

RESOLUTION 2012-02

A RESOLUTION OF THE MAYOR AND COUNCIL OF THE TOWN OF FOUNTAIN HILLS, ARIZONA, REVISING TOWN FUND BALANCE REPORTING POLICIES TO COMPLY WITH GOVERNMENT ACCOUNTING STANDARDS BOARD (GASB) NO. 54, FUND BALANCE REPORTING AND GOVERNMENTAL FUND TYPE DEFINITIONS AND APPOINTMENT.

WHEREAS, the Governmental Accounting Standards Board (“GASB”) has adopted Statement 54 (“GASB 54”), a new standard for governmental fund balance reporting and governmental fund type definitions that became effective in governmental fiscal years starting after June 15, 2010; and

WHEREAS, currently, Town fund balance is divided into three basic classifications for governmental accounting and tracking purposes; reserved, designated unreserved and undesignated unreserved. Reserved and designated unreserved fund balance is legally restricted for a future specific use and is not available for general appropriation. Undesignated and unreserved fund balance is not restricted and, therefore, it is available for those uses that the Council deems necessary; and

WHEREAS, the Mayor and Town Council of the Town of Fountain Hills (the “Town Council”) desires to create five new classifications of governmental fund balances (Nonspendable Fund Balance; Restricted Fund Balance; Committed Fund Balance; Assigned Fund Balance; and Unassigned Fund Balance) as required by GASB 54. The five new fund balance types are more fully defined in the Town of Fountain Hills Financial Policies, Amended and Restated June 7, 2012 (the “Amended Financial Policies”) attached hereto as Exhibit A and incorporated herein by reference; and

WHEREAS, the overall principal and goal of GASB 54 is to report governmental fund balances based on a hierarchy that shows from the highest to the lowest, the level or form of constraints on fund balance, and accordingly, the extent to which governments are bound to honor them; and

WHEREAS, due to the GASB 54 requirement that commitments of fund balances should occur before year end, governments will not be able to report anything other than nonspendable, restricted, and assigned governmental fund balances, unless the Town Council takes actions before year-end to establish committed fund balances, including stabilization arrangements; and

WHEREAS, decisions as to which person(s) should have direct or delegated authority to assign fund balanced should be decided by fiscal year end; and

WHEREAS, the Town Council hereby elects to (i) implement GASB 54 requirements, and to apply such requirements to its financial statements beginning with the prior (July 1, 2011)

fiscal year; and (ii) adopt financial policies consistent with GASB 54 in the current (July 1, 2012) fiscal year and thereafter.

NOW, THEREFORE, BE IT RESOLVED BY THE MAYOR AND COUNCIL OF THE TOWN OF FOUNTAIN HILLS as follows:

SECTION 1. The recitals above are hereby incorporated as if fully set forth herein.

SECTION 2. Funds contained in the General Fund shall be classified as one or more of the following: Non-spendable, Restricted, Committed, Assigned or Unassigned Fund Balance.

SECTION 3. Special Revenue funds shall be classified as either Restricted or Committed Fund Balance.

SECTION 4. Rainy Day funds shall be classified as Committed Fund Balance.

SECTION 5. Debt Service, Capital Projects, and Permanent Funds shall be classified as one or more of the following: Restricted, Committed or Assigned Fund Balances.

SECTION 6. General Fund residual balances not elsewhere classified hereby designated as Unassigned Fund Balance.

SECTION 7. The order of use of Restricted and Unrestricted Funds will be as follows: Restricted Fund Balance will be spent before Unrestricted Fund Balance when expenditures are incurred for purposes for which both restricted and unrestricted (committed, assigned and unassigned) amounts are available.

SECTION 8. The order of use of Unrestricted Fund Balance shall be committed, assigned then unassigned amounts, in that order, which will be spent when expenditures are incurred for purposes for which in any of those Unrestricted Fund Balance classifications could be used.

SECTION 9. The Finance Director is hereby delegated the authority necessary to assign fund balances and nonspendable items, to fiscal years beginning on or after July 1, 2011.

SECTION 10. The document known as Town of Fountain Hills Financial Policies, Amended and Restated June 7, 2012, is hereby adopted in the form attached hereto in Exhibit A and incorporated herein by reference.

SECTION 11. The Mayor, the Town Manager, the Town Clerk and the Town Attorney are hereby authorized and directed to take all steps necessary to carry out the purpose and intent of this Resolution.

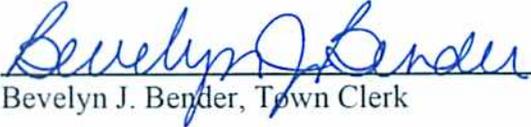
PASSED AND ADOPTED BY the Mayor and Council of the Town of Fountain Hills, Arizona, June 7, 2012.

FOR THE TOWN OF FOUNTAIN HILLS:

ATTESTED TO:



Linda M. Kavanagh, Mayor



Bevelyn J. Bender, Town Clerk

REVIEWED BY:

APPROVED AS TO FORM:



Kenneth W. Buchanan, Town Manager



Andrew J. McGuire, Town Attorney

EXHIBIT A
TO
RESOLUTION 2012-02

[Amended Financial Policies]

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TOWN OF FOUNTAIN HILLS FINANCIAL POLICIES

Amended and Restated June 7, 2012

I. INTRODUCTION

The Mayor and Town Council (the “Town Council”) of the Town of Fountain Hills (the “Town”) understands that principles of sound financial management establish the framework for overall fiscal planning and management. The principles set forth guidelines for both current activities and long range planning. Following these principles will enhance the Town’s financial health as well as its image and credibility with its citizens, the public in general, bond rating agencies and investors. The policies will be reviewed annually to assure the highest standards of fiscal management. Policy changes will be needed as the Town continues to grow and becomes more diverse and complex in the services it provides, as well as the organization under which it operates, to provide these services to its citizens. The Town Manager and staff have the primary role of reviewing and providing guidance in the financial area to the Town Council.

II. OVERALL GOALS

The overall financial goals underlying these principles are:

1. **Fiscal Conservatism.** To ensure that the Town is, at all times, in a solid financial condition, defined as:
 - A. Cash solvency – the ability to pay bills.
 - B. Budgetary solvency – the ability to balance the budget.
 - C. Long run solvency – the ability to pay future costs.
 - D. Service level solvency – the ability to provide needed and desired services.
 - E. Adhering to the highest accounting and management practices as set by the Government Finance Officers’ Association standards for financial reporting and budgeting, by the Governmental Accounting Standards Board (GASB) and other professional standards.
2. To maintain an Aa3 or better bond rating in the financial community to assure the Town taxpayers that the Town government is well managed and financially sound.
3. To have the ability to withstand local and regional economic fluctuations, to adjust to changes in the service requirements of our community, and to respond to changes in Federal and State priorities and funding as they affect the Town’s residents.

4. To deliver quality services in an affordable, efficient and cost-effective basis providing full value for each tax dollar.

III. FUND BALANCE

Fund balance is defined as the cumulative difference of all revenues and expenditures, also considered the difference between fund assets and fund liabilities, known as fund equity. The purpose of this policy is to establish a key element of the financial stability of the Town by setting guidelines for fund balance. It is essential that the Town maintain adequate levels of fund balance to mitigate financial risk that can occur from unforeseen revenue fluctuations, unanticipated expenditures and similar circumstances. The fund balance also provides cash flow liquidity for the Town's general operations. Fund balance is an important indicator of the Town's financial position and adequate reserves must be maintained to allow the Town to continue providing services to the community during periods of economic downturns and/or unexpected emergencies or requirements.

The level of Fund Balance is related to the degree of uncertainty that the Town faces. A prudent level of financial resources is necessary to protect against the need to reduce service levels or raise taxes and fees due to temporary revenue shortfalls or unpredicted one-time expenditures. With the Town dependency upon State Shared Income and State Sales Tax revenues for one third of the General Fund budget, there is increased opportunity for fluctuation. Additionally, a significant portion of Town revenue is received from sales taxes – both state shared and local - which are sensitive to fluctuations in the economy. Therefore, the level of reserves needs to be sufficient to ensure stability in on-going government operations during a slowdown in the economy or legislative changes to the revenue sharing formula.

Fund balance is one of the most widely used elements of state and local government financial statements by (1) municipal bond analysts through credit reviews and ratings, (2) taxpayer associations, (3) research organizations and oversight bodies, (4) state, county and local legislators and officials, (5) financial statement users and (6) reporters.

Other objectives that influence the size of the fund balance are:

1. Credit reviews performed by municipal bond analysts.
2. Preserving or improving the Aa3 bond rating.
3. Maintaining a positive trend to historical fund balances.
4. Maintaining a rating equal to or better than surrounding communities.
5. Maintaining ratios consistent with desired outcomes of ten key ratios of financial condition (Government Finance Review, Dec. 1993).

The Governmental Accounting Standards Board ("GASB") has found that usefulness and value of fund balance information provided is significantly reduced by misunderstandings regarding

the message that it conveys, and the inconsistent treatment and financial reporting practices of governments. GASB recently issued a pronouncement, GASB Statement 54 (“GASB 54”), that applies to all financial reports of all state and local governmental entities; GASB 54 intended to improve financial reporting by providing fund balance categories and classifications that will be more easily understood.

Definitions:

Fund Equity – a fund’s equity is generally the difference between its assets and its liabilities

Fund Balance – an accounting distinction is made between portions of fund equity that are spendable and nonspendable. These portions are broken into five categories:

- **Nonspendable fund balance**—Includes amounts either not in spendable form or legally or contractually required to be maintained intact, such as the principal balance of an endowment or permanent fund. This would include inventory, prepaids, and non-current receivables such as long-term loan and notes receivable and property held for resale (unless the proceeds are restricted, committed or assigned).
- **Restricted fund balance**—Reflects the same definition as restricted net assets on the government-wide Statement of Net Assets; constraints placed on the use of amounts are either (1) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or (2) imposed by law through constitutional provisions or enabling legislation.
- **Committed fund balance**—Includes amounts that are committed for specific purposes by formal action of the Town Council. Amounts classified as “committed” are not subject to legal enforceability like restricted fund balance; however, those committed amounts cannot be used for any other purpose unless the Town Council removes or changes the limitation by taking the same form of action it employed to previously impose the limitation. The action to commit fund balances must occur prior to year end; however, actual amounts can be determined in the subsequent period.
- **Assigned fund balance**—Amounts that are intended by the Town to be used for specific purposes, but are neither restricted nor committed, should be reported as assigned fund balance. Intent should be expressed by the Town Council itself or a subordinate high-level body or official possessing the authority to assign amounts to be used for specific purposes in accordance with policy established by the Town Council. This assignment would include any activity reported in a fund other than the General Fund that is not otherwise restricted more narrowly by the above definitions. The Town is not allowed to assign balances that result in a residual deficit.
- **Unassigned fund balance**—Includes any remaining amounts after applying the above definitions (amounts not classified as nonspendable, restricted, committed or assigned). Planned spending in the subsequent year’s budget would be included in the unassigned

Fund Balance category. The General Fund is the only fund that will report a positive unassigned balance.

General Fund

The Town fund balance may consist of up to five (5) components, as described above. In order to satisfy the objective of maintaining a bond rating equal to or better than surrounding peer communities, a combined General Fund operating fund balance of at least 30% of revenues is recommended.

Committed Fund Balance (previously Reserved Fund Balance): The Town will maintain a committed fund balance in the General Fund of 20% of the average actual General Fund revenues for the preceding five fiscal years, indicating stable fiscal policies. The maintenance of this fiscal balance is a particularly important factor considered by credit rating agencies in their evaluation of the credit worthiness of the Town. It is of primary importance that the Town's credit rating be protected.

1. **Rainy Day Fund to be Maintained.** As a component of the Committed fund balance the Town will maintain a Rainy Day Fund, separate and apart from the Unassigned General Fund, which shall be designated for use in the event of an unanticipated expenditure or loss of revenue. The Rainy Day Fund balance at the end of any fiscal year will be equal to no less than 30 days of operating expenditures for the upcoming fiscal year. This contingency will provide for the temporary financing of an unforeseen nature for that year. Expenditures for these emergency or unforeseen appropriations can only be undertaken with Town Manager approval and only if funds are not available in the department requesting the contingency funding.
2. **Guidelines for Rainy Day Fund.** In order to achieve the objectives of this policy, and to maintain sufficient working capital and a comfortable margin of safety to address emergencies and unexpected declines in revenue without borrowing, the following guidelines shall be adhered to by the Town Manager, Town staff and Town Council:
 - A. **Deposit Rules.**
 - (1) The initial Rainy Day Fund deposit shall be made by transferring the total amount of the "undesignated unreserved fund balance" from the General Fund to the Rainy Day Fund.
 - (2) At the end of each fiscal year, the Town Council shall transfer 5% of any surplus revenues (before transfers to the Capital Projects Fund) to the Rainy Day Fund. Deposits shall be made as set forth herein until the Rainy Day Fund balance is equal to 10% of the average of the General Fund revenues for the immediately preceding five years.

B. Use Rules. Rainy Day Funds may only be expended for any one of the following purposes or under the following circumstances:

- (1) To replace the loss of more than 25% of the Town's local share of State Shared Revenues received pursuant to ARIZ. REV. STAT. § 43-206.
- (2) For any event that threatens the health, safety or welfare of the Town's citizens.
- (3) For any event that threatens the fiscal stability of the Town.
- (4) To address any matter declared as an emergency by the Governor or the Mayor.

C. Withdrawal Rules. All withdrawals from the Rainy Day Fund shall be subject to the following rules:

- (1) Any appropriation shall require the approval by at least 2/3 of the entire Town Council.
- (2) The maximum amount of Rainy Day withdrawals in any fiscal year shall not exceed one-half of the total balance in the fund.

D. Replenishment Rules. Any amounts withdrawn from the Rainy Day Fund shall be replenished as follows (and such repayment shall be in addition to the annual deposits set forth above):

- (1) All amounts shall be repaid in not more than five years, in equal annual installments of not less than 1% of the previous fiscal year General Fund balance.
- (2) Repayments shall be appropriated as part of the annual budget adoption.

Assigned Fund Balance (previously Designated Unreserved Fund Balance). The Town will maintain an assigned fund balance in the General Fund of a minimum 10% of the average actual General Fund revenues for the preceding five fiscal years. These designated unreserved fund balances will be assigned for (1) "pay-as-you-go" capital replacement expenditures, (2) equipment replacement, (3) capital projects, (4) prepaying existing Town debt or (5) any other expenditure that is non-recurring in nature. The 10% is the minimum and is based on the Property and Equipment Replacement Schedule which may be increased to accelerate accumulation of funds for a large capital expenditure. To the extent these balances are expended, additional funds necessary to restore this additional 10% amount will be provided in at least approximately equal contributions during the five fiscal years following the fiscal year in

The Debt Service Fund is established for the payment of principal and interest on bonded indebtedness and as such is a restricted fund. Revenues are derived from a property tax levy, pledged excise taxes, municipal property lease payments and shared revenues. Revenues are received in amounts sufficient to pay the annual debt service payment; therefore, the restricted Fund Balance will be no less than the annual debt service payment due on July 1 of the new fiscal year and no more than the annual debt service payment due on July 1 plus an amount equal to 2% greater than the annual delinquency factor based on the prior five years delinquency rates.

Debt Service Funds

2. Excise Tax. The Excise Tax (0.4% of Local Sales Tax) Fund is a committed fund dedicated to Economic Development and Land Preservation. The Fund Balance saved in this fund will be no less than the annual debt service payment for land preservation and prior year available funds for Downtown Development.

1. HURF. The Highway User Revenue Fund ("HURF"), is required to be used solely for street and highway purposes. The fund depends upon State Shared Revenues for over 90% of annual revenues. The restricted Fund Balance will be based on the minimum requirement as specified in the schedule for projects funded with Special Revenue or grant funds. The schedule will be reviewed on an annual basis to determine the required revenue bond amount to be set aside as unassigned Fund Balance.

Special Revenue Funds

(or sooner at the direction of the Town Council). These guidelines will be reviewed by the Town Manager every three years following adoption

Fund Balance, and Unassigned Fund Balance.

The Deputy Town Manager/Finance Director is authorized to assign available fund balance for specific purposes in accordance with GASB 54. It is the policy of the Town that expenditures for which more than one category of fund balance could be used, that the order of use is: Nonspendable Fund Balance, Restricted Fund Balance, Committed Fund Balance, Assigned

54. By Resolution, the Town Council has allocated General Fund surplus funds to be (1) transferred to the Rainy Day Fund, (2) used to supplement "pay as you go" capital outlay expenditures Capital Projects Fund or (3) used to prepay existing Town debt. These funds may not be used to establish or support costs that are recurring in nature. During the annual budget process the Town Manager will estimate the surplus or deficit for the current year and prepare a projection of the year-end unassigned General Fund balance. Such projection will include an analysis of trends in fund balance levels on an historical and future projection basis.

Unassigned Fund Balance. Funds in excess of the balances described in the paragraphs above will be Unassigned General Fund balance, unless otherwise assigned in accordance with GASB 54. By Resolution, the Town Council has allocated General Fund surplus funds to be (1) transferred to the Rainy Day Fund, (2) used to supplement "pay as you go" capital outlay expenditures Capital Projects Fund or (3) used to prepay existing Town debt. These funds may not be used to establish or support costs that are recurring in nature. During the annual budget process the Town Manager will estimate the surplus or deficit for the current year and prepare a projection of the year-end unassigned General Fund balance. Such projection will include an analysis of trends in fund balance levels on an historical and future projection basis.

which the event occurred. The assigned General Fund balance can only be authorized for expenditure by upon recommendation of the Town Manager and vote of the Town Council.

Capital Project Funds

A capital improvement fund has been established as a committed fund to allow the Town to accumulate monies for (1) purchase of land or buildings, (2) improvements to Town-owned properties, (3) grant matches associated with capital improvements, (4) public safety projects and equipment purchases, (5) economic development projects and (6) such other capital projects as determined by the Town Council. The capital improvement fund will be funded by: (A) sales of real and personal property belonging to the Town; (B) general fund transfer of any excess revenues collected over budgeted and unexpended appropriations not needed to meet fund balance requirements or re-appropriation; and (C) interest earnings on the balance of the fund invested per the Town's investment policy. Accounted for separately, but considered part of the Capital Project Fund, are accumulated development fees collected pursuant to ARIZ. REV. STAT. § 9-463.05 that are assessed on new construction for the purpose of funding growth. These funds are restricted to growth-related capital expenditures as designated in the Town's adopted Infrastructure Improvements Plan. The Fund Balance will be established each fiscal year during the budget process depending on planned expenditures but cannot exceed accumulated revenues. The Town shall first be entitled to recoup the cost of any capital improvements, infrastructure, marketing or sales-related costs associated with the disposition of property before crediting the capital improvement fund (for funds other than development fees). The Town Council may approve the uses of the capital improvement fund as a part of its annual budget or by motion and affirmative vote at a time the expenditures are approved.

IV. FINANCIAL PLANNING

Fiscal planning refers to the process of identifying resources and allocating those resources among competing purposes. The primary vehicle for this planning is the preparation, monitoring and analyses of the Town's budget. It is increasingly important to monitor the performance of the programs competing to receive funding.

1. The Town Manager shall submit to the Town Council a proposed annual budget, which shall be submitted to the Town Council and the public for review in accordance with ARIZ. REV. STAT. § 42-17001, *et seq.* The Town will budget revenues and expenditures on the basis of a fiscal year which begins July 1 and ends on the following June 30. The Town Council will adopt the budget no later than June 30, and the Town Manager shall execute the Town Council policies as set forth in the finally adopted budget.
2. The Town Manager or authorized designee will prepare a budget in accordance with the guidelines established by the Government Finance Officers Association in its Distinguished Budget Award Program. The proposed budget will contain the following:
 - A. Revenue estimates by major category, by major fund.

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- B. Expenditure estimates by department levels and major expenditure category, by major fund.
 - C. Estimated fund balance by major fund.
 - D. Debt service by issue detailing principal and interest amounts by fund.
 - E. Proposed personnel staffing levels.
 - F. A detailed schedule of capital projects, including a capital improvement program.
 - G. Any additional information, data, or analysis requested of management by the Town Council.
3. The operating budget will be based on the principle that current operating expenditures, including debt service, will be funded with current revenues creating a balanced budget. The Town will not balance the current budget at the expense of meeting future years' expenditures; for example, accruing future years' revenues or rolling over short-term debt to avoid planned debt retirement.
 4. Ongoing operating costs should be supported by ongoing, stable revenue sources. This policy protects the Town from fluctuating service levels, and avoids crises when one-time revenues are reduced or removed. Revenues from growth or development should be targeted to costs related to development, or invested in improvements that will benefit future residents or make future service provision efficient.
 5. The Town Manager will provide an estimate of the Town's revenues annually for each fiscal year. The estimates of special (grant, excise tax, etc.) revenues and interfund transfers will also be provided by the Town Manager.
 6. The budget will fully appropriate the resources needed for authorized regular staffing. At no time shall the number of regular full-time employees on the payroll exceed the total number of full-time positions authorized by the Town Council. All personnel actions shall be in conformance with applicable Federal and State law and all Town ordinances and policies.
 7. The Town Manager shall provide, annually, a budget preparation schedule outlining the preparation timelines for the proposed budget. Budget packages for the preparation of the budget, including forms and instructions, shall be distributed to Town departments in a timely manner for the Department's completion. Department Directors shall prepare and return their budget proposals to the Administration Department, as required in the budget preparation schedule.

8. Performance measurement indicators will be integrated into the budget process as appropriate.
9. Alternatives for improving the efficiency and effectiveness of the Town's programs and the productivity of its employees will be considered during the budget process. Duplication of services and inefficiency in service delivery should be eliminated wherever they are identified.
10. Department Directors are required to monitor revenues and control expenditures to prevent exceeding their total departmental expenditure budget. It is the responsibility of these Department Directors to immediately notify the Town Manager of any exceptional circumstances that could result in a departmental expenditure budget to be exceeded.
11. A quarterly report on the status of the General Fund budget and trends will be prepared within 60 days of the end of each quarter by the Town Manager or authorized designee. In addition, the quarterly report shall include revenue and expenditure projections through the end of the fiscal year.
12. If a deficit is projected during any fiscal year, the Town will take steps to reduce expenditures, increase revenues or, if a deficit is caused by an emergency, consider using the Rainy Day Fund, to the extent necessary to ensure a balanced budget at the close of the fiscal year. The Town Manager may institute a cessation during the fiscal year on hirings, promotions, transfers, and capital equipment purchases. Such action will not be taken arbitrarily and without knowledge and support of the Town Council.

V. EXPENDITURE CONTROL

The Town Manager shall ensure compliance with the legally adopted budget. In addition, purchases and expenditures must comply with all applicable legal requirements.

1. Expenditures will be controlled by an annual budget at the departmental level. The Town Council shall adopt appropriations through the budget process. Written procedures will be maintained for administrative approval and processing of certain budget transfers within funds.
2. The Town will maintain a purchasing system that provides needed materials in a timely manner to avoid interruptions in the delivery of services. All purchases shall be made in accordance with the Town's purchasing policies, guidelines and procedures and applicable state and federal laws. The Town will endeavor to obtain supplies, equipment and services as economically as possible.
3. Expenditures will be controlled through appropriate internal controls and procedures in processing invoices for payment.

4. The State of Arizona sets a limit on the expenditures of local jurisdictions. The Town will comply with these expenditure limitations and will submit an audited expenditure limitation report, audited financial statements and audited reconciliation report as defined by the Uniform Expenditure Reporting System (ARIZ. REV. STAT. § 41-1279.07) to the State Auditor General each year.
5. Assets will be capitalized at \$10,000 and will be recorded in the Town of Fountain Hills Summary of General Fixed Assets.

VI. REVENUES AND COLLECTIONS

All government employees are considered stewards of public funds. In order to provide funding for service delivery, the Town must have reliable revenue sources. These diverse revenues must be collected equitably, timely and efficiently.

1. The Town's goal is a General Fund revenue base that is equally balanced between sales taxes, state shared revenues, property tax, service fees and other revenue sources.
2. The Town will strive for a diversified and stable revenue base to shelter it from economic changes or short-term fluctuations and in any one revenue source by doing the following:
 - A. Establishing new charges and fees as needed and as permitted by law at reasonable levels.
 - B. Pursuing legislative change, when necessary, to permit changes or establishment of user charges and fees.
 - C. Aggressively collecting all revenues, late penalties, outstanding taxes owed and related interest as authorized by law.
3. The Town Manager or authorized designee will monitor all taxes to ensure they are equitably administered and collections are timely and accurate. Fees and charges should be based on benefits and/or privileges granted by the Town, or based on costs of a particular service.
4. The Town Manager or authorized designee should pursue intergovernmental aid for those programs and activities that address a recognized need and are consistent with the Town's long-range objectives. Any decision to pursue intergovernmental aid should include the consideration of the following:
 - A. Present and future funding requirements.
 - B. Cost of administering the funds.

- C. Costs associated with special conditions or regulations attached to the grant award.
- 5. The Town will attempt to recover all allowable costs (both direct and indirect) associated with the administration and implementation of programs funded through intergovernmental aid. In the case of the Fountain Hills Unified School District, the Town may determine to recover less than full cost of services provided. In the case of State and federally mandated programs, the Town will attempt to obtain full funding for the service from the governmental entity requiring the service be provided. Allowable costs will be determined based upon a "Cost Allocation Study" prepared periodically.
- 6. Local sales tax revenues are derived from several sources with a significant portion from construction related activity. To ensure that the revenues from growth or development are targeted to costs related to development, or invested in improvements that will benefit future residents or make future service provision efficient, the Town will designate 85% of those one-time revenues to the Capital Projects Fund. At the end of each fiscal year these revenues will be transferred from the General Fund to the Capital Projects Fund for future appropriation.

VII. USER FEE COST RECOVERY

User fees and charges are payments for voluntarily purchased, publicly provided services that benefit specific individuals. The Town relies on user fees and charges to supplement other revenue sources in order to provide public services.

- 1. The Town may establish user fees and charges for certain services provided to users receiving a specific benefit.
- 2. User fees and charges will be established to recover as much as possible the direct and indirect costs of the program or service, unless the percentage of full cost recovery has been mandated by specific action of the Town Council. It is recognized that occasionally competing policy objectives may result in reduced user fees and charges that recover a smaller portion of service costs.
- 3. Periodically, the Town will recalculate the full costs of activities supported by user fees to identify the impact of inflation and other attendant costs.

VIII. DEBT POLICY

The purpose of this debt policy is to provide for the preservation and enhancement of the Town's bond ratings, the maintenance of adequate debt service reserves, compliance with debt instrument covenants and provisions and required disclosures to investors, underwriters and rating agencies. The Town's overall debt management policy is to ensure that financial resources are adequate in any general economic situation to not preclude the Town's ability to pay its debt when due.

These policies are meant to supplement the legal framework of public debt laws provided by the Arizona Constitution, State Statutes, Federal tax laws and the Town's current bond resolutions and covenants. The Arizona Constitution limits a city or town's bonded debt capacity (outstanding principal) to certain percentages of the Town's secondary assessed valuation by the type of project to be constructed. There is a limit of 20% of secondary assessed valuation for projects involving water, sewer, artificial lighting, parks, open space, public safety, transportation, streets and recreational facility improvements. There is a limit of 6% of secondary assessed valuation for any other general-purpose project.

1. General.

- A. The Town will (1) use current revenues to pay for short-term capital projects, repair and maintenance items and (2) reserve long-term debt for capital improvements with useful lives of ten years or more. The Town will not use long-term debt to fund current governmental operations and will manage its cash flow in a fashion that will prevent any borrowing to meet working capital needs. However, exclusive reliance upon pay-as-you-go funds for capital improvements requires existing residents to pay for improvements that will benefit new residents who relocate to the area after the expenditure is made. Financing capital projects with debt provides for an "intergenerational equity", as the actual users of the capital asset pay for its cost over time, rather than one group of users paying in advance for the costs of the asset. Where there is a benefit to all future residents, debt financing should be given consideration.
- B. To increase its reliance on current revenue to finance its capital improvements, and promote a "pay-as-you-go" philosophy, the Town will appropriate each year a percentage of current revenues to maintain a minimum 10% of average actual General Fund revenues for the preceding five fiscal years in the Assigned Fund Balance.

2. Capital Improvement Plan.

- A. As part of the budget process each year the Town Manager or authorized designee will prepare a capital spending plan that provides a detailed summary of specific capital projects for the five fiscal years subsequent to the fiscal year presented. The plan will include the name of the project, project schedule, capital cost by fiscal year and a recommended specific funding source. The five year capital improvement plan will be developed within the constraints of the Town's ability to finance the plan.
- B. The Town Manager and Department Directors will develop formal ranking criteria that will be used in the evaluation of all capital projects. The program ranking criteria will give greatest weight to those projects which protect the health and safety of its citizens. Pay-as-you-go project

financing shall be given the highest priority. Capital improvements that must rely upon debt financing shall be accorded a lower priority and projects with a useful life of less than ten years shall not be eligible for inclusion in bond issues.

- C. Lease purchase financing shall only be undertaken when the project is considered essential to the efficient operation of the Town or to remove expenditures that would exceed the State imposed expenditure limitation. The Town Manager or authorized designee shall be responsible for ensuring that pay-as-you-go expenditures do not cause the State imposed expenditure limitation to be exceeded in any fiscal year.
- D. All capital project requests will be accompanied by a description of the sources of funding to cover project costs. Where borrowing is recommended, a dedicated source of funds to cover debt service requirements must be identified. All capital project requests will be required to identify any impact the project may have on future operating costs of the Town. The Town will seek grants to finance capital improvements and will favor those projects which are likely to receive grant money.
- E. All capital project appropriations and amendments to the capital improvement plan must be approved by the Town Council.
- F. The capital plan will include all equipment and facilities with a useful life of greater than ten years and a cost greater than \$50,000. Debt financing shall not exceed the useful life of the infrastructure improvement or asset.
- G. Seven steps in preparation of Capital Improvement Program:
 - (1) Establish Capital Improvement policies.
 - (a) Time period the CIP will cover.
 - (b) Facilities/equipment that will be included in the CIP.
 - (c) How acquisition of multiple items (e.g. computers) will be treated.
 - (d) Identification of projects that are expected to be undertaken, but fall outside the time horizon of the plan.
 - (2) Adopt Standards to rank project requests.
 - (a) Projects that address a public health or safety concern are given top priority.

- (b) **Projects mandated by a court of competent jurisdiction or a government with authority over the Town are equal with public health or safety.**
 - (c) **Major maintenance (preservation of assets).**
 - (d) **Replacement of obsolete equipment (improving efficiency).**
 - (e) **Expansion to meet demand caused by growth.**
 - (f) **Coordination of projects to achieve cost savings.**
 - (g) **Availability of cash to finance improvements from current revenues.**
 - (h) **Acquisition of open space.**
- (3) **Perform and maintain a capital inventory and identify useful life.**
- (4) **Identify projects.**
- (a) **Status review of previously approved projects.**
 - (b) **Identification of new projects.**
 - (c) **Assess capital project alternatives.**
 - (d) **Complete project request forms.**
- (5) **Assess funding sources.**
- (a) **Available grants.**
 - (b) **Development fees shall be utilized to fund capital projects before pay-as-you-go and bond issuance financing.**
 - (c) **Developer contributions.**
 - (d) **Public/Private partnerships.**
 - (e) **Issuance of Securities.**
 - (f) **Capital Leases.**
- (6) **Approve the CIP and Budget.**

- (a) Legislative review.
- (b) Public hearing.
- (c) Adoption of the CIP and capital budget.

The Town of Fountain Hills capital improvement program ranking criteria will give greatest weight to those projects which protect the health and safety of its citizens. Pay-as-you-go project financing shall be given the highest priority. Capital improvements that must rely upon debt financing shall be accorded a lower priority. All capital project requests will be accompanied by a description of the sources of funding to cover project costs. Where borrowing is recommended, the source of funds to cover debt service requirements must be identified. All capital project requests will be required to identify any impact the project may have on future operating costs of the Town.

Department Directors will submit a detailed description of the useful life of capital projects submitted in conjunction with the preparation of the Town's CIP. Projects with a useful life of less than ten years shall not be eligible for inclusion in bond issues except in extraordinary circumstances. The Town Manager shall incorporate an estimate of the useful life of proposal capital improvements in developing an amortization schedule for each bond issue. If a short-lived asset or project (less than ten years) is included in a bond issue then the bond amortization schedule shall be adjusted to reflect the asset's rapid depreciation. At no time shall the amortization exceed the life of the asset.

3. Financing Alternatives.

A. Financing alternatives include, but are not limited to:

- (1) Grants.
- (2) Developer Contributions.
- (3) General Obligation Bond – requires voter approval, supported by an ad valorem (property) tax.
- (4) Revenue Bonds – repaid with dedicated revenue stream (HURF, revenue generated by project).
- (5) Municipal Property Corporation Bonds – repaid with a dedicated revenue source.
- (6) CFD or Special District Bonds – supported by an ad valorem property tax.
- (7) Capital Leases – repaid within operating budget.

- (8) Commercial Paper (CP) or Bond Anticipation Notes (BAN) with terms less than two years.
- B. Town Debt Service costs (GO, Revenue Bonds, MPC, Leases) shall not exceed 20% of the Town's operating revenue in order to control fixed costs and ensure expenditure flexibility. Improvement District (ID), Community Facility District (CFD) and Special District debt service is not included in this calculation because it is paid by district property owners and is not an obligation of the general citizenry. Separate criteria have been established and included within the Town's CFD policy.
- C. In accordance with requirements of the State of Arizona Constitution, total bonded indebtedness shall not exceed 20% of the Town's total secondary assessed valuation of taxable property in the Town for water, sewer, artificial lighting, parks, open space, public safety, transportation, streets and recreational facility improvements and 6% of the total secondary assessed valuation of taxable property in the Town for all general purposes.
- D. The Town shall comply with all U.S. Internal Revenue Service arbitrage rebate requirements for bonded indebtedness.
- E. Where applicable, the Town will structure General Obligation bond issues to create level debt service payments over the life of the issue. The goal will be to strive for a debt repayment schedule to be no more than 15 years; at no time will the debt exceed 25 years.
- F. Refunding bonds will be measured against a standard of the net present value debt service savings exceeding 3% of the principal amount of the bonds being refunded, or if savings exceed \$750,000, or for the purposes of modifying restrictive covenants or to modify the existing debt structure to the benefit of the Town. Refinancings undertaken for other reasons should proceed only when the advantages have been clearly shown in a cost/benefit analysis of the transaction.
- G. The Town will seek to maintain and, if possible, improve the current bond rating in order to minimize borrowing costs and preserve access to credit.
- H. An analysis showing how a new issue combined with current debt impacts the Town's debt capacity and conformance with Town debt policies will accompany every future bond issue proposal. The debt capacity analysis should reflect a positive trend and include:
- (1) Percent of debt outstanding as a percent of the legal debt limit.
 - (2) Measures of the tax and revenue base.

- (3) Evaluation of trends relating to expenditures and fund balance.
- (4) Debt service as a percentage of assessed valuation.
- (5) Measures of debt burden on the community.
- (6) Tax-exempt market factors affecting interest costs.
- (7) Debt ratios.

- I. Municipal Property Corporation and contractual debt, which is non-voter approved, will be utilized only when a dedicated revenue source (e.g. excise taxes) can be identified to pay debt service expenses. The project to be financed will generate net positive revenues (i.e., the additional revenues generated by the project will be greater than the debt service requirements).
- J. The Town's privilege/excise tax to debt service goal will be a ratio of at least 3.5:1 to ensure the Town's ability to pay for long-term debt from this elastic revenue source.

4. Issuance of Obligations.

- A. The Town shall select the Underwriter and the Paying agent/registrar for each debt issuance based on competitive bid. The underwriter must be a firm domiciled in Arizona with an office in the Phoenix area and a record of prior working relationships.
- B. The request for proposals process will be designed to select the service providers that offer the Town the best combination of expertise and price. The Town is not required to select the firm offering the lowest price, but a report must be prepared by the Town Manager providing justification to the Town Council for a recommendation when other than the lowest bidder is chosen. The review of all proposals submitted shall be the responsibility of the Town Manager.
- C. The Town of Fountain Hills will use competitive sales as the primary means of selling new General Obligation or revenue bonds that are repaid through ad valorem (property) taxes. Negotiated sales will be permitted for all other debt issues when it is expected to result in a lower true interest cost than would a competitive sale of that same date and structure or there is evidence of volatile market conditions, complex security features, or another overriding factor.

- D. The Town Manager or designee and Town Attorney will coordinate their activities to ensure that all securities are issued in the most efficient and cost-effective manner and in compliance with the governing statutes and regulations. The Manager and the Town Attorney shall consult and jointly select the bond counsel for a bond issue. The Town Attorney will review all documents related to the issuance of securities by the jurisdiction.
- E. The Town Manager or authorized designee will seek a rating on all new issues which are being sold in the public market if economically feasible.
- F. The Town will report, on an annual basis, all financial information and/or notices of material events to the rating agencies and Electronic Municipal Market Access (EMMA). The annual report will include but not be limited to the Town's annual Comprehensive Annual Financial Report (CAFR).
- G. Any institution or individual investing monies as an agent for the Town shall do so in a manner consistent and in compliance with the Town's adopted Investment Policy.
- H. The Town Manager or authorized designee will provide detailed draw schedules for any project to be funded with borrowed monies. The Town will invest the proceeds or direct a trustee to invest the proceeds of all borrowings in a manner that will ensure the availability of funds as described in the draw schedules.
- I. The Town acknowledges the responsibilities of the underwriting community and pledges to make all reasonable efforts to assist underwriters in their efforts to comply with SEC Rule 15c2-12 and MSRB Rule G-36.