

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. 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 following Town financial policies, previously endorsed by the Town Council, establish the framework for the Town of Paradise Valley's overall fiscal planning and management. The Town of Paradise Valley's financial policies show the credit rating industry and prospective investors (bond buyers) the Town's commitment to sound financial management and fiscal integrity which in turn lowers cost of capital if the Town desires to issue bonds. The financial policies also improve the Town's fiscal stability by helping Town officials plan fiscal strategy with a consistent approach.

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. 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.
3. The town shall not rely on a local property tax to pay for its expenditures.
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 ~~maximize~~ **balance risk and return on its** investment income; generally, to be used for expenditures not subject to the state-imposed expenditure limitation.
10. **The Town will employ stress testing in partnership with GFOA to model multiple risk factors and interactions between those risk factors. The information will be presented annually to the Town Council as part of its budget presentation along with any alternative strategies that would enable the Town to be less vulnerable to all identified risks.**
11. Shifts in appropriations within funds and department totals not exceeding ~~\$50,000~~ **\$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 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 ~~future~~ 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** ~~C~~ construction sales tax ~~in excess of \$0.5 million~~ 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. A reserve no less than 90% of the annual operating budget (general and HURF funds) operating expenditures will be maintained. The amount will be calculated using the budgeted expenses 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. At the time the Town Council approves 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 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 ~~following~~ **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 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 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.