

## RESOLUTION NUMBER 2023-04

### **A RESOLUTION OF THE PARADISE VALLEY TOWN COUNCIL REAFFIRMING FINANCIAL MANAGEMENT POLICIES OF THE TOWN OF PARADISE VALLEY FOR ANNUAL BUDGET PRACTICES, FUND BALANCE RESERVES, STRESS TEST ANALYSES AND FINANCIAL REPORTING**

**WHEREAS**, the Town of Paradise Valley has a longstanding tradition of fiscal prudence and maintaining essential policies to serve as the foundation and framework for continuity in fiscal planning and budgeting; and

**WHEREAS**, the Town Council recognizes that a financial management policy is helpful for developing sound budget practices that sustain current service levels, maintain financial stability and provide for accurate financial reporting; and

**WHEREAS**, The Town's comprehensive financial policies are reviewed annually as part of the budget preparation process; and

**WHEREAS**, Town financial policies have been in place as early as 2009 and were updated and published in the annual budget document beginning in FY2016; and

**WHEREAS**, Council adopted amendments in FY2020 and FY2021, including adopting a plan to "stress test" Town revenues; and

**WHEREAS**, prudent financial management encourages the Paradise Valley Town Council to establish additional Financial Management Policies to serve as a guideline for the Town of Paradise Valley during its budget process and for its financial reporting; and

**WHEREAS**, the Paradise Valley Town Council considered and adopted the attached financial management policy for the Town of Paradise Valley at its April 27, 2023 and its May 11, 2023 meeting respectively.

**NOW, THEREFORE, BE IT RESOLVED**, that the attached Policy of the Town of Paradise Valley be established as the official financial management policy for budget practices, fund balance reserves and financial reporting.

**PASSED AND ADOPTED** by the Town Council of the Town of Paradise Valley this 11th day of May, 2023.

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Jerry Bien-Willner, Mayor

ATTEST:

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Duncan Miller, Town Clerk

APPROVED AS TO FORM:

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Andrew J. McGuire, Town Attorney

# TOWN OF PARADISE VALLEY FINANCIAL POLICIES

## OVERVIEW

The Town of Paradise Valley has an important responsibility to its citizens to carefully account for public funds, manage Town finances wisely and plan for the adequate funding of services desired by the public and outlined in its General Plan.

The following fiscal and budgetary policies are designed to meet these goals:

The overall goal of the Town's fiscal policy is to establish and maintain effective management of the Town's financial resources within the Town's limited government framework. The policy statements below provide the foundation for achieving this goal. Accordingly, the current policies are used to guide the preparation and management of the Town's overall budget and the major objectives to be accomplished.

Financial policies are guidelines for operational and strategic decision making related to financial matters. Financial policies identify acceptable and unacceptable courses of action, establish parameters in which the municipality can operate, and provide a standard against which the government's fiscal performance can be judged. Strategically, the stress test analysis provides an annual test to reaffirm the Town's fund balance and ensure the adopted Annual Budget will be sufficient to weather unforeseen financial emergencies, such as significant loss of revenue or catastrophic impacts on the Town. The financial policies also improve the Town's fiscal stability by helping Town officials plan fiscal strategy with a consistent approach.

While the Town does not currently anticipate debt financing (bonds), should a need arise in this regard, as it has in the past, the Town of Paradise Valley's financial policies show the credit rating industry and prospective investors (bond buyers) the Town's continued commitment to sound financial management and fiscal integrity. This has many benefits to the citizens of Paradise Valley, which includes lowering cost of capital if the Town desires to issue bonds.

The following Town financial policies, which embrace those previously endorsed by the Town Council, establish the framework for the Town of Paradise Valley's overall fiscal planning and management.

### Operating Budget Policies

1. To develop and maintain a structurally balanced budget, ongoing operating expenditures will be limited to levels which can be supported by ongoing, stable revenue sources.
2. The Town shall not rely on a local property tax to pay for its expenditures, and shall avoid financial planning or practices that would risk needing a local property tax to meet the Town's needs for revenue in the future.
3. Revenues will not be dedicated to specific purposes unless required by law or Generally Accepted Accounting Principles (GAAP). All non-restricted revenues will be deposited in the general fund and appropriated by the budget process.
4. The Town's compensation policy shall provide for regular review of salary

- ranges and include a provision for merit-based salary adjustments.
5. Operating expenses will not be funded by debt issuance.
  6. Cost recovery fees, where appropriate, may be established to offset the cost of providing specific services, and will be reviewed at least on an annual basis.
  7. All non-enterprise user fees and charges will be examined annually 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 Town Council.
  8. Enterprise fund rate structures will be reviewed annually to ensure they are adequate for the funds to remain separately self-supporting, including the costs of operation, capital outlay, debt service, depreciation, and interdepartmental charges for services where practical and appropriate.
  9. The Town shall prudently balance risk and return on its investment income; generally, to be used for expenditures not subject to the state-imposed expenditure limitation.
  10. In addition to regular review of its finances by staff and the Town's independent outside auditors, the Town will employ stress testing of its revenues and other reporting, as may be appropriate, to identify and model multiple risk factors to the Town's financial health and stability, including interactions among those risk factors. The information will be presented annually to the Town Council as part of its budget presentation along with any considerations or strategies that could enable the Town to be less vulnerable to identified risks.
  11. Shifts in appropriations within funds and department totals not exceeding \$100,000 may be done administratively on the authority of the Town Manager by transferring budgeted funds from one department to another department to avoid contingency fund expenditure. Procedures for appropriations transfers and delegation of budget responsibility will be set by the Town Manager.
  12. Shifts within department appropriations between personnel expenditures, expenses, capital leases, and photo radar expenditures may be done administratively on the written authority of the Town Manager.
  13. Electronic funds transfer may be used to pay payroll expenditures and employee benefits previously authorized by the Town Council or required by law.

### **Capital Budget Policies**

1. A five-year capital improvement plan (CIP) shall be prepared and updated each year.
2. The five-year capital improvement plan will be developed within the

constraints of the Town's ability to finance improvements. Therefore, the CIP shall differentiate between those projects which will be financed from designated, recurring revenues and those which will be financed from the capital project fund or capital improvement project (CIP) contingency.

3. Operating costs to maintain capital improvements and additional resource needs will be estimated and identified as part of the capital project review process.
4. The Town Council shall designate revenue sources for financing recurring capital improvement projects such as street resurfacing. These revenue sources will be available to finance such projects on an ongoing basis.
5. A separate capital project fund shall be created. All funds accumulated in this fund shall be used exclusively for capital projects, but only after specific authorization by the Town Council.
6. Project appropriations and amendments shall be consistent with the capital improvement plan and must be approved by the Town Council.
7. At least fifty percent (50%) of the construction sales tax will be assigned to the capital improvement plan including capital improvement projects and capital improvement debt obligations.

#### **Contingency and Reserve Policies**

1. The following adopted budgets shall contain an operating contingency: general, highway user revenue (HURF), alarm, fire/EMS, and wastewater operating funds. It shall be an amount of no less than 1% of the adopted budget total, but no more than 3% of the adopted budget total. The operating contingency account shall be funded from current revenues, just as any other planned operating expenses. Contingency appropriations supported by current revenues which are less than \$25,000 do not require Town Council approval. All uses of contingency appropriations not supported by current revenues must be approved by the Town Council.
2. Because the Town does not have the regular and predictable revenue that is occasioned by a local property tax and its sources of revenue are subject to significant fluctuation or removal, including from macroeconomic events and state and/or federal actions that could significantly disrupt Town revenue, maintaining an adequate cash reserve is critical to the stability of the Town's financial health. A reserve no less than 90% of the total annual operating budget will be maintained. The minimum reserve amount will be calculated using the projected budget for the following year. The reserve is to be used for unforeseen emergencies, such as a significant loss of revenue or catastrophic impacts on the Town. Should the Town Council approve the use of the reserve below 90%, it will also identify the time period over which the reserve will be replenished.

3. The Town desires to develop new reserve policies for major liabilities such as employee healthcare, current and future pension liabilities, and risk management.
4. The Town assigns funds for the replacement of major Town assets such as streets, facilities, vehicles, major equipment and technology through its long-term financial plan(s) and appropriates the expenditures to respective department budgets.
5. Reserves equal to a minimum of 90 days of operating expenses will be maintained for the following funds: alarm, fire/EMS, and wastewater operations. The amount will be calculated using the budgeted operating expenses for the new fiscal year and will be used for revenue stabilization and major repairs. Funds that do not have adequate reserves shall receive a loan transfer from the general fund with Town Council review and approval.
6. The contingency fund is intended to create budget authority for the town's remaining spending authority under the state of Arizona's annual expenditure limit. Use of this authority requires approval of the Town Council.
7. All fund reserves will be evaluated annually for long-term adequacy and use requirements in conjunction with development of the town's five-year financial plan.

### **Debt Service Policies**

1. Long-term debt shall not exceed the Town's resources for repaying the debt.
2. Capital lease purchasing shall generally be used for financing capital equipment and land purchases and building improvements to remove the expenditures from the state-imposed expenditure limitation.
3. Bond issuance shall be limited to capital improvement projects too large to be financed from current revenues, or too large to be included in the state-imposed expenditure limitation.
4. Long-term debt payment schedules shall not exceed the expected useful life of the project.

## Financial Reporting Policies

1. The Town's accounting and financial reporting systems will be maintained in conformance with all state and federal laws, Generally Accepted Accounting Principles (GAAP) and standards of Government Accounting Standards Board (GASB) and the Government Finance Officers Association (GFOA).
2. A budgetary control system will be maintained to ensure compliance with the budget. Monthly reports will be distributed to the Town Manager and departments for management of the budget. Quarterly reports will be prepared for the Town Council for review.
3. Financial systems will maintain internal controls to monitor revenues, expenditures, and program performance on an ongoing basis.
4. An annual audit will be performed by an independent public accounting firm, with an audit opinion to be included with the town's published Annual Comprehensive Financial Report (ACFR). The annual auditor should be reconsidered through a procurement process at least every seven years.
5. The Town's 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.