

RESOLUTION # 2019-72

A RESOLUTION OF THE MAYOR AND COUNCIL OF THE CITY OF SURPRISE, ARIZONA UPDATING THE CITY OF SURPRISE COMPREHENSIVE FINANCIAL MANAGEMENT POLICIES FOR FISCAL YEAR 2020.

WHEREAS, the City desires to establish sound financial policies and principles to contribute to sound financial management continuity in handling financial affairs and preserving the City's fiscal integrity;

WHEREAS, the City currently has in place a set of Comprehensive Financial Management Policies, in order to achieve sound financial management continuity in handling its financial affairs and to preserve its fiscal integrity, which was last updated on June 19, 2018 to reflect the 2019 Fiscal Year; and

WHEREAS, the City now desires to update the Comprehensive Financial Management Policies for the 2020 Fiscal Year.

NOW, THEREFORE, BE IT RESOLVED by the Mayor and Council of the City of Surprise, Arizona, as follows.

Section 1. The Fiscal Year 2020 Comprehensive Financial Management Policies set forth in *Exhibit A* attached hereto and incorporated by reference herein is adopted.

Section 2. The Finance Director is hereby authorized and directed to take the appropriate steps to incorporate the changes into the Comprehensive Financial Management Policies of the City of Surprise and disseminate the new policies as necessary.

APPROVED AND ADOPTED this 18 day of June, 2019.



Skip Hall, Mayor

Approved as to form:



Robert Wingo, City Attorney

Attest:



For Sherry Aguilar, City Clerk

EXHIBIT A

CITY OF SURPRISE, ARIZONA
COMPREHENSIVE FINANCIAL MANAGEMENT POLICIES
EFFECTIVE JULY 1, 2019

Introduction

The City Council's Strategic Plan Framework, goals, and objectives provide the foundation for the comprehensive financial management policies. The City's comprehensive financial policies provide the roadmap to achieve financial resiliency and demonstrate the City's commitment to sound financial management practices. As defined by the Government Finance Officers Association (GFOA), the City Council strives to build a financially resilient government through financial policies and long-term financial planning. The GFOA has identified eight characteristics of a financially resilient government:

1. Diversity: Avoid reliance on a single solution.
2. Redundancy: Avoid having only one path of rescue.
3. Decentralization: Centralized systems look strong, but failure is catastrophic.
4. Transparency: Make it easier to figure out where a problem may lie. Share plans and listen when people point out flaws.
5. Collaboration: Working together to become stronger.
6. Fail Gracefully: Failure happens. Make sure failure won't make things worse.
7. Flexibility: Be ready to change when plans aren't working. Don't expect stability.
8. Foresight: Think and prepare.

Financial policies contribute to increased public confidence and trust as well as provide clear direction to City staff concerning the diligence and stewardship with which public monies are to be managed. Adopted financial policies show our citizens, the credit rating industry, and prospective investors (bond buyers) the City's commitment to financial resiliency. These policies are presented in the following five areas:

1. Operating Management
2. Capital Management
3. Debt Management
4. Minimum Fund Balance
5. Financial Reporting

Operating Management Policies

1. All departments will participate in the responsibility of meeting policy goals and ensuring long-term financial resiliency.
 2. The budget shall be considered balanced if revenues plus use of fund balance are equal to or exceed total expenses, by fund. The budget process is intended to weigh all competing requests for City resources, within expected fiscal constraints.
 3. The City Budget is adopted by department within each fund and by project in the capital funds.
 4. The full-time equivalent (FTE) count and number of full-time positions are adopted by department within each fund.
 5. City Council has the authority to amend the adopted budget for movement between funds or departments; movement from full-time personnel to any other category; any change to the full-time equivalent (FTE) count or
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number of full-time positions; any change to grant or major Capital Improvement Plan (CIP) projects; and all use of contingency.

6. The City Manager has the authority to amend the adopted budget for use of the Emergency Reserve; movement between part-time personnel and full-time personnel; movement of part-time personnel to or from any other category; movement of overtime personnel to or from any other category; and movement to full-time personnel from any other category. The City Manager shall provide a summary report to the City Council on any use of the Emergency Reserve who will then take action on the necessary budget amendment by Resolution.
7. The Finance Director has the authority to amend the adopted budget related to targeted savings; carryforward; and development agreements or debt service obligations when the agreement has been previously approved by City Council. The Finance Director shall provide a summary report to the City Council on the movement of these funds who will then take action on the necessary budget amendment by Resolution.
8. Department Directors have the authority to amend the adopted budget for the movement of supplies, services, non-CIP capital, and personnel between divisions.
9. Long-range financial plans will be prepared to guide the City and ensure the delivery of needed services due to changes in the economy, service demands, and capital improvements.
10. Regional considerations and intergovernmental relationships will be evaluated to fund both operating services and capital projects.
11. The City Council will consider citizen input and review the operating and capital budget recommendations from an outcome and goals perspective.
12. A diversified revenue system will be developed to protect City services.
13. The City Council will set the amount to be received from primary property taxes annually. The amount is limited to one-hundred and two percent (102%) of the prior fiscal year's maximum allowable levy plus new construction and reimbursement for the prior calendar year's tort liability payments.
14. To ensure that the City does not become overly reliant on "one-time" revenues for operating needs, the first \$1.25 million received in revenues from the two and two-tenths percent (2.2%) transaction privilege tax on construction will be retained in the General Fund. Any additional amount will be recorded in the General Capital Fund and will be used to fund the Capital Improvement Plan.
15. The City currently imposes an additional one and one-half percent (1.5%) transaction privilege tax on construction dedicated to the construction of new roadways and to refurbishing existing transportation corridors. The revenue is recorded in the Transportation Improvement Fund and will be used to fund transportation projects in the Capital Improvement Plan.
16. The City currently imposes a four and fifty-two hundredths percent (4.52%) transaction privilege tax on transient lodging. The four and fifty-two hundredths percent (4.52%) tax rate is then split, with three and fifty-two hundredths percent (3.52%) recorded in the Tourism Fund to be used for promoting tourism and one percent (1.0%) recorded in the General Fund. The three and fifty-two hundredths percent (3.52%) recorded in the Tourism Fund has been committed by City Council to be used for promoting tourism. Of the amount recorded in the Tourism Fund, the Tourism Advisory Board has designated that seventy-five percent (75%) is spent for sports tourism facility development and improvement and twenty-five percent (25%) on marketing, studies, and special events.

17. Water, Wastewater, Stormwater, and Solid Waste user fees and charges will be examined annually to ensure they recover all direct and indirect costs of service and will be approved by the City Council.
18. All user fees (excluding water, wastewater, stormwater, and solid waste) will be examined periodically to determine the direct and indirect cost of service recovery rate. The acceptable recovery rate and any associated changes to user fees and charges will be approved by the City Council.
19. Grant funding will be considered to leverage City funds and requires City Council approval prior to acceptance.
20. Cash balances identified for investments will be maintained in accordance with state law and the adopted investment policy to ensure that proper controls and safeguards are maintained. City funds will be managed with an emphasis on safety of principal, liquidity, and yield, in that order.
21. Employee compensation and benefits will be administered in accordance with the policy given by the City Council. Healthcare costs will be shared between the City and employees and this allocation will be evaluated annually.
22. The Healthcare Self-Insurance Trust Fund was created under the authority of Arizona Revised Statute § 11-981. The Board of Trustees is charged to administer the trust fund and “make recommendations to the City Council regarding trust fund programs, including amount of appropriations to assure stability and security of the trust fund.”
23. An actuarial evaluation will be performed annually to determine the Incurred but Not Reported (IBNR) claim liability. This amount is required by accounting practices and represents the cost of unpaid claims (claims run-out), assuming the City stops being self-insured.
24. The City will optimize the efficiency and effectiveness of its services to reduce costs and improve service quality.
25. The City will maintain a methodology for allocating the City’s indirect costs to service departments. A consultant may be hired to update the plan periodically.
26. All cash transfers between funds must be approved by City Council. Transfers to record capital assets within operating and capital funds are not presented to the City Council as these are administrative in nature.
27. All initial inter-fund loans must be approved by City Council.
28. All use of budgetary contingency accounts must be approved by City Council prior to being expended.

Capital Management Policies

29. The City shall use an integrated approach to capital planning and financing in preparing a five-year Capital Improvement Plan. Only the first year of the plan will be adopted by the City Council.
 30. The Capital Improvement Plan will include funding to support repair and replacement of capital equipment and infrastructure. If not fully expended within the fiscal year it is appropriated, funding to support repair and replacement of capital equipment and infrastructure will not rollover to subsequent years. A high priority should be placed on those items where deferring maintenance will result in greater cost to restore or replace. Proposed capital projects will be prioritized based on the City Council’s goals and objectives, the General Plan, and master plans.
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APPENDIX

Comprehensive Financial Management Policies



31. Future operating, maintenance, and replacement costs associated with new capital improvements will be included as a schedule within the annual budget document. Capital projects will include a fiscal impact statement disclosing the expected operating impact of the project and when such cost is expected to occur.
32. The first \$1.25 million received in revenues from the two and two-tenths percent (2.2%) transaction privilege tax on construction will be retained in the General Fund. Any additional amount will be recorded in the General Capital Fund and will be used to fund the Capital Improvement Plan.
33. The City currently imposes an additional one and one-half percent (1.5%) transaction privilege tax on construction dedicated to the construction of new roadways and to refurbishing existing transportation corridors. The revenue is recorded in the Transportation Improvement Fund and will be used to fund transportation projects in the Capital Improvement Plan.
34. As permitted by state law, the City shall maintain a financial structure to ensure future development pays for itself and is not a burden on existing residents (i.e. "growth pays for growth"). Elements of this financial structure include impact fees, development agreements, Improvement Districts (IDs) and Community Facility Districts (CFDs).
35. Impact fees for infrastructure attributable to new development will be reviewed at least every other year to ensure that fees recover all direct and indirect development-related expenses, as permitted by state law, and will be approved by the City Council.
36. Any capital assets dedicated or donated to the City such as infrastructure, land, right-of-ways, easements, etc. must be approved by the City Council which must include a valuation of the assets.

Debt Management Policies

37. The City shall periodically report measurable steps taken in striving towards achieving and maintaining the highest possible bond ratings. This will minimize borrowing costs, optimize access to credit, and demonstrate excellent financial stewardship on behalf of our residents.
 38. An analysis showing how a new debt issue combined with current outstanding debt impacts the City's debt capacity and conformance with City debt policies will accompany every proposal.
 39. General Obligation debt, which is supported by property tax revenues, will be utilized as authorized by voters. Other types of voter-approved debt (e.g. water and wastewater) may also be utilized when they are supported by dedicated revenue sources (e.g. fees and user charges).
 40. Municipal Property Corporation, trust agreements, and contractual debt, all of which are non-voter approved, will be utilized only when approved by City Council.
 41. Improvement District (ID) and Community Facility District (CFD) bonds shall be permitted only when there is a general City benefit as defined and approved by the City Council.
 42. Utility rates will be established to ensure the ratio of net revenues to debt service meets bond indenture requirements.
 43. The Arizona Constitution provides that the general obligation bonded indebtedness for a city may not exceed twenty percent (20%) of the net secondary assessed valuation of the taxable property of the city for projects for purposes of water, wastewater, artificial light, open space preserves, parks and recreational facilities, public safety, law enforcement, fire and emergency services facilities, streets, and transportation facilities.
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Outstanding general obligation bonded indebtedness for all other purposes may not exceed six percent (6%) of the City's net secondary assessed valuation.

44. The City will follow appropriate procedures with regard to obligations under continuing disclosure undertakings as identified by the Securities and Exchange Commission under the Securities Exchange Act of 1934.
45. The City will follow appropriate procedures with regard to tax exempt obligations as identified by the Internal Revenue Code of 1986.

Minimum Fund Balance Policies

46. Minimum fund balances are not intended to be spent. The purpose of the minimum fund balance is to ensure the City has adequate resources to meet its needs. If the necessity arises to draw down a fund balance below the minimum requirements that have been set, a plan to replenish the minimum fund balance will be presented to the City Council for approval.
47. Minimum fund balance requirements will be evaluated annually for long-term adequacy and use requirements.
48. The City has formally adopted a minimum fund balance policy for the following governmental funds:
 - a. The General Fund will have a three-part reserve as follows:
 - i. The City will maintain an Emergency Reserve in the General Fund of one and sixty-seven hundredths percent (1.67%) of the average of budgeted personnel, supplies, and services expenses over a two-month period for that year's Council Adopted Budget for the General Fund, Ground Ambulance Fund, and the Highway User Revenue Fund. The Emergency Reserve is for unexpected, large-scale expenses resulting from events where immediate, remedial action must be taken to protect the health and safety of residents, all unassigned fund balance has been exhausted, and no amount previously appropriated by the City Council is otherwise available. Any use of the Emergency Reserve must be approved by the City Manager or designee. When this occurs, the City Manager shall provide a summary report to the City Council as soon as practical on the usage of these funds and have City Council approve any necessary budget amendments. At that time, the City Manager will also present a plan to restore the Emergency Reserve to the one and sixty-seven hundredths percent (1.67%) level within the next fiscal year following the fiscal year in which the event occurred.
 - ii. The City will maintain an additional General Fund Operating Reserve in the amount of ten percent (10%) of the average of budgeted personnel, supplies, and services expenses over a two-month period for that year's Council Adopted Budget for the General Fund, Ground Ambulance Fund, and the Highway User Revenue Fund. The Operating Reserve is for unexpected events such as failure of the state to remit revenues to the City, loss of state shared revenues, or other impairment of a significant funding source for the remainder of the fiscal year. The Operating Reserve may also be used for unexpected mandates or other events that cause the City to incur unplanned expenses. The Operating Reserve allows for the continuance of critical City services due to these unanticipated events and is done so after all unassigned fund balance has been exhausted and no amount previously appropriated by the City Council is otherwise available. Any use of the Operating Reserve, and associated budget amendments, must be approved by the City Council and include a repayment plan that projects to restore the Operating Reserve to the ten percent (10%) level within two fiscal years following the fiscal year in which the event occurred.
 - iii. The City will maintain an additional General Fund Budget Stabilization Reserve in the amount of five percent (5%) of the average of budgeted personnel, supplies, and services expenses

over a two-month period for that year's Council Adopted Budget for the General Fund, Ground Ambulance Fund, and the Highway User Revenue Fund. The Budget Stabilization Reserve is used to provide funding to offset reductions in revenues resulting from fluctuations in the economic cycle that cannot be otherwise absorbed by the operating budget. The reserve funds will provide time for the City to restructure its operations in a deliberate manner to ensure continuance of critical City activities and is used after all unassigned fund balance has been exhausted and no amount previously appropriated by the City Council is otherwise available. Any use of the Budget Stabilization Reserve, and associated budget amendments, must be approved by the City Council and include a repayment plan, based on a multi-year financial projection, that plans to restore the Budget Stabilization Reserve to the five percent (5%) level within the three fiscal years following the fiscal year in which the event occurred.

- b. General Capital Fund of \$1.0M
- c. Transportation Improvement Fund of \$0.5M
- d. Street Light Improvement Districts (SLIDs). SLIDs have a maximum levy limit of \$1.20 per \$100 of assessed valuation in accordance with A.R.S. § 48-616. To the extent that the levy limit has not been exceeded, taxes will be levied at a rate that will approach an individual ending fund balance reserve of five percent (5%) of its budgeted annual expenses.
- e. Tourism Fund of \$5,000.
- f. The Spring Training Ticket Surcharge Fund will have a minimum fund balance of \$600,000. Any excess fund balance remaining as of June 30 shall be remitted to the General Fund.
- g. The Water Fund will have a four-part reserve as follows:
 - i. The City will maintain an Operating Reserve equal to the average of budgeted personnel, supplies, and services expenses over a three-month period for that year's Council Adopted Budget for the Water Fund.
 - ii. The City will maintain an Asset Reserve equal to two percent (2%) of tangible capital assets of the system as of June 30 from the previous fiscal year.
 - iii. The City will maintain a Rate Stabilization Reserve equal to five percent (5%) of the budgeted operating sources for that year's Council Adopted Budget for the Water Fund.
 - iv. The City will maintain a Resource Portfolio Reserve equal to fifteen percent (15%) of the total cost of delivery and capital charges for Municipal and Industrial plus the Phoenix Active Management Area (AMA) Underground Storage charges multiplied by the total amount of the City's Central Arizona Project (CAP) allocation.
- h. The Wastewater Fund will have a three-part reserve as follows:
 - i. The City will maintain an Operating Reserve equal to the average of budgeted personnel, supplies, and services expenses over a three-month period for that year's Council Adopted Budget for the Wastewater Fund.
 - ii. The City will maintain an Asset Reserve equal to two percent (2%) of tangible capital assets of the system as of June 30 from the previous fiscal year.
 - iii. The City will maintain a Rate Stabilization Reserve equal to five percent (5%) of the budgeted operating sources for that year's Council Adopted Budget for the Wastewater Fund.

- i. The Stormwater Fund will have a two-part reserve as follows:
 - i. The City will maintain an amount equal to the average budgeted personnel, supplies, and services expenses over a two-month period for that year's Council Adopted Budget for the Stormwater Fund.
 - ii. The City will maintain an amount equal to two percent (2%) of tangible capital assets of the system as of June 30 from the previous fiscal year for repair and replacement.
- j. The Solid Waste Fund will have a four-part reserve as follows:
 - i. The City will maintain an Operating Reserve equal to the average of budgeted personnel, supplies, and services expenses over a three-month period for that year's Council Adopted Budget for the Solid Waste Fund.
 - ii. The City will maintain an Asset Reserve equal to two percent (2%) of tangible capital assets of the system as of June 30 from the previous fiscal year.
 - iii. The City will maintain a Rate Stabilization Reserve equal to five percent (5%) of the budgeted operating sources for that year's Council Adopted Budget for the Solid Waste Fund.
 - iv. As the Solid Waste Utility has excess revenues, the City will maintain a phased Contingency Reserve equal to one-half percent (0.5%) beginning in FY2022 and increased to one percent (1%) for each subsequent year through FY2024.
- k. The Risk Management Fund will maintain an amount that, together with purchased insurance policies, will adequately indemnify the City. The appropriate funding level will be set at three times the maximum annual loss of \$250,000 which is equal to \$750,000, which will be approved by the City Council.
- l. The Healthcare Self-Insurance Trust Fund will maintain an amount at a level which, together with purchased insurance policies (individual and aggregate stop loss), will adequately indemnify the City. The City has established an Adverse Times Reserve. The purpose of this reserve is to address cash flow needs caused by periods in which claim payments exceed projections. The target amount of this reserve is at least twenty-five percent (25%) of expected annual claims.
- m. The Workers' Compensation Self-Insurance Trust Fund will maintain an amount which, together with the purchased excess insurance policy will adequately indemnify the City. The Industrial Commission required reserve is \$1,500,000.

Financial Reporting Policies

- 49. The City's Finance Director will develop standard operating procedures to ensure the City's accounting and financial reporting systems are maintained in conformance with all state and federal laws, Generally Accepted Accounting Principles (GAAP) and the standards of the Governmental Accounting Standards Board (GASB).
 - 50. An annual audit will be performed by an independent public accounting firm. The City will prepare a Comprehensive Annual Financial Report (CAFR) with the objective of receiving an unmodified ("clean") audit opinion. The independent auditor will present and discuss audit findings regarding internal controls and operational issues to the Audit Committee at a public meeting.
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CAFR Fund Balance Reporting

1. The hierarchy from least spendable to most spendable fund balance for governmental funds of the City shall be: non-spendable, restricted, committed, assigned and unassigned. When funds are available from multiple classifications, it is the City's policy to utilize the most restrictive funding first.
 2. Non-spendable fund balances are determined solely by their form.
 3. Restricted fund balances are determined solely by the constraints placed on the use of the resources.
 4. Committed fund balance represents amounts that have been constrained to a specific use by the formal action of the City's highest level of decision-making authority, the City Council. A majority vote of the City Council is necessary to establish, modify, or rescind a fund balance commitment.
 5. The City has elected the following commitments of fund balance to be standardized from year to year.
 - a. A commitment for repair and replacement of general government vehicles and other rolling stock will be maintained based upon lifecycle replacement plans prepared annually. This commitment shall be maintained in the Vehicle Replacement Fund.
 - b. A commitment of a one and one-half percent (1.5%) construction sales tax to be used solely for the purposes of paying costs related to new roadways and to refurbish existing transportation corridors, to be maintained in the Transportation Improvement Fund (Ordinance No. 05-13).
 - c. In addition to the two and fifty-two hundredths percent (2.52%) transient lodging tax restricted by state statute, a commitment of an additional 1.0% transient lodging tax for a total of three and fifty-two hundredths percent (3.52%) will be used to promote tourism and be maintained in the Tourism Fund (Ordinance No. 2010-04).
 6. In order to be reported as committed fund balance in the CAFR the City Council must approve the commitments prior to June 30th. However, the amount of the commitment may be determined after June 30th.
 7. Amounts that have been constrained by the City's intent to be used for a specific purpose and are neither restricted nor committed are reported as assigned fund balance. The City Council has designated the authority to assign amounts to be used for specific purposes to the Chief Financial Officer (CFO).
51. The City's CAFR will be submitted annually to the Government Finance Officers Association (GFOA) Certificate of Achievement for Excellence in Financial Reporting program.
52. The City's Budget will be submitted to the Government Finance Officers Association (GFOA) Distinguished Budget Presentation program.
53. A financial report will be presented to the City Council no less than quarterly.
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