



Staff Summary Report

Council Meeting Date: 01/08/09

Agenda Item Number: _____

SUBJECT: Request approval of a resolution amending the City's financial policies.

DOCUMENT NAME: 20090108jh01 **FINANCIAL MANAGEMENT (0208)**
RESOLUTION NO. 2009.03

SUPPORTING DOCS: Yes

COMMENTS: N/A

PREPARED BY: Jerry Hart, Financial Services Manager (350-8505)

REVIEWED BY: N/A

LEGAL REVIEW BY: Andrew Ching, City Attorney (350-8575)

FISCAL NOTE: N/A

RECOMMENDATION: Staff recommends approval of Resolution No. 2009.03

ADDITIONAL INFO: At the December 11, 2008 Issue Review Session, staff presented to the Council proposed revisions to the City's financial policies. The policy changes are an integral part of our efforts to address the current budgetary challenges by ensuring the long-range financial sustainability of the City. At the direction of the City Council, staff is now requesting formal approval of the updated financial policies.

RESOLUTION NO. 2009.03

**A RESOLUTION REVISING THE POLICY STATEMENT
FOR THE ADMINISTRATION OF FINANCIAL
OPERATIONS FOR THE CITY OF TEMPE**

WHEREAS, establishing and maintaining sound financial policies and principles can improve the City's fiscal stability; and

WHEREAS, the process of developing overall policy directs attention to the City's total financial condition rather than single issue items; and

WHEREAS, publicly adopted policy statements contributed greatly to credibility and confidence in government and the financial community; and

WHEREAS, an explicit policy statement contributes to a continuity in handling the City's financial affairs.

NOW, THEREFORE, BE IT RESOLVED BY THE MAYOR AND CITY COUNCIL OF THE CITY OF TEMPE AS FOLLOWS:

That the policy statement for the administration of financial operations for the City of Tempe be revised by adding the following:

FINANCIAL OPERATIONS

(A) Operating Budget Policies

SECTION 1a. Recurring City revenues will be sufficient to support recurring expenditure. In the event that recurring expenditures exceed recurring revenues, non-recurring draw downs of unrestricted general fund balance reserves are permitted to the extent that they are done in compliance with Section 1c.

SECTION 2a. Each enterprise operation of the City will maintain revenues, excluding development fees, sufficient to support the annual recurring costs of the enterprise operation and any reserve requirements established herein.

SECTION 3a. The City shall conduct annual rate reviews of its enterprise fund operations as part of its annual budget program.

SECTION 4a. Charges for services and other revenues will be reviewed on a scheduled basis and adjusted as deemed necessary to respond to cost increases or any other changing circumstances, all subject to the approval of the City Council.

SECTION 5a. A five-year long-range financial forecast incorporating both revenues and expenditures of all City funds will be updated annually and presented to the City Council prior to the start of the City budget process. Each year of the forecast will be balanced as necessary to maintain the financial reserve levels stipulated in Section (C).

(B) Financial Reporting Policies

SECTION 1b. Accounting systems will comply with the standards issued by Government Accounting Standards Board and the Government Finance Officers Association.

SECTION 2b. An annual audit will be conducted on the City's Comprehensive Annual Financial Report by an independent certified public accounting firm.

SECTION 3b. Full disclosure of all financial activities and related matters will be provided in the annual financial statements and bond presentations.

SECTION 4b. Financial systems and procedures will be maintained to monitor expenditures, revenues and program performance on an ongoing basis.

SECTION 5b. The City shall comply with all state and federal regulations concerning financial management and reporting.

(C) Reserve Policies

SECTION 1c. An unrestricted general fund balance reserve target of 25% of total annual general fund revenues will be maintained for protection from potential emergencies and unforeseen circumstances. For the purposes of determining years two through five of the five-year long-range forecast, the following reserve levels shall apply:

Year Two: 23% to 27%

Year Three: 22% to 28%

Year Four: 21% to 29%

Year Five: 20% to 30%

In the event that the unrestricted reserve is drawn below 25% to address financial challenges, every effort shall be made to restore, at minimum, the reserve to the targeted level.

SECTION 2c. An unrestricted retained earnings reserve of no less than twelve months of water/wastewater revenue shall be maintained in this enterprise operation to provide protection from potential emergencies and unforeseen circumstances, plus make provisions for adequate debt service coverage and cash flow for outstanding utility bonds.

SECTION 3c. An unrestricted retained earnings reserve of no less than 15% of golf enterprise revenue and 10% of solid waste enterprise revenue shall be maintained in these operations to provide protection from potential emergencies and other unforeseen circumstances.

SECTION 4c. Each annual operating budget will include a contingency appropriation sufficient to provide for temporary financing of unforeseen needs of an emergency nature for that year. The desired level of the contingency appropriation each year shall be based on the average of the three prior years' experience levels but no less than 2% of fund revenue for the current fiscal year.

SECTION 5c. Insurance reserves shall be maintained at a level which, together with any purchased insurance, will adequately indemnify the City's capital assets and its officers and directors against loss. Reserves for self-insurance shall be based on actuarial studies.

SECTION 6c. Fund balances above established reserve requirements may be used for one-time expenditures such as capital equipment or increased pay-as-you-go financing for the capital improvements program.

SECTION 7c. The City shall maintain a Debt Service Reserve in the amount of at least 8% of total outstanding tax-supported debt.

(D) Cash Management Policies

SECTION 1d. The investment of City funds shall be structured to ensure the highest levels of security while achieving the maximum return possible as provided for in Section 2-180 of the Tempe City Code.

SECTION 2d. The City will maintain a strong system of written internal controls designed to protect the investment of public funds.

(E) Capital Budget Policies

SECTION 1e. Estimated costs, potential revenue and funding sources shall be identified prior to any project being submitted for Council approval. A department which anticipates a capital project exceeding its adopted budget shall submit a plan to Council addressing the issue for its prior approval.

SECTION 2e. A five-year capital improvements program, as required by City Charter, will be developed and updated annually including anticipated funding sources. In addition, a prior year capital project status report shall be presented to the Council for information purposes when the capital improvement budget is considered.

SECTION 3e. The annual operating budget will provide for the adequate maintenance and the orderly replacement of the capital plant and equipment from current revenue where possible.

SECTION 4e. Capital improvement operating budget impacts will be coordinated with the development of the Operating Budget. Future operating, maintenance, and

replacement costs will be forecast as part of the City's annual long range financial capacity study.

SECTION 5e. The City may provide for internal, pay-as-you go financing for its capital improvement program. Funding may come from fund balance reserves or any other acceptable means of funding.

F) Debt Policies

SECTION 1f. Debt will be used to finance long-term capital improvements and not used to finance recurring operating expenses. Debt may take the form of:

- a. General Obligation debt, supported by property tax revenues
- b. Revenue bond debt, supported exclusively by the revenues from a particular City enterprise (water, sewer, golf)
- c. Excise tax bonds, supported by general City revenue (i.e. sales tax)
- d. Special Assessment Improvement District debt, paid by property owners within the District, and backed by the value of the land and its improvement
- e. Short-term borrowing or lease/purchase contracts, supported by operating revenues

SECTION 2f. In accordance with state law, the total value of General Obligation bonds issued for the purposes of water, wastewater, artificial light, open space preserves, parks, playgrounds, and recreational facilities cannot exceed 20% of assessed valuation. The total value of General Obligation bonds issued for all other purposes other than those listed above cannot exceed 6% of assessed valuation.

SECTION 3f. Borrowing for other than capital projects may be pursued only when the project being financed is of a long-term nature and special circumstances are present to justify its utilization.

SECTION 4f. Debt term should match the useful life of the capital projects funded. The average, weighted bond maturity schedule, on average, should be maintained at or below 15 years or should not exceed the useful life of the assets.

SECTION 5f. Debt repayment schedules shall be based upon level annual principal and interest payments.

SECTION 6f. The City will monitor overlapping debt issues by including overlapping jurisdictions debt burden into the City's financial reports.

SECTION 7f. Authorized debt shall be limited as follows unless authorization is obtained from the City Council to exceed these limits:

- a. General obligation bonds shall follow the guidelines established in the Debt Management Plan;

- b. Excise tax bonds shall maintain revenue coverage limits of at least 3 times debt service;
- c. Improvement District bonds shall not exceed 5% of the City's secondary assessed valuation;
- d. Short-term borrowing or lease/purchase contracts must be budgeted for within the annual City Budget.

SECTION 8f. The City will, unless otherwise justified, use bond proceeds within the established time frame pursuant to the bond ordinance, contract or other documents to avoid arbitrage. The City will maintain a system of recordkeeping and reporting to meet the arbitrage rebate compliance requirements of Federal Internal Revenue Service Regulation 1.148-11.

SECTION 9 f. The city shall adhere to a Debt Management Program. This program will size the City's General Governmental tax supported debt based upon benchmarked criteria in order that the City not take on debt that would adversely affect its budget. These debt ratios will be updated at regular intervals and incorporated into the City's Debt Management Plan. These criteria include:

- a. Outstanding General Governmental tax-supported debt per capita
- b. Ratio of General Governmental tax-supported debt to the fair market value of Tempe property.
- c. Ratio of General Governmental tax-supported debt per capita as a percent of per capita personal income.
- d. Ratio of General Governmental tax-supported debt service to general governmental expenditures.

PASSED AND ADOPTED BY THE CITY COUNCIL OF THE CITY OF TEMPE, ARIZONA, this _____ day of _____, 2009.

Mayor

ATTEST:

City Clerk

APPROVED AS TO FORM:

City Attorney