

Adopted Comprehensive Financial Policies and Governing Guidance

Operating Management

1. All divisions will participate in the responsibility of meeting policy goals and ensuring long-term financial health of the city. Future service plans and program initiatives will be developed to reflect current policy directives, projected resources and future service requirements. In order to ensure compliance with policy, sunset provisions will be required on all grant program initiatives and incorporated into other service plans, as appropriate.
2. The budget process is intended to weigh all competing requests for city resources, within expected fiscal constraints. Requests for new, ongoing programs made outside the budget process will be discouraged.
3. Annual budgets shall include documentation that departments met intended objectives ("effectiveness criteria") and provide value in terms of dollars allocated ("efficiency criteria").
4. The budget shall be considered balanced if all sources of revenue, as estimated, are equal to, or exceed, the total of amounts proposed to be used in the operating budget for the current fiscal year, by fund. To the extent unencumbered balances from the preceding fiscal year are required to achieve a balanced budget, use of unencumbered balances from the preceding fiscal year will be only as authorized by City Council.
5. The full City Council will solicit citizen input and review the operating and capital budget recommendations from a divisional, program, and goals perspective.
6. Revenues will not be dedicated for specific purposes, unless approved by City Council or required by law. All non-restricted revenues will be deposited in the General Fund and appropriated by the budget process.
7. A diversified and stable revenue system will be developed to protect city services from short-term fluctuations in any single revenue source.
8. Balanced revenue and expenditure forecasts will be prepared annually and include a five-year plan for each fund to demonstrate the city's ability to adapt to forecast changes in the economy, service demands, and capital improvements.
9. Enterprise (Water, Water Reclamation, Solid Waste Management, and Aviation) user fees and charges will be examined annually to ensure that they recover all direct and indirect costs of service, debt service, provide adequate funding for future capital needs and be approved by the City Council. Any unfavorable balances in cost recovery will be highlighted in budget documents. Rate adjustments for enterprise operations will be developed pursuant to a multi-year financial plan that levels the impact of user rate changes.
10. All other user fees and charges will be examined periodically to determine the direct and indirect cost of service recovery rate, excluding voter-approved debt service. The acceptable recovery rate and any associated changes to user fees and charges will be approved by the City Council.
11. Development impact fees, as permitted by state law, for capital expenses attributable to new development will be reviewed periodically with an engineering assessment to ensure that fees recover all direct development-related expenses and be approved by City Council. Any unfavorable balances in cost recovery will be highlighted in budget or financial documents.
12. The use or replacement of Fleet and Information Technology (PC, phones and copier systems) will be accounted for through the use of a direct or a "rental" rate structure. The rates will be revised annually to ensure that charges to operating divisions are sufficient for operation and replacement of vehicles and other equipment. Replacement costs will be based upon equipment lifecycle financial analysis.
13. Grant funding will be considered to leverage city funds. Inconsistent and/or fluctuating grants should not be used to fund ongoing programs. Programs financed with grant monies will be budgeted in separate cost centers, and the service program will be adjusted to reflect the level of available funding. In the event of reduced grant funding, city resources will be substituted only after all program priorities and alternatives are considered during the budget process.
14. Alternative means of service delivery will be evaluated to ensure that quality services are provided to our citizens at the most competitive and economical cost. Divisions, in cooperation with the City Manager, City Auditor and City Treasurer, will identify activities or services that could be provided over the long-term more efficiently or effectively by another

source and review options/alternatives to current service delivery. The review of service delivery alternatives and the need for the service will be performed on a reasonably periodic or on an "opportunity" basis.

15. Cash and Investment programs will ensure that proper controls and safeguards are maintained. City funds will be managed in a prudent and diligent manner with an emphasis on safety of principal, liquidity, and financial return on principal, in that order.
16. Uncollectible accounts, excluding City Court, will be no more than five-tenths of one percent of revenue on an annual basis unless otherwise approved by City Council.
17. Any year-end General Fund operating surpluses not needed to restore contingency reserves or cover unforeseen shortfalls in the budget, but in no case less than: (1) 25 percent of construction privilege tax revenues; (2) 100 percent of net interest income in excess of \$1.0 million; and (3) two-thirds of the 1.1 percent sales tax collected on food for home consumption, which will then be reduced 25 percent in year two of the five-year financial plan and each subsequent year until the transfer is \$0 will be transferred to the General Fund Capital Improvement Program in the following fiscal year unless otherwise directed by City Council.
18. Addition of personnel will only be requested to meet program initiatives and policy directives; after service needs have been thoroughly examined and it is substantiated that additional staffing will result in increased net revenue or enhanced operating efficiencies. To the extent feasible, personnel cost reductions will be achieved through attrition.
19. Benefits and compensation will be administered in accordance with policy given by City Council. As part of a cost-containment strategy, total costs for health insurance premiums will be shared between the employer, employees and public safety disabled retirees. Total premiums will be evaluated on an annual basis to ensure they are reasonable and competitive and that total premiums are expected to provide adequate funding of anticipated claims and a reasonable level of loss reserves.
20. An annual General Fund transfer will be made to the Benefits Healthcare Self Insurance Fund to subsidize the cost of providing healthcare benefits to sworn public safety accidental disabled retirees.
21. Property tax will be levied to recover: (1) annual payments of principal and interest for existing and planned general obligation bond issuances, including the factors and amounts authorized by state law but net of the amount required under state law and (2) revenues required for the General Fund equal to (a) the prior year's revenue (b) plus new growth added to the tax roll and (c) the prior year's tort liability payments as approved by City Council. Council may also approve the legally allowable maximum over the previous year's primary levy.
- 21A. 100 percent of the transient lodging (bed) taxes received by the city shall be deposited into the Special Revenue Fund for Tourism Development (Tourism Development Fund). Additionally, the Tourism Development Fund shall receive 100 percent of Princess Hotel lease revenues.

The transient lodging (bed) tax revenues will be allocated annually as follows:

- 50 percent for destination marketing as approved by the voters;
- 12 percent for the General Fund;
- nine percent for tourism-related events and event development;
- four percent for tourism-related administration and research;
- 25 percent, plus the lease payments on the Princess Resort, or the balance of the remaining Tourism Development Fund revenues, for tourism-related operating expenses, capital projects and/or operating impacts that are directly associated with tourism-related capital projects, in the form of one-time commitments or multi-year annual commitments, not to exceed \$600,000 per commitment unless otherwise approved by City Council.

At the end of each fiscal year, any unused funds in the Tourism Development Fund will be available for use in following years for any of the non-marketing tourism categories (except the general fund category) and may be allocated without limitations, except that they may not be leveraged for multi-year annual commitments, such as debt service payments.

In the event of a decrease in Tourism Development Fund revenues, debt service is the priority and will be met first.

22. Any year-end Transportation Fund operating surpluses not needed to restore contingency reserves or cover unforeseen shortfalls in the budget will be transferred to the Transportation Fund Capital Improvement Program in the following fiscal year unless otherwise directed by City Council.

Capital Management

23. A five-year Capital Improvement Plan will be developed and updated annually, including anticipated spending as well as funding sources. Capital improvement projects are defined typically as multi-year efforts which may include purchases or construction of infrastructure or equipment which results in a new capitalized asset costing more than \$25,000 and having a useful life of five years or more. No funding commitments will be made for any project in the CIP unless the project has sufficient budget authority in the current budget year to meet the entire amount of the commitment. For each year of the CIP, total anticipated expenditures and commitments will not exceed projected starting fund balance plus total anticipated revenues for that year.
24. Pay-as-you-go Capital Improvement Plan financing should account for a minimum of 25 percent of all capital improvement projects, excluding Preservation and Enterprise, for each five-year planning period. Pay-as-you-go financing is defined as all sources of revenue other than city debt issuance, i.e., fund balance contributions, developer contributions, grants, endowments, etc.
25. Proposed capital projects will be reviewed and prioritized by a cross-divisional team regarding accurate costing (design, capital, and operating), prevention of existing infrastructure deterioration before the addition of new infrastructure and overall consistency with the City's General Plan and City Council's goals and objectives.
26. Dedicated 0.2 percent privilege tax revenue for transportation improvements will be restricted to funding the planning, design, construction and acquisition costs associated with building, renovating, or enhancing capital projects for streets, highways, traffic control, and transit; and for transportation improvement operating expenses. No more than 50 percent of the privilege tax revenue for transportation improvements will be allocated to transportation improvement operating expenses.
- 26A. Dedicated 0.1 percent privilege and use tax revenue for transportation improvement projects will be restricted to funding the planning, design, construction, and acquisition costs associated with building, renovating, or enhancing capital projects for streets, highways, and transportation improvements.
27. Future operating, maintenance, and capital costs associated with new capital improvements and contractual obligations approved by Council will be forecasted and included in the Operating Budget, five-year financial plan and the Capital Improvement Plan.

Debt Management

28. General Obligation debt, which is supported by property tax revenues and grows in proportion to the city's assessed valuation and/or property tax rate increases, will be utilized only as authorized by voters. Other types of voter-approved debt may also be utilized only when they are supported by dedicated revenue sources.
29. General Obligation debt issuances (excluding Preserve General Obligation debt) will be managed on an annual basis to match funds to Capital Improvement Plan cash flow requirements. The city will not exceed \$1.50 combined property tax per \$100 assessed value unless otherwise directed by City Council.
30. Non-voter approved debt will be utilized only when a dedicated revenue source (e.g., facility revenue and bed tax) can be identified to pay, or reimburse the city for paying, debt service expenses. City Debt Service (excluding enterprise, general obligation and preservation) costs (Municipal Property Corporation, Revenue Bond, and Contractual Debt) should not exceed five percent of the city's current or future annual operating revenue in order to control fixed costs and ensure expenditure flexibility. The following considerations will be made to the question of pledging of project (facility) revenues towards debt service requirements:
 - a. The project requires monies not available from other sources.
 - b. Matching fund monies are available which may be lost if not applied for in a timely manner.
 - c. Catastrophic conditions.
 - d. The city shall not give or loan its credit in aid of, nor make any donation, grant or payment of any public funds, by subsidy or otherwise, to any individual, association, or corporation, except where there is a clearly identified public purpose and the city either receives direct consideration substantially equal to its expenditure or provides direct assistance to those in need.

31. McDowell Sonoran Preservation debt service will be funded by the dedicated 0.35 percent privilege tax. The city's privilege taxes to revenue bond debt service goal will be at least 1.5:1 for senior lien debt to ensure the city's ability to pay for preserve debt from this elastic revenue source.
32. Improvement District (ID) and Community Facility District (CFD) Bonds shall be permitted only when there is a general city benefit. ID and CFD bonds will be utilized only when it is expected that they will be issued for their full term. It is intended that ID and CFD bonds will be primarily issued for existing neighborhoods desiring improvements to their property such as roads, water lines, sewer lines, streetlights, and drainage.
 - a. Improvement District debt will be permitted only when the full cash value of the property, as reported by the Assessor's Office, to debt ratio (prior to improvements being installed) is a minimum of 3:1 prior to issuance of debt and 5:1 or higher after construction of improvements. Should the full cash value to debt ratio not meet the minimum requirements, property value may be determined by an appraisal paid for by the applicant and administered by the city. In addition, the city's cumulative improvement district debt will not exceed five percent of the city's net assessed limited property valuation. Bonds issued to finance improvement district projects will not have maturities longer than ten years.
 - b. Community Facility District debt will be permitted only when the full cash value of the property, as reported by the Assessor's Office, to debt ratio (prior to improvements being installed) is a minimum of 3:1 prior to issuance of debt and 5:1 or higher after construction of improvements. In addition, the city's cumulative facility district debt will not exceed five percent of the city's net assessed limited property valuation. The landowner/developer shall also contribute \$0.25 in public infrastructure improvement costs of each dollar of public infrastructure improvement debt to be financed by the district.
33. Bond interest earnings will be limited to funding changes to the bond financed Capital Improvement Plan, as approved by City Council, or be applied to debt service payment on the bonds issued for construction of this plan.
34. While considering the bond rating impacts, the effect on short-term user rates and the level of cash reserves, the Water and Water Reclamation Enterprise Funds will use long-term debt when prudent to achieve a ratio of long-term debt to tangible fixed assets (capital assets net of depreciation plus equity in joint venture) of no more than 50 percent.

Reserve Management

35. All fund designations and reserves will be evaluated annually for long-term adequacy and use requirements in conjunction with development of the city's balanced five-year financial plan.
36. The following stabilization reserves will be maintained for unforeseen emergencies or catastrophic impacts to the city:
 - a. General Fund Stabilization Reserve of 10 percent of annual General Fund operating expenditures.
 - b. Transportation Fund Stabilization Reserve of 10 percent of annual Transportation Fund operating expenditures.
 - c. An Excise Tax Stabilization Reserve will be funded at no less than \$5.0 million to be temporarily used for unforeseen emergencies or catastrophic impacts to the city.
37. Debt Service Reserve will be funded with secondary property taxes, levied by City Council, and will not exceed 10 percent of the amount needed to pay the following year's bonded indebtedness for General Obligation bond principal and interest (excluding Preserve General Obligation bonds). A debt service sinking fund will be maintained to account for these restricted revenues and debt payments, as well as any additional debt amounts deemed to be advisable and necessary for any public or municipal purposes.
38. Contingency Reserves for each fund to be established annually will be maintained to offset unexpected expenditure increases. Contingency reserves may also be used for unanticipated and/or inadequately budgeted events threatening the public health or safety. Use of contingency funds should be utilized only after all budget sources have been examined for available funds, and subject to City Council approval.
39. Separate Operating Fund Reserves will be maintained for the city's Water, Water Reclamation, Solid Waste Management, and Aviation Enterprise Funds. Such reserves shall be funded between 60 and 120 days of budgeted operating expenditures, excluding expenditures for debt service. Operating Fund Reserves shall be maintained to provide contingency funding and expenditure flexibility in the event of unexpected declines in revenue or increases in costs.

40. Replacement and Extension Reserves will be maintained by the Water and Water Reclamation Enterprise Funds to ensure adequate resources for replacement of water and water reclamation infrastructure. Such reserves shall equal two percent of the gross book value of all tangible fixed assets of the system and shall be utilized only to provide contingency funding and expenditure flexibility during times of unusual circumstances.
41. Self Insurance Reserves will be maintained at a level that will adequately fund the city's financial obligations for the payment of property, workers' compensation, liability, and health benefit losses. A qualified actuarial firm shall be retained on an annual basis to project and develop losses in order to recommend appropriate reserve levels. The Loss Trust Fund Board's target is to maintain a Risk Management reserve fund balance equivalent to the actuary's 85 percent confidence interval of projected total outstanding claims liability.
42. The Fleet Fund and PC Replacement Fund will be maintained to ensure adequate funding for systematic replacement and operational needs.
43. Any intentional drawdown of fund reserves requires City Council approval.

Financial Reporting

44. The city's accounting and financial reporting systems will be maintained in conformance with all state and federal laws, generally accepted accounting principles (GAAP) and standards of the Governmental Accounting Standards Board (GASB). The City Treasurer shall issue timely monthly financial reports to City Council.
45. Accounting methods will include essential policies, procedures and internal controls to monitor all general ledger activity on an ongoing basis.
46. Prior to the end of each fiscal year the Council shall designate certified public accountants who, shall perform an independent audit of the city's annual financial statements in accordance with generally accepted government auditing standards. The certified public accountants shall be independent of the city government, having no personal interest, direct or indirect, in the fiscal affairs of city government or any of its officers. The certified public accountants shall submit their reports to the Council. All such audit reports shall be a matter of public record.