

# FINANCIAL POLICIES

## Overall Goals

The overall financial goals underlying these policies are:

1. Fiscal Conservatism: To ensure that the City is at all times in a solid financial condition. This can be defined as:
  - A. Cash Solvency - the ability to pay bills.
  - B. Budgetary Solvency - the ability to balance the budget.
  - C. Long Run Solvency - the ability to pay future costs.
  - 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: As set by the Government Finance Officers' Association standards for financial reporting and budgeting, by the Governmental Accounting Standards Board and other professional standards.

## Budget Policies

1. Operating - 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:
  - A. **Ending fund balance Cash Balance** should be used only for one-time expenditures such as CIP projects, capital outlay, increasing reserves or contingency funds, and/or paying off outstanding debt. **The portion attributable to ongoing set-asides or contingencies may be used to fund those purposes.**
  - B. Ongoing maintenance costs, such as street resurfacing or swimming pool re-plastering, should be financed through operating revenues, rather than through bonds.
  - C. Fluctuating federal grants should not be used to finance ongoing programs.
2. **Ensure revenues from growth or development activities are funded commensurate with or in proportion to revenue generated from related fees.** ~~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 should include a contingency reserve account equal to the first three (3) months operating expenses from the prior fiscal year.
4. **General Fund appropriations should also include a reserved contingency account amounting to at least 10% of annual sales tax revenues. This will accrue annually and basically serve as a**

~~“revenue stabilization” account, and protect the city against swings in sales tax revenues, (which is a revenue source sensitive to changes in the economy).~~

5. Enterprise Funds should be self-sufficient. They should include a sufficient un-appropriated fund balance to absorb fluctuations in annual revenue. Wherever possible, enterprise funds should be charged directly for “overhead” services, rather than using an indirect service transfer. These services include such things as employee fringe benefits, insurance costs, and telephone charges. Provision should also be made for interdepartmental charges for services such as solid waste disposal (landfill) and vehicle repair, when this is practical. Operational revenue should be great enough to cover capital costs and replacement **or debt service as established within rate planning.**
6. Asset Management reserves should be established, funded and used to replace and preserve General Fund assets consistent with department plans.
7. Enterprise fund asset management requirements should be incorporated in multiyear forecasts and **rate plans and included in the annual budget consistent with the underlying asset management plans.**
8. ~~A financial forecasting model should be developed to annually 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 annual forecast should cover at least five years.~~
9. Laws and policies on limitations on revenue sources should be explicitly addressed in the budget process. These include:
  - ~~A. Annual Local Transportation Assistance Funds (LTAF) must be devoted to street maintenance and potentially for parks and the arts. Arizona Lottery Funds (ALF) are required to be used for public transportation purposes for jurisdictions within Maricopa County and must be utilized within two years of distribution with the potential for a one year extension.~~
  - 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. When the City’s population reaches 30,000, it must maintain its level of general fund support in street maintenance and operations, as provided by state law (A.R.S. 28-6543)
10. Debt Management
  - A. Short-term borrowing or lease-purchase contracts should be considered for financing major operating capital equipment when the Finance Director along with the City’s financial advisor determines and recommends that this is in the City’s best interest. Lease/purchase decisions should have the concurrence of the appropriate operating manager.
  - B. Annual short-term debt payments should not exceed 5% of annual revenue or 20% of total annual debt.
  - C. City of Goodyear Public Improvement Corporation - lease payments are funded by an excise tax pledge. Requires a “coverage ratio” 1.50 to 1.00 of pledged excise tax revenue to debt payment.
  - D. Maintain and sell new General Obligation Bonds only when the combined Property Tax Rate of ~~\$1.60~~ **\$1.74** or lower can be achieved.

- E. Annual levy calculations should be at the maximum amount allowed for the City's primary property tax.
- F. Maintain bond rating of investment grade from Moody's or Standard and Poor's.
- G. Enterprise Funds should finance water and sewer bonds sales where appropriate.
- H. Bonds should not be financed by General Funds unless necessary. If General Funds finance bonds, the combined annual debt service shall not exceed ten percent (10%) of the current three years average operating revenues of the General Funds. City Construction Sales Tax revenues will not be included in computing the average.

#### 11. Budget Amendment Policies

- A. Total Fund Appropriation Changes must be approved through City Council Resolution. These amendments must also comply with the City's Alternative Expenditure Limitation. ~~In order to provide flexibility to respond to unanticipated increases in revenues, 10% of the total operating budget should be set aside as a contingency appropriation (as long as this contingency is backed by available fund reserves)~~
- B. Uses of contingency appropriations must be specifically approved by the City Council. This may be by Council motion rather than resolution.
- C. Shifts in appropriations ~~within fund totals~~ **between lines of appropriation** may be made only upon approval of the **City Council Mayor**. Procedures for ~~appropriations~~ **budget transfers and delegation of budget responsibility** will be set by the City Manager.

#### 12. Budgetary Control System

- A. Monthly budget status reports will be reviewed by the City Manager and then presented to the full City Council.
- B. Annually update Strategic **Financial** Plan in order to validate and adjust the Plan and assumptions to remain viable and in compliance with State Statutes.
- C. Community Relations annual budget will be limited in its growth. Increase will be no greater than the percentage of growth in retail sales tax from prior two calendar years.

#### 13. Revenue Policies

- A. A diversified and stable revenue system 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 every 3-5 years to ensure that fees cover direct and indirect cost of service. Rate adjustments for enterprises will be based on five-year enterprise fund plans.
- C. Development fees for one time capital expenses attributable to new development will be reviewed every 3-5 years to ensure that fees match development related expenses.
- D. Cost analysis should be performed for all services in order to determine if fees collected are covering cost of service.

#### 14. Capital Budget

- A. A long-range capital improvement plan should be prepared and updated each year. This plan may include (in years other than the first year of the plan) "unfunded" projects that carry out the City's strategic and general plans, but it should also include a capital-spending plan that identifies projects that can be completed with known funding sources.

- B. Each department must, when planning capital projects, estimate the impact on the City's operating budget **over the next three to five years.**
- C. Amendments to capital appropriations fall under the same guidelines as changes to the operating budget noted above, with one exception—any project change exceeding \$75,000 should receive specific City Council approval. This approval can be by motion rather than resolution, and may accompany a recommendation for award of bid, change order, or other Council action. While this approval is not a strict legal requirement, it serves both to keep the Council informed on capital project activity and funding, and ensures that revisions of project priorities are in line with Council expectations. **Monthly status reports will be reviewed by the City Manager and then presented to the City Council.**

#### 15. Long Term Financial Plans

- A. The City will adopt the annual budget in the context of a comprehensive financial plan for the General Fund. Financial plans for other funds may be developed as needed.
- B. The General Fund long-term plan will establish assumptions for revenues, expenditures and changes to fund balance over a five-year horizon. The assumptions will be evaluated each year as part of the budget development process **and should include operating costs anticipated for opening projects in the capital improvement plan.**