FINANCIAL PLAN

Proposed revisions are shown in red.
Evaluation of FY18 budget compliance with the policy is shown in blue.

INTRODUCTION

Through the annual budget process, the city's financial policies are reviewed and discussed with the Council, including a discussion on any changes for the next fiscal year. This is critical, as these policies set the foundation for the development of projections and budget models, and influence the ultimate balanced budget that is recommended. These policies adopted for FY18 reflect the City Council's vision of a growing and vibrant community that provides an outstanding atmosphere for both citizens and our business community. These policies are reflected in elements of our Strategic Action Plan, and carry through to the development and monitoring of our capital and operating budgets. They represent fiscally sound financial management practices for both the short and long-term fiscal sustainability of the city.

The key policy change for FY18 is to reduce the General Fund Contingency Reserve to 15% of ongoing revenue (Budget Policy 3). The prior policy was an amount equal to the first three (3) months operating expenses from the prior fiscal year. The prior policy is cumbersome to administer and was heavily influenced by the unusually deep recession in the late 2000s and early 2010s. The new policy provides adequate protection in recessionary periods and allows the city to use its resources to produce results for the community. The FY18 budget retains the General Fund Contingency at the prior year amount of $17.8 million rather than an immediate reduction to the $13.4M that would be allowable under the new financial policy.

Also in the FY18 budget, the City Council approved $7.5M in secondary property tax supported G.O. Bonds to provide partial funding for a $114.2M project to build a system to deliver and treat surface water. This project is essential to overall development of the entire City, and as a result an exception to Budget Policy 4 calling for enterprise funds to be self-sustaining was discussed and acknowledged throughout the FY18 budget process and adoption. The Budget Policy on Debt Management (8G) also states enterprises revenues 'should' pay, but does not require they be used to pay, debt service on water and wastewater bonds.

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 Polices with FY18 Tentative Budget Evaluation

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:

   A. Ending fund 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.

   Evaluation: *Ongoing base budget items are fully funded using ongoing resources in the General Fund. This was documented in a Financial Summary provided at the April 17 Work Session on the General Fund Draft Budget. Similar to the Draft Budget, a portion of ongoing resources are allocated to one-time purposes in the FY18 Tentative Budget.*

2. Ensure growth or development activities are funded commensurate with or in proportion to revenue generated from related fees.

   Evaluation: *In addition to the base budgets and a $35,000 ongoing increase in overtime in Building Safety, the FY18 Development Services and Engineering department budgets include $850,000 in one-time consultants and temporary staffing to provide resources to support development activities.*

3. General Fund appropriations should include a contingency reserve account equal to or greater than ~~the first three (3) months operating expenses from the prior fiscal year~~ 15% of the amount budgeted for ongoing revenues.

   Evaluation: *Fifteen percent (15%) of ongoing FY18 revenue is $13.4M. The FY18 General Fund Contingency is $17.8M.*

4. 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.

Evaluation: There is $7.5M in secondary property tax supported G.O. Bonds allocated to a project for a system to deliver and treat surface water. This item was prominently displayed and discussed in the budget development process and the exception to this policy acknowledged. This project is considered essential to citywide development and growth.

5. Asset Management reserves should be established, funded and used to replace and preserve General Fund assets consistent with department plans.

   Evaluation: Established asset management funds are funded based on the underlying ten-year plans. A new asset management program for traffic signals is established in the FY18 budget.

6. 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.

   Evaluation: The multiyear rate plans for the water and wastewater enterprise funds and the five-year forecast for the sanitation fund include the recommended amounts from the fleet and information technology asset management plans.

7. Laws ~~and policies on~~ that restrict or place limitations on revenue sources should be explicitly addressed in the budget process. These include:

   A. 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)

   Evaluation:
   A) Arizona Lottery Funds are programmed for public transportation purposes.
   B) HURF revenues are not used to pay debt service.
   C) The required maintenance of effort is $82,550 is satisfied. In the FY18 budget, the planned transfer from General Fund to street purposes is $752,700 and there are also $7.5 million in General funded street construction, traffic signal, and maintenance projects in the CIP.

8. 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 $1.74 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~~ wastewater 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.

Evaluation:
A & B) There is no current or proposed external short-term borrowing. There are interfund loans required to impact fee funds in order to implement critical Infrastructure Improvement Plans.
C) The coverage ratio is 8.16.
D) The planned FY18 combined property tax rate is $1.7349 including the issuance of $25M in new G.O. Bonds.
E) The primary property tax is maximized within the $1.7349 combined property tax rate.
F) Current bond ratings are well within investment grade at Aa2 for Moody's and AA for Standard and Poor's.
G) With the exception of the $7.5M noted in Policy 4 above, enterprise debt service is funded from enterprise operating revenues.
H) General Fund debt service is 9.4% of General Fund operating revenues.

9. 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.
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 between lines of appropriation may be made only upon approval of the City Council. Procedures for budget transfers and delegation of budget responsibility will be set by the City Manager.

Evaluation: The annual external audit reviewed budget transfers and identified no exceptions. All budget transfers within the above criteria are presented for City Council action. Uses of the City Manager, Grant Matching Funds, and FMLA/Retirement contingencies are also provided for City Council action.

10. 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 Plan in order to validate and adjust the Plan and assumptions to remain viable.~~
~~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.~~

<u>Evaluation:</u> Monthly financial reports are provided to the City Manager and City Council.

11. 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.

<u>Evaluation:</u>
A) There is no change in the scope of revenues.
B) An in-house review of user fees was performed in FY16. Water and wastewater rates were reviewed in the rate planning process and are monitored against that plan. Sanitation fees were evaluated in the five-year forecast. A consultant study of General Fund user fees was funded in FY17, but is carried over to FY18 to better align with the financial system project.
C) A consultant study was funded in the FY17 budget and the selection process is underway for impact fees.
D) To be addressed in the study referenced in B above.

12. 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.
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.

<u>Evaluation:</u>
A) The CIP process collects and presents all project requests to City Council. Only projects fundable within existing forecasts are included in the published CIP.
B) Departments are asked to provide operating costs if projected to be $10,000 or more as part of the CIP process.
C) See 9 above. All CIP project budget transfers of $75,000 or more are presented for approval by the City Council.

13. 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.

Evaluation: The annual budget process includes a five-year forecast as a first step. Assumptions are based on the best economic and actual data available at the time the forecast is prepared.