

# Financial Policies

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The following financial policies are intended to serve as guidelines for the City Council and City staff alike in the decision-making processes related to the City's financial operations, and the development of financial forecasts, annual budget, and capital plans.

The following is a summary of the financial policies. The policies identify guidelines applicable to ten content areas:

- Financial Policy 1 – The Annual Budget
- Financial Policy 2 – Unrestricted Reserve Balances
- Financial Policy 3 – Other Reserve Balances
- Financial Policy 4 – Charges for Services
- Financial Policy 5 – Debt Issuance and Management
- Financial Policy 6 – Capital Improvement Program (CIP) & Asset Replacement
- Financial Policy 7 – Investments & Cash Equivalents
- Financial Policy 8 – Financial Reporting
- Financial Policy 9 – Long Range Planning and Forecasting
- Financial Policy 10 – Risk Management

## **Financial Policy 1 – The Annual Budget**

Arizona law (Title 42 Arizona Revised Statutes) requires the City Council to annually adopt a balanced budget by purpose of public expense.

- 1.1 In accordance with Arizona law, the Mesa City Council shall annually adopt a balanced budget, where budgeted expenditures are equal to or less than anticipated resources.
- 1.2 The City will budget revenues and expenditures on the basis of a fiscal year which begins on July 1 and ends on the following June 30.
- 1.3 The status of the budget will be monitored throughout the fiscal year to ensure expenditures remain within the adopted budget.
- 1.4 Financial and performance systems will be maintained in a manner that allows for monitoring of expenditures, revenues, and operational performance plans on an ongoing basis.
- 1.5 The City of Mesa will establish funds and other accounting structures as needed to effectively manage City resources and report financial and performance information.
- 1.6 City staff will update City management and the City Council on a quarterly basis.
- 1.7 Departments will develop an annual operational performance plan that includes a description of each of their business objectives and core business processes. Each description will include a mission statement, desired outcomes, and a set of performance measures with targets.
- 1.8 The City shall aim to achieve and maintain a structurally balanced budget where recurring revenues are equal to or exceed recurring expenditures in the adopted budget.
- 1.9 The State of Arizona limits expenditures by local jurisdictions. The City will comply with these expenditures limitations and will submit the necessary documents as required by the Uniform Expenditure Reporting System (A.R.S. Section 41-1279.07) to the State Auditor General each year.
- 1.10 The City may pursue, through public vote, adjustments to its expenditure limitation as it deems necessary through either alternative expenditure limitation (Home Rule) or a permanent base adjustment (Article IX, Section 20, Subsections 9 & 6, Arizona State Constitution).
- 1.11 The City will follow State statute regarding Council meetings, public hearings, and public notice.
- 1.12 Mesa's annual budget will include contingency appropriations sufficient to provide for the financing of unforeseen expenditures.

- 1.13 The City Manager (or designee) may institute changes to the adopted budget during the fiscal year related to City operations including, but not limited to: position changes, programmatic changes, or capital equipment purchases.

### **Financial Policy 2 – Unrestricted Reserve Balances**

The economy's cyclical nature creates a need for a comprehensive unrestricted reserve balance policy for the General Governmental and Enterprise funds in order to ensure stable service delivery. Bond rating agencies incorporate reserve balance levels into bond rating determinations.

- 2.1 The General Governmental and Enterprise funds will be adopted with unrestricted reserve balances of at least 8% -10% of the following fiscal year's anticipated expenditures. Reserve balance levels shall be maintained throughout the forecast period.
- 2.2 City Council may adopt a budget with an anticipated reserve balance lower than 8%. The decision to set the anticipated reserve balance lower than 8% will be determined during the annual budget cycle.
- 2.3 If a reserve balance level falls below 8%, the City will develop a plan to restore the balance within one to three years.

### **Financial Policy 3 – Other Reserve Balances**

The City will establish reserve balances as needed to effectively manage resources over time and mitigate the impact of expenses that may vary significantly from year to year. Reserves may be utilized as needed to reasonably address substantial annual cost increases.

- 3.1 Ongoing reserve balances will be established and maintained for:
  - a) Employee and retiree medical plans/other benefits
  - b) Legal liability
  - c) Worker's compensation
  - d) Pension stabilization
  - e) Other purposes, as needed
- 3.2 The decision to decrease or increase a reserve balance over the forecast period will be determined annually as part of the City's normal budget process.
- 3.3 The City intends to contribute the amount needed to fully fund Police and Fire and Medical Public Safety Personnel Retirement System (PSPRS) unfunded liability by FY 2041-42 (25-year amortization period) rather than by FY 2046-47 (30-year amortization period); however, a decision to contribute less funds can be considered by the City Council during the annual budget process.

### **Financial Policy 4 – Charges for Services**

The City collects revenues in the form of sales of and charges for services from the customers who utilize those services. They can be categorized into two basic groups: 1) utility rates for services such as water, wastewater, solid waste and recycling, electric, natural gas, and 2) fees and charges for services such as entrance to venues, events and classes, museums, park activities, and sports. These types of charges also include licenses, permits, and other miscellaneous fees.

The City operates a portfolio of utilities. Each is operated as a separate business center. Policies related to utility rates help ensure financial stability.

- 4.1 Utility rates will be examined annually to cover the cost of service while maintaining a reasonable rate of return. Factors considered include, but are not limited to, operations and maintenance, demand for services, and costs of capital.
- 4.2 Utility rate adjustments will be smoothed over many years to avoid large rate increases to customers in any single year.

- 4.3 The City shall comply with all state legal requirements regarding public notice and public hearings for enterprise charges or utility rate changes. Policies on fees and charges aid in the consistent provision of public services and help ensure financial stability.
- 4.5 Fees and charges will be examined annually to consider the cost of service and appropriateness.
- 4.6 Cost recovery for fee-supported services will be taken into consideration when adjusting fees and charges.
- 4.7 The City shall comply with all state legal requirements regarding public notice and public hearings for changes to fees and charges.

#### **Financial Policy 5 - Debt Issuance and Management**

Debt service requirements impact the City's financial condition and can limit flexibility in responding to changes in service priorities and availability of funding. When debt is issued, it obligates the City to regular payments for a number of years.

- 5.1 The City will approve a secondary property tax levy annually at a rate sufficient to fund General Obligation bond debt service payments.
- 5.2 Long-term debt will not be issued to finance current operations.
- 5.3 The debt repayment period should not exceed the expected useful life of the capital assets being financed.
- 5.4 General Obligation and Utility Systems Revenue bond debt service payments should be structured, considering all revenue sources, to have a consistent financial impact from year-to-year.
- 5.5 The City shall comply with the State of Arizona Constitution requirements that bonded debt not exceed the 20% and 6% limitations of the total full cash net assessed valuation of property in the City.
- 5.6 To ensure that bond refundings produce anticipated savings, refunding bonds should have a net present value savings exceeding 3% of the debt service amount of the bonds being refunded, unless the refunding was initiated for purposes other than debt service savings.
- 5.7 The City shall comply with all Post Bond-Issuance Compliance requirements which include U.S Internal Revenue Service arbitrage yield restrictions and rebate requirements, filing Annual Continuing Disclosures on the Municipal Securities Rulemaking Board's (MSRB's) Electronic Municipal Market Access (EMMA) website, and filing notices of any material "listed events" as required by Securities and Exchange Commission Rule 15c2-12.
- 5.8 The City shall comply with all legal requirements regarding the issuance of debt.

#### **Financial Policy 6 - Capital Improvement Program (CIP) & Asset Replacement**

The Capital Improvement Program (CIP) and the Asset Replacement Program provide a multi-year projection of the City's capital needs. These programs identify financial requirements as part of the overall financial forecast. City staff will incorporate the following practices throughout the planning process:

- Active communication with executive staff, Office of Management and Budget, and stakeholders
- Consideration of a project's impact on the operating budget
- Recognition of the City's environmental responsibility
- Utilization of master planning efforts when appropriate
- Encouragement of citizen engagement
- Promotion of process transparency

- 6.1 Pursuant to the City Charter requirement outlined in Article VI, Section 605, prior to the beginning of each fiscal year, the City Manager will submit to the City Council a five-year capital program.
- 6.2 Capital development and replacement will be coordinated with the annual operating budget and multiyear forecast to ensure adequate funding for planned projects.

- 6.3 Both programs will be adjusted to ensure that adequate resources are available for capital project costs.
- 6.4 Sufficient resources will be identified for future operating, maintenance, and replacement costs associated with new capital improvements.

#### **Financial Policy 7 – Investments & Cash Equivalents**

The investment of City resources will be made so as to meet the City's primary objectives of safety, liquidity, and return on investments.

- 7.1 In accordance with Article VI, Section 611 of the City Charter, the City Council may authorize the investment of any money subject to its control in any security authorized by the laws of the State of Arizona as delegated in Title 1, Chapter 18 of the Mesa City Code.
- 7.2 The City of Mesa's investments shall comply with the approved Investment Policy that is reviewed periodically by the City Council's Audit, Finance, and Enterprise Committee.
- 7.3 The investment portfolio shall remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated and meet the City's cash flow needs.
- 7.4 All City investment/bank accounts shall be reconciled and reviewed on a monthly basis.
- 7.5 Investment performance will be reported to City Management monthly and provided to the City Council quarterly.

#### **Financial Policy 8 - Financial Reporting**

Reporting of the City's finances should be done in such a way as to satisfy both the management and transparency needs of government. Reports should provide information on the value of the portfolio frequently enough to give an accurate picture of the funds available to provide services, and should provide the necessary detail for oversight bodies to determine that staff meet the government's policy goals.

- 8.1 Staff will ensure that the City's accounting and financial reporting systems will be maintained in conformance with all state and federal laws, generally accepted accounting principles (GAAP), standards of the Governmental Accounting Standards Board (GASB), and the Government Finance Officers Association (GFOA).
- 8.2 An annual audit will be performed by an independent public accounting firm, with the audit opinion included as part of the City's published Annual Comprehensive Financial Report (ACFR).
- 8.3 The ACFR will be submitted to the GFOA Certification of Achievement for Excellence in Financial Reporting Program. The financial report should be in conformity with GAAP, demonstrate compliance with finance related legal and contractual provisions, disclose thoroughness and detail sufficiency, and minimize ambiguities and potentials for misleading inference.
- 8.4 The Annual Executive Budget Plan will be consistent with the criteria for GFOA Distinguished Budget Presentation Program and serve as: a financial and programmatic policy statement, a comprehensive financial plan, an operations guide for all organizational units, and as a communications device for all significant budgetary issues, trends and resource choices.
- 8.5 Managerial financial reports for the major operating funds will be available to the City Council quarterly.
- 8.6 To achieve financial transparency, the City will provide access to on-line information pertaining to revenues received and expenditures made.

#### **Financial Policy 9 - Long Range Planning and Forecasting**

Long range financial planning incorporates trends such as population, labor markets, and general financial conditions to forecast future revenues and expenditures over a multi-year period. Accurate assessment of future finances will allow the City to adjust resource allocation as necessary.

- 9.1 The City shall develop and utilize short- and long-range forecasts.
  - a) Short range forecasts shall look at a range of 2 to 3 years

- b) The long-range forecast shall look at a range of 4 to 10 years
- 9.2 Forecast models will allow for operational changes within the City, such as:
  - a) Costs to maintain the current level of staffing
  - b) Cost of providing expanded, new, or reduced levels of staffing
  - c) Debt service costs for existing and anticipated debt
  - d) Construction, purchased capital, and operations and maintenance costs associated with capital projects and asset replacement
- 9.3 Forecast models will allow for changes in the economic climate, such as:
  - a) Revenue sources and levels
  - b) Indicators including consumer price index, disposable income, and salary growth
  - c) Population growth rates
  - d) Demand for service
- 9.4 The forecast will serve as the basis for budget development and ongoing financial decision making by City staff, City management, and the City Council.

### **Financial Policy 10 - Risk Management**

Risk management is a responsibility of every City department to protect against losses that would affect City assets and the ability to provide ongoing services. Risk management should seek realistic risk avoidance, risk reduction, and risk transfer strategies.

- 10.1 City staff works to prevent or mitigate the loss of City assets and to reduce the City's exposure to liability through training, safety, risk financing and the transfer of risk when cost effective.
- 10.2 The City Attorney's Office works to reduce the financial exposure arising from claims and lawsuits brought against the City by defending claims and lawsuits with City staff, or by retaining outside counsel.
- 10.3 The City shall manage its exposure to risk through self-insurance (the Public Property and Liability Trust Fund), liability insurance and property insurance.
- 10.4 The Public Property and Liability Trust Fund balance and any liability insurance shall be maintained at a level that will protect the City's assets and its elected officials, officers, directors and employees against loss.
- 10.5 The Office of Management and Budget shall conduct reviews of historical loss data as a basis for evaluating the appropriate balance for the Public Property and Liability Trust Fund balance self-insurance reserves.
- 10.6 The City may further control its exposure to risk through the use of indemnity and hold harmless agreements in City contracts and by requiring contractors to carry liability insurance that names the City as an additional insured.
- 10.7 The City will identify and disclose any material issues regarding contingent liabilities in the City's Annual Comprehensive Financial Report (ACFR).