Director for Budget and Finance Services, along with the city's financial advisors, determines that this is in the city's best financial interest. Lease/purchase decisions should have the concurrence of the appropriate operating manager.

   B. **Short-term debt** should not exceed 5% of revenue or 20% of total debt. The short-term debt for the city is documented in Schedule 8 of this budget book.

   C. **Long-term debt.** The City will maintain a secondary property tax rate to support existing and future property tax supported debt. The City should maintain a general obligation debt service fund balance of at least 10% of next year's property tax supported debt service. The long-term debt for the city is documented in Schedule 7 of this budget book.

10. Budget Amendment Policies

A. **Total fund appropriation changes** must be approved by the City Council. These amendments must also comply with the city's Alternative Expenditure Limitation. In order to provide flexibility, between 5 and10% of the total General Fund revenue budget for the upcoming fiscal year should be set aside as a contingency appropriation as long as this contingency is backed by available fund balances.

B. **Uses of contingency appropriations** must be specifically approved by the City Council.

C. **Shifts in appropriations** within fund totals may be done administratively on the authority of the City Manager. In most cases the City Manager will request City Council concurrence with these changes since the item prompting the change will usually go to the City Council (e.g., award of contract, addition of staff, contract change order). Procedures for appropriations transfers and delegation of budget responsibility will be set by the City Manager. **Inter-fund transfers** must be specifically approved by City Council. Any inter-fund transfer that was not approved by City Council during the fiscal year (e.g., council communication for award of contract, contract change order) shall be included on the fiscal year end Clean-Up Ordinance to be approved by City Council.

D. **Salary savings transfers** must be approved by the city manager and are prohibited during the first 6 months of any given fiscal year. However, in the event of an extenuating circumstance, the city manager may override this policy and authorize a salary savings transfer during the first 6 months of the fiscal year.

11. A Budgetary Control System will be maintained to ensure compliance with the adopted budget. Quarterly budget status reports will be presented to, and reviewed by the City Council to ensure that the city finances are on track with the adopted budget.

12. Revenue Policies

A. Diversified and stable **revenues** will be maintained to ensure fiscal health and absorb short-run fluctuations in any one revenue source.

B. **User fees** for all operations will be examined annually to ensure that fees cover direct and indirect costs of service. Rate adjustments for enterprise operations will be based on five-year enterprise fund plans and/or other comprehensive rate studies.

C. **Development fees** for one-time capital expenses attributable to new development will be reviewed periodically to ensure that fees match development-related expenses.

CAPITAL BUDGET

1. **A long-range capital improvement plan** should be prepared and updated each year. The first five years of the 10-year plan should identify projects that can be completed with identified funding sources, with only the first year of the plan actually appropriated. This 10-year plan may include unfunded projects in the last five years of the plan as placeholders that carry out the city's long-term strategic and general plans. All projects are assessed annually regarding their necessity, priority, compatibility with Council goals, long-range plans of various departments and the City's financing capabilities.

2. When planning **capital projects**, each department must estimate the associated impact on the city's operating budget. Examples include any associated staffing, utilities, water, landscape, building and equipment maintenance, computer/vehicle ongoing replacement, insurance costs, etc.

3. **Amendments to capital appropriations** fall under the same guidelines as changes to the operating budget noted above.