

RESOLUTION NO. 10-936

A RESOLUTION OF THE MAYOR AND COMMON COUNCIL OF THE TOWN OF CHINO VALLEY, COUNTY OF YAVAPAI, ARIZONA, AMENDING RESOLUTION NO. 07-840 AND REVISING FINANCIAL POLICIES

WHEREAS, establishing sound financial policies and principles contribute to sound financial management, continuity in handling financial affairs and preserving the Town's fiscal integrity; and

WHEREAS, publicly adopted policy statements contribute greatly to the credibility of, and public and financial community confidence in, the governmental organization; and

WHEREAS, financial policies establish the framework for overall fiscal planning and management; and

WHEREAS, financial policies set forth guidelines against which current performance can be measured and proposals for future programs can be evaluated.

WHEREAS, staff is recommending revisions to the financial policies that will provide greater flexibility within the budget to respond to differing economic climates and also to provide clarification on several matters.

NOW, THEREFORE, BE IT RESOLVED BY THE MAYOR AND COMMON COUNCIL OF THE TOWN OF CHINO VALLEY, COUNTY OF YAVAPAI, ARIZONA, as follows:

Section 1.

Operating Management Policies

1. A budget calendar shall be prepared each year and will follow the specific dates set forth by the State of Arizona statute for completion of each of the tasks necessary to prepare and adopt the annual budget.
2. All departments will participate in the responsibility of meeting policy goals and ensuring long-term financial health. Future service plans and program initiatives will be developed to reflect current policy directives, projected resources and future service requirements. In order to ensure compliance with policy, sunset provisions will be required on all grant program initiatives and incorporated into other service plans, as appropriate.

3. The budget process is intended to weigh all competing requests for Town resources, within expected fiscal constraints. Requests for new, ongoing programs made outside the budget process will be discouraged.
4. Budget development will use strategic multi-year fiscal planning, conservative revenue forecasts, and modified zero-base expenditure analysis that requires every program to be justified annually in terms of meeting intended objectives and in terms of value received for dollars allocated. The process will include a diligent review of programs by staff and management.
5. A budget must be balanced for all funds. Total estimated expenditures for each of the governmental fund types must equal total anticipated revenues plus that portion of beginning of the year unreserved fund balance, in excess of the required fund balance reserve. Estimated expenses for enterprise funds types must equal total anticipated revenues and unreserved retained earnings.
6. Revenues are recognized when they become measurable and available, and expenditures are encumbered against the budget when they become measurable, or a liability has been incurred, and the liability will be liquidated with current resources. All outstanding expenditures are charged to the budget in the year initially incurred.
7. All budgeted expenditures not authorized by a purchase order lapse at year-end (June 30). Expenditures placed with an authorized purchase order before year-end must be received and invoiced by June 30 and must be paid within 60 calendar days of the close of the fiscal year. Expenditures not paid within this time frame are then charged against the next year's budget.
8. Special one-time revenue sources (e.g., sales tax audit revenue) will be used to purchase non-recurring items like capital goods. One-time revenues will not be used to support items that will have a long-term operational impact on future Town expenditures.
9. For those special revenue funds supported by intergovernmental revenues and special purpose taxes, expenditures are limited strictly to the mandates of the funding source. These resources are not to be used to subsidize other funds, except as required or permitted by program regulations.
10. Annual budgets are adopted for all funds except certain trust and agency funds. Controls for trust and agency funds are achieved through stipulations in the trust agreements, or by State or Federal agency requirements.
11. Addition of personnel will only be requested to meet program initiatives and policy directives, after service needs have been thoroughly examined and it is substantiated that additional staffing will result in increased revenue or enhanced operating efficiencies. To the extent feasible, personnel cost reductions will be achieved through attrition.

12. As a component of the budget process and when fiscal resources permit, the Town Council may allocate funds to Outside Agency Providers for business, social, recreational or economic development, or promotional services. All requests for funding must be submitted on the Town's Outside Agency request form and must meet the following criteria:
 - a. Provide a service consistent with an existing recognized Town need, policy, goal or objective.
 - b. Have completed the application process, and the application has been determined to be accurate and complete.
13. Enterprise (Water and Sewer) user fees and charges will be examined annually to ensure that they recover all direct and indirect costs of service and ANY CHANGE will be approved by the Town Council. Any unfavorable balances in cost recovery will be highlighted in budget documents. Rate adjustments for enterprise operations will be based on five-year fund plans.
14. All non-enterprise user fees and charges will be examined annually to determine the direct and indirect cost of service recovery rates. The acceptable recovery rate and any associated changes to user fees and charges will be approved by the Town Council, through the budget process.
15. Wherever possible, all user fees and charges will be automatically adjusted on an annual basis. The automatic adjustment will be tied to the ENR Index (Engineering News Record).
16. Grant funding will be considered to leverage Town funds. Inconsistent and/or fluctuating grants should not be used to fund ongoing programs. Programs financed with grant monies will be budgeted in separate cost centers, and the service program will be adjusted to reflect the level of available funding. In the event of reduced grant funding, Town resources will be substituted only after all program priorities and alternatives are considered during the budget process.
17. Balanced revenue and expenditure forecasts will be prepared to examine the Town's ability to absorb operating costs due to changes in the economy, service demands, and capital improvements. The forecast will be updated annually, focus on a three-year horizon, but include a five-year outlook.
18. Alternative means of service delivery will be evaluated to ensure that quality services are provided to our citizens at the most competitive and economical cost. Departments, in cooperation with the Finance Department, will identify all activities that could be provided by another source and review options/alternatives to current service delivery. The review of service delivery alternatives and the need for the service will be performed annually or on an "opportunity" basis.

19. Cash and investment programs will be maintained in accordance with the Town Code and the adopted investment policy and will ensure that proper controls and safeguards are maintained. Town funds will be managed in a prudent and diligent manner with an emphasis on safety of principal, liquidity, and financial return on principal, in that order.

Capital Management Policies

20. A five-year Capital Improvement Plan will be developed and updated annually, including anticipated funding sources. Capital improvement projects are defined as infrastructure or equipment purchases or construction which results in a capitalized asset costing more than \$20,000 and having a useful (depreciable) life of five years or more.
21. The Capital Improvement Plan will include, in addition to current operating maintenance expenditures, adequate funding to support repair and replacement of deteriorating infrastructure and avoidance of a significant unfunded liability.
22. Proposed capital projects will be reviewed and prioritized by a cross-departmental team regarding accurate costing (design, capital, and operating) and overall consistency with the Town's goals and objectives. Financing sources will then be identified for the highest ranking projects. Capital projects and/or capital asset purchases will receive a higher priority if they meet some or most of the following criteria.
 - a. Project/asset is mandatory.
 - b. Project/asset is regulatory or environmentally driven.
 - c. Project/asset spurs economic development.
 - d. Project/asset improves efficiency.
 - e. Project/asset provides a needed service.
 - f. Project/asset will have a high usage.
 - g. Project/asset will have a useful life of longer than five years.
 - h. Project/asset will reduce operating and maintenance costs.
 - i. Project/asset has available state/federal grants.
 - j. Project/asset eliminates a hazard.
 - k. Project/asset is a prior commitment.
 - l. Project/asset improves the health, safety and welfare of the Town's residents.
23. Capital improvement lifecycle costs will be coordinated with the development of the Operating Budget. Future operating, maintenance and replacement costs associated with new capital improvements will be forecast, matched to available resources and included in the Operating Budget. Capital project contract awards will include a fiscal impact statement disclosing the expected operating impact of the project and when such cost is expected to occur.

24. TO THE EXTENT POSSIBLE, pay-as-you-go FINANCING WILL BE UTILIZED AS THE FUNDING MECHANISM FOR THE IMPLEMENTATION OF THE ELEMENTS OF THE TOWN'S CAPITAL IMPROVEMENT PLAN. ~~Capital Improvement Plan financing should account for a minimum of 25 percent of all capital improvement projects for each five-year planning period.~~ Pay-as-you-go financing is defined as all sources of revenue other than Town debt issuance, i.e., fund balance contributions, developer contributions, grants, endowments, etc.

Debt Management Policies

25. The Town will seek to maintain and, if possible, improve its current bond rating in order to minimize borrowing costs and preserve access to credit.
26. An analysis showing how the new issue combined with current debt impacts on the Town's debt capacity and conformance with Town debt policies will accompany every future bond issue proposal.
27. The Town will communicate, and, where appropriate, coordinate with all jurisdictions with which we share a common tax base concerning our collective plans for future debt issues.
28. General Obligation debt, which is supported by property tax revenues and grows in proportion to the Town's assessed valuation and/or property tax rate increases, will be utilized as authorized by voters. Other types of voter-approved debt (e.g., water, sewer, and HURF) may also be utilized when they are supported by dedicated revenue sources (e.g., fees and user charges).
29. Town Debt Service costs (Municipal Property Corporation, Revenue Bonds, General Obligation Bonds, HURF and Contractual Debt) should not exceed 25 percent of the Town's operating revenue in order to control fixed costs and ensure expenditure flexibility.
30. General Obligation debt issuances will be managed on an annual basis to match funds to Capital Improvement Plan cash flow requirements while being sensitive to the property tax burden on citizens. Careful management of bond issuances will allow the Town to not exceed \$1.50 property tax per \$100 assessed value.
31. Municipal Property Corporation and contractual debt, which is non-voter approved, will be utilized only when a dedicated revenue source (e.g., additional sales tax) can be identified to pay debt service expenses.
32. Debt financing should not exceed the useful life of the infrastructure improvement.

33. FOR GOVERNMENTAL FUNDS a ratio of current assets to current liabilities of at least 2/1 will be maintained to ensure the Town's ability to pay short-term obligations.
34. Bond interest earnings will be limited to funding changes to the bond financed Capital Improvement Plan, as approved by Town Council, or be applied to debt service payment on the bonds issued for construction of this plan.

Reserve Policies

35. All fund designations and reserves will be evaluated annually for long-term adequacy and use requirements in conjunction with development of the Town's balanced five year financial plan.

~~36. The Town will maintain a fund stabilization reserve of 10 percent of general government (General and HURF funds) operating expenditures for unforeseen emergencies or catastrophic impacts to the Town. Reserve funds in excess of 10 percent may be used for economic investment in the community when justified by the financial return to the Town.~~

36. A contingency account equal to 2.5 TO 5 percent of the combined General and HURF Fund expenditure budget will be maintained annually in the Non-Departmental budget. Contingency reserves will be available to offset unanticipated revenue shortfalls and/or unexpected expenditure increases. Contingency reserves may also be used for unanticipated and/or inadequately budgeted events threatening the public health or safety. Use of contingency funds should be utilized only after all budget sources have been examined for available funds, and subject to Town Council approval.

37. THE TOWN WILL MAINTAIN A FUND STABILIZATION RESERVE OF 5 TO10 PERCENT OF GENERAL GOVERNMENT (GENERAL AND HURF FUNDS) OPERATING EXPENDITURES FOR UNFORESEEN EMERGENCIES OR CATASTROPHIC IMPACTS TO THE TOWN. RESERVE FUNDS IN EXCESS OF 5 TO10 PERCENT MAY BE USED FOR ECONOMIC INVESTMENT IN THE COMMUNITY WHEN JUSTIFIED BY THE FINANCIAL RETURN TO THE TOWN TO BE EVALUATED BY THE COUNCIL ON A YEARLY BASIS.

~~37-38.~~ All other funds must never incur a negative fund balance.

~~38-39.~~ Contingencies and reserve funds in the Water and Wastewater utility operating funds should be equal to 90 60 days operating expenditures.

~~39-40.~~ The Town will establish an equipment reserve fund and will appropriate funds AS GENERAL FUND REVENUES PERMIT to it annually to provide for the timely replacement of equipment and vehicles. Operating departments will be charged for replacement costs spread over the useful life of the equipment and vehicles.

Financial Reporting Policies

~~40.41.~~ 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 the Governmental Accounting Standards Board (GASB) and the Government Finance Officers Association (GFOA).

~~41.42.~~ The Finance ~~DEPARTMENT Division~~ prepares monthly financial reports AND DELIVERS THE SAME TO for the Town Manager, Town Council, and the department ~~DIRECTORS managers~~ no later than the 2nd Council meeting of each month.

~~42.43.~~ An annual Financial Report is prepared for the State of Arizona and sent to the State Auditor's Office no later than October 30th WHEN FEASIBLE, AND ORAL AND WRITTEN PRESENTATION WILL BE MADE TO THE TOWN COUNCIL. This report is available to the Town's Council, securities and bonding agencies, and citizens.

~~43.44.~~ An annual audit will be performed by an independent public accounting firm and budgeted for in the general fund. The audit scope shall include the following:

- a. All general purpose, combining and individual fund, and account group statements and schedules shall be subject to a full scope audit.
- b. All Town departments are subject to audit for compliance with the laws and statutes of the State of Arizona.
- c. All state, federal and local grant funding are subject to a financial and compliance audit.

~~45.~~ Periodically, as determined by the Town EVERY FIVE YEARS, the Finance Department will issue a request for banking services to all qualified banks located within the Town's geographic boundaries. The award of banking services will be made solely on the response to the request for proposal. After a depository is selected, a banking service contract will be approved by the Town Council.

~~44.46.~~ EVERY FIVE YEARS THE FINANCE DEPARTMENT WILL ISSUE A REQUEST FOR PROFESSIONAL AUDITING SERVICES. THE AWARD OF ACCOUNTING SERVICES WILL BE MADE SOLELY ON THE RESPONSE TO THE REQUEST FOR PROPOSAL. AFTER AUDITOR SELECTION A CONTRACT WILL BE APPROVED BY THE TOWN COUNCIL.

~~45.47.~~ Financial systems will maintain internal controls to monitor revenues, expenditures, and program performance on an ongoing basis. The internal controls will be sufficient as to prevent loss of Town assets. These controls will

be documented and reviewed on a periodic basis. Any employee will be prosecuted to the extent of the law in any instance where the employee is proven to have committed an illegal act such as theft.

Section 2. The comprehensive financial policies adopted by this resolution supersede any and all comprehensive financial policies previously adopted by the Town Council of the Town of Chino Valley.

PASSED AND ADOPTED by the Mayor and Common Council of the Town of Chino Valley, Arizona this 13th day of May, 2010.

Jim Bunker, Mayor

ATTEST:

APPROVED AS TO FORM:

Jami C. Lewis, Town Clerk

Musgrove Drutz & Kack, P.C.
Town Attorney