

Financial Policy 1 – The Annual Budget

Arizona law (Title 42 Arizona Revised Statutes) requires the City Council to annually adopt a balanced budget by purpose of public expense.

- 1.1 In accordance with Arizona law (Title 42 Arizona Revised Statutes), the Mesa City Council shall annually adopt a balanced budget by purpose of public expense.
- 1.2 The City will budget revenues and expenditures on the basis of a fiscal year which begins on July 1 and ends on the following June 30.
- 1.3 The status of the Budget will be monitored continuously throughout the course of the fiscal year.
- 1.4 Financial systems will be maintained to monitor expenditures, revenues and program performances on an ongoing basis.
- 1.5 Updates will be reported to City Management monthly, and reviewed with the City Council at a minimum of twice annually.
- 1.6 Performance measurement indicators will be integrated into the budget process as appropriate.
- 1.7 Ongoing expenses will be funded with ongoing revenues.
- 1.8 The State of Arizona limits expenditures by local jurisdictions. The City will comply with these expenditures limitations and will submit the necessary documents as required by the Uniform Expenditure Reporting System (A.R.S. Section 41-1279.07) to the State Auditor General each year.
- 1.9 The City may pursue through public vote adjustments to its expenditure limitation as it deems necessary through either alternative expenditure limitation (Home Rule) or a permanent base adjustment (Article IX, Section 20, Subsections 9 & 6, Arizona State Constitution).
- 1.10 Mesa's annual budget will include contingency appropriations sufficient to provide for the temporary financing of an unforeseen nature for that year.
- 1.11 The City Manager may institute changes to budgeted operating expenses during the fiscal year including, but not limited to hiring, promotions, transfers, and capital equipment purchases as budget trends dictate.
- 1.12 The City will provide replacement funding for fleet vehicles. The replacement schedule will be updated as part of the annual budget process

Financial Policy 2 - Fund Balances and Contingency Fund Targets

The economy's cyclical nature creates a need for comprehensive fund balance policies to ensure stable service delivery, while avoiding revenue-expenditure imbalances when unforeseen circumstances occur. The City's (bond) rating agencies expect cities to maintain adequate fund balances. Mesa's revenue structure requires that these targets are higher than those in comparable cities that have more typical revenue structures.

- 2.1 Mesa's adopted Annual Budget will be developed so as to maintain a forecasted General and Enterprise (unrestricted) fund balance of 8% -10% per fiscal year.

Financial Policy 3 - Fees and Charges

Fees and charges policies aid in the consistent provision of public services and help ensure financial stability that the fees and charges remain fair and appropriate.

- 3.1 Fees and charges revenues will be monitored continuously with status reports provided to Management monthly, and to the City Council twice annually.
- 3.2 Adjustments will be made to Fees and Charges if deemed necessary and following approval by the City Council.
- 3.3 User fees for all operations will be examined annually to ensure that fees address costs of service. Rate adjustments for enterprise operations will be based on five-year enterprise fund plans and/or other comprehensive rate studies.
- 3.4 Development fees for one-time capital expenses attributable to requirements for additional capacity will have a complete review every three years with index-driven annual adjustments made during the intervening years to ensure that fees match development-related expenses.

Financial Policy 4 - Debt Issuance and Management

Debt service requirements can impact the City's financial condition and can limit the flexibility to respond to changing service priorities, funding availability, or cost structures. When debt is issued, it obligates the borrowing government to make regular payments for periods of up to 30 years or more.

- 4.1 Mesa will ensure that the City of Mesa will require a secondary property tax at a rate necessary to offset General Obligation bond debt.
- 4.2 City should maintain an adequate general obligation debt service fund balance.
- 4.3 Long-term debt will not be issued to finance current operations.
- 4.4 Debt term should match the useful life of the capital project funded.
- 4.5 General Obligation and Revenue bond debt service payments should be structured so as to be consistent from year-to-year.
- 4.6 The City shall comply with the State of Arizona Constitution's requirements that bonded debt not exceed the 20% and 6% limitations of the total secondary assessed valuation of taxable property in the City.
- 4.7 Benchmark ratios of per capita debt, debt service to operating revenue, and outstanding debt as a percent of full cash value will be updated annually.
- 4.8 Refunding bonds will be measured against a standard of the net present value debt services savings exceeding 3% of the debt service amount of the bonds being refunded unless the refunding was initiated for purposes other than debt service savings.
- 4.9 The City shall comply will all U.S. Internal Revenue Service arbitrage rebate requirements for bonded indebtedness.
- 4.10 The City shall comply with all requirements of A.R.S., Title 15.1, and other legal requirements regarding the issuance of bonds and certificates of the City of its debt issuing authorities.

Financial Policy 5 - Capital Improvement Program (CIP) & Asset Replacement

The Capital Improvement Plan (CIP) provides a rolling five-year projection of the city's capital projects. The CIP identifies future financial requirements for the constructed capital component as part of the overall financial forecast.

- 5.1 Pursuant to the City Charter's requirement as outlined in Article VI, section 605, the City Manager will submit to the City Council a five-year capital program by March 1 of each year is met.
- 5.2 Development of the CIP will be coordinated with the annual operating budget.
- 5.3 Future operating, maintenance and replacement costs associated with new capital improvements will be forecast and matched to available revenue sources.
- 5.4 Before adoption the CIP will be adjusted to balance available resources against initial costs, in the form of cash payment or debt service obligation and future operating and maintenance (O & M) costs.
- 5.5 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.

Financial Policy 6 – Investments & Cash Equivalentents

The investment of City resources will be done so as to balance risk and return while following a conservative investment approach that preserves sufficient liquidity to allow the government to meet its cash flow needs.

- 6.1 In accordance with Article VI, section 611 of the City Charter, the Council may authorize the investment of any money subject to its control in any security authorized by the laws of the State of Arizona.
- 6.2 City of Mesa's investments shall comply with the approved Investment Policy that is reviewed biannually by the Council's Audit and Finance Committee and (re)authorized through Council resolution.
- 6.3 The City will collect, deposit, and disburse all funds on a schedule that insure optimum cash availability for investments.
- 6.4 All City investment/bank accounts shall be reconciled and reviewed on a monthly basis.
- 6.5 Updates will be reported to City Management monthly, and reviewed with the City Council annually.

Financial Policy 7 - Financial Reporting

Reporting of the City's finances should be done in such a way as to satisfy both the management and transparency needs of government. It should provide information on the value of the portfolio frequently enough to give an accurate picture of the funds available to provide services, and it should provide the necessary detail for oversight bodies to determine that staff are meeting the government's policy goals.

- 7.1 Mesa will ensure that the City's accounting and financial reporting systems will be maintained in conformance with all state and federal laws, generally accepted accounting principles (GAAP), standards of the Governmental Accounting Standards Board (GASB), and the Government Finance Officers Association (GFOA).
- 7.2 An annual audit will be performed by an independent public accounting firm, with the audit opinion included as part of the City's published Comprehensive Annual Financial Report (CAFR).
- 7.3 The CAFR 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.
- 7.4 The Biennial Budget Plan will be submitted to the GFOA Distinguished Budget Presentation Program. The document should satisfy criteria as a financial and programmatic policy statement, as a comprehensive financial plan, as an operations guide for all organizational units and as a communications device for all significant budgetary issues, trends and resource choices.

Financial Policy 8 - Long Range Planning and Forecasting

Long-term financial planning uses trends such as population, labor markets, and general financial conditions to forecast future revenues and expenditures over a three-to-five year period. Accurate assessment of future finances will allow Mesa to adjust resource allocation as necessary.

- 8.1 The City shall develop and utilize short, medium and a long range forecasts each with commensurate level of detail
 - 8.1.1 Short-range forecasts shall look at a range of 1 to 2 years
 - 8.1.2 The medium-range forecast shall look at a range of 3 to 7 years
 - 8.1.3 The long-range forecast shall look at a range of 8 to 20+years
- 8.2 Financial forecasts should be capable of modeling the following:
 - 8.2.1 Costs to maintain the current level of service.
 - 8.2.2 Cost of providing expanded, new, or reduced levels of service.
 - 8.2.3 Debt service costs for existing and new bond sales during the forecast period.
 - 8.2.4 Construction and purchased capital needs including the operating and maintenance costs associated with the capital projects.
- 8.3 Forecasts shall accommodate financial modeling through the integration of the Budget and CIP systems and will allow for changes in forecast variables, such as:
 - 8.3.1 Changes in forecasted individual revenue sources.
 - 8.3.2 Changes in forecasted economic indicators, i.e. consumer price index, disposable income, salary growth, etc.
 - 8.3.3 Changes in population growth percentages.
 - 8.3.4 Changes in service demand volumes.
- 8.4 The forecast system will integrate the future needs of all budgeted service areas of the City. The use of the system will supplement the use of statistical and regression modeling software.
- 8.5 The forecast shall allow the City Council to establish & modify short, medium and long-range fiscal plans. These policies include fund balance goals, contingency reserve requirements, revenue strategies, program expansion/reduction and the timing of bond projects.
- 8.6 Results of the forecasts will be used as components in the annual budget development process for City staff, management and Council.

Financial Policy 9 - Risk Management

Risk Management policies are designed to protect against losses that would affect its assets and, hence, its ability to provide ongoing services. Risk Management should seek realistic risk avoidance, risk reduction, risk transfer, and risk retention strategies.

- 9.1 The City of Mesa relies on the advice and counsel from the City Attorney's Office to identify, evaluate, and limit the City's risk.
- 9.2 The City will work to prevent or mitigate the loss of City assets and to reduce the City's exposure to liability through training, safety, risk financing and the transfer of risk when cost effective.
- 9.3 When cost effective, the City shall manage its exposure to risk through self-insurance or through the purchase of traditional third-party insurance in the following areas: general liability, automobile liability, public officials' errors and omissions, property loss and workers' compensation.
- 9.4 When cost effective, the City will further control its exposure to risk through the use of "hold harmless" agreements in City contracts and by requiring contractors to carry liability insurance.
- 9.5 Insurance reserves shall be maintained at a level that together with any purchased insurance will adequately indemnify the City's assets and its elected officials, officers and directors against loss. Reviews will be conducted for potential liability areas and shall be used as a basis for determining self-insurance reserves based on historical loss data.
- 9.6 The City will identify and disclose any material issues regarding contingent liabilities in the City's Comprehensive Annual Financial Report (CAFR).

Financial Policy 10 - Amending and Updating Financial Policies

Financial policies should be subject to regular review, and any policy that has become obsolete or in need of revision should be revised at that time.

- 10.1 Mesa City Council's Audit and Finance Committee will periodically review the City's financial policies, and forward recommendations for any revisions to the City's financial policies to the City Council for consideration.
- 10.2 City staff will report annually to the Mesa City Council's Audit and Finance Committee concerning the status of the City's ongoing compliance with the adopted financial policies.