

RESOLUTION 2016-31

A RESOLUTION OF THE MAYOR AND COUNCIL OF THE TOWN OF FOUNTAIN HILLS, ARIZONA, ADOPTING THE TOWN OF FOUNTAIN HILLS FINANCIAL POLICIES, AMENDED AND RESTATED NOVEMBER 17, 2016.

WHEREAS, the Mayor and Council of the Town of Fountain Hills (the “Town Council”) approved Resolution No. 2003-14, adopting the Town of Fountain Hills Financial Policies (the “Original Financial Policies”) to establish the framework for fiscal planning and management; and

WHEREAS, pursuant to Resolution No. 2003-50, the Original Financial Policies were amended on August 21, 2003 (the “2003 Amended Financial Policies”) to include the Town’s debt policy as reserved under the Original Financial Policies; and

WHEREAS, pursuant to Resolution No. 2009-05, the 2003 Amended Financial Policies were amended and restated on June 18, 2009 (the “2009 Amended Financial Policies”) to incorporate Rainy Day Fund procedures and to make other technical corrections; and

WHEREAS, pursuant to Resolution No. 2010-16, the 2009 Amended Financial Policies were amended on June 17, 2010 (the “2010 Amended Financial Policies”) to modify the sales tax revenues allocation for the Capital Projects Fund; and

WHEREAS, pursuant to Resolution No. 2012-02, the 2010 Amended Financial Policies were amended and restated on June 7, 2012 (the “2012 Amended Financial Policies”) to adopt financial policies consistent with, and to implement, Governmental Accounting Standards Board Statement 54 (“GASB 54”) requirements; and

WHEREAS, pursuant to Resolution 2015-08, the 2012 Amended Financial Policies were amended and restated on Marcy 19, 2015 (the “2015 Amended Financial Policies”) to incorporate the Town’s separate cash handling policies and to update certain provisions of the Town’s debt policy; and

WHEREAS, the Town Council desires to further amend the 2015 Amended Financial Policies to clarify the time requirement in which to: (i) transfer excess revenues collected over budgeted and unexpended appropriations from the General Fund to the Capital Projects Fund; and (ii) establish the Town Council’s budget adoption as the expression of its intent to commit fund balances for the purpose of GASB 54.

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.

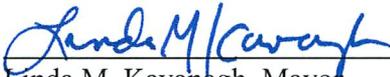
SECTION 2. The document known as Town of Fountain Hills Financial Policies, Amended and Restated November 17, 2016 (the “Amended and Restated Financial Policies”) is hereby adopted in substantially the form and substance attached hereto in Exhibit A and incorporated herein by reference.

SECTION 3. 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, November 17, 2016.

FOR THE TOWN OF FOUNTAIN HILLS:

ATTESTED TO:



Linda M. Kavanagh, Mayor



Bevelyn J. Bender, Town Clerk

REVIEWED BY:

APPROVED AS TO FORM:



Grady E. Miller, Town Manager



Andrew J. McGuire, Town Attorney

EXHIBIT A
TO
RESOLUTION 2016-31

[Amended and Restated Financial Policies]

See following pages.

TOWN OF FOUNTAIN HILLS

FINANCIAL POLICIES **Amended and Restated November 17, 2016**

Table of Contents

I.	INTRODUCTION	1
II.	OVERALL GOALS.....	1
2.1	Fiscal Conservatism.....	1
2.2	Maintaining Bond Rating.....	1
2.3	Stability.....	1
2.4	Delivering Quality Services.....	1
III.	FUND BALANCE.....	2
3.1	Fund Balance Categories.....	3
3.2	General Fund.....	4
3.3	Special Revenue Funds.....	6
3.4	Debt Service Funds.....	6
3.5	Capital Projects Fund.....	7
IV.	FINANCIAL PLANNING.....	7
4.1	Adopting Budget.....	7
4.2	Budget Preparation.....	7
4.3	Operating Budget.....	8
4.4	Revenue Sources.....	8
4.5	Revenue Estimate.....	8
4.6	Staffing.....	8
4.7	Budget Preparation Schedule.....	8
4.8	Performance Measurement.....	8
4.9	Efficiency Analysis.....	9
4.10	Department Responsibility.....	9
4.11	Quarterly Report.....	9
4.12	Deficit.....	9
V.	EXPENDITURE CONTROL.....	9
5.1	Budgeted Expenditures.....	9
5.2	Purchasing System and Policies.....	9
5.3	Internal Controls.....	9
5.4	State Expenditure Limit.....	9
5.5	Capitalized Assets.....	10
VI.	REVENUES AND COLLECTIONS.....	10
6.1	Balanced Revenue Base.....	10
6.2	Stable Revenue Base.....	10
6.3	Monitoring Collection.....	10
6.4	Intergovernmental Aid.....	10
6.5	Cost Recovery.....	10
6.6	Growth Revenues.....	11
VII.	USER FEE COST RECOVERY.....	11
7.1	Establishing Fees.....	11
7.2	Recalculation.....	11

VIII.	CASH HANDLING POLICY	11
8.1	Individual Responsibilities.....	11
8.2	Establishing Cash Handling Sites.....	12
8.3	Procedures for Cash Collection.....	12
8.4	Receipts.....	13
8.5	Cash Received in Person.....	14
8.6	Cash Received Through the Mail.....	16
8.7	Check Acceptance.....	16
8.8	Credit Card Acceptance.....	18
8.9	Balancing of Cash Receipts.....	18
8.10	Cash Over & Short.....	19
8.11	Returned Check Procedures.....	20
8.12	Preparation of Deposits (performed by the Finance Division).....	21
8.13	Exceptions to Cash Handling Policy.....	21
8.14	Records Retention.....	21
IX.	DEBT POLICY.....	22
9.1	General.....	22
9.2	Capital Improvement Plan.....	22
9.3	Financing Alternatives.....	25
9.4	Issuance of Obligations.....	27

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 periodically 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:

- 2.1 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 well as the financial reporting and budgeting standards established by the Government Finance Officers Association, by the Governmental Accounting Standards Board (GASB) and by other professional organizations.
- 2.2 Maintaining Bond Rating. 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.
- 2.3 Stability. 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.
- 2.4 Delivering Quality Services. 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 a fund's assets and deferred outflows of resources and its liabilities and deferred inflows of resources. 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 approximately 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 ongoing 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 Aa2 bond rating.
3. Maintaining a positive trend to historical fund balances.
4. Maintaining a rating equal to or better than surrounding communities.

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 issued a pronouncement, GASB Statement No. 54 (“GASB 54”), which 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.

3.1 Fund Balance Categories. An accounting distinction is made between portions of fund balance that are spendable and nonspendable. These portions are broken into five categories:

- (A) **Nonspendable fund balance**—Includes amounts either not in spendable form or legally or contractually required to be maintained intact. This amount includes 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).
- (B) **Restricted fund balance**— Includes amounts that 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. Restricted fund balance means “restricted net assets” as defined in the government-wide Statement of Net Assets, GASB Statement No. 34, as amended by GASB Statement No. 46.
- (C) **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.
- (D) **Assigned fund balance**—Includes amounts that are intended by the Town to be used for specific purposes, but are neither restricted nor committed. 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.
- (E) **Unassigned fund balance**—Includes any remaining amounts after applying categories (A)-(D) above (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.

3.2 General Fund.

The fund balance of the Town General Fund may consist of up to five components, as described previously. 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.

- A. Committed 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 fund 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 a minimum of 20% of the average actual General Fund revenues for the preceding five fiscal years. 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 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. 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 at least 20% of the average actual General Fund revenues for the preceding five fiscal years.
 - (b) Use Rules. Rainy Day Funds may only be expended for any one of the following purposes or under the following circumstances:
 - (i) 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.

- (ii) For any event that threatens the health, safety or welfare of the Town's citizens.
 - (iii) For any event that threatens the fiscal stability of the Town.
 - (iv) 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:
 - (i) Any appropriation shall require the approval by at least 2/3 of the entire Town Council.
 - (ii) 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):
 - (i) All amounts shall be repaid in not more than five years, in annual installments of not less than 1% of the previous fiscal year General Fund balance.
 - (ii) Repayments shall be appropriated as part of the annual budget adoption.
- B. Assigned 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. This assigned fund balance will be assigned for (1) "pay-as-you-go" capital project expenditures, (2) vehicle or equipment replacement, (3) prepaying or defeasing existing Town debt or (4) any other expenditure that is non-recurring in nature. The 10% is the minimum and 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 which the event occurred. The assigned General Fund balance can be authorized for expenditure only in accordance with Resolution 2012-02 adopted by the Mayor and Town Council on June 7, 2012, as may be amended from time to time.
- C. Unassigned Fund Balance. Funds in excess of the balances described in the preceding paragraphs 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 expenditures in the Capital Projects Fund or (3) used to prepay or defease existing Town debt. These funds may not be used to establish or support costs that are recurring in nature. Any excess revenues collected over budgeted and unexpended appropriations not needed to meet fund balance requirements will be transferred to the Capital Projects Fund.

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.

The 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 fund balance and unassigned fund balance.

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

3.3 Special Revenue Funds.

- A. HURF. The Highway User Revenue Fund (“HURF”) is restricted in use 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 amount to be set aside as restricted fund balance.
- B. Excise Tax Funds. The excise tax funds are committed funds that the Town Council may dedicate for specific purposes by resolution or as part of the annual budget adoption.

3.4 Debt Service Funds.

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 the average annual delinquency factor based on the prior three years’ delinquency rates.

3.5 Capital Projects Fund.

A Capital Projects Fund has been established 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 Projects Fund will be funded by: (A) sales of real and personal property belonging to the Town; (B) General Fund transfer of any excess revenues (from the prior fiscal year) 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 Projects 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 Projects Fund (for funds other than development fees). The Town Council may approve the uses of the Capital Projects Fund as a part of its annual budget or by motion and affirmative vote at the time the expenditures are approved.

IV. FINANCIAL PLANNING

Financial 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.

4.1 Budget Adoption. The Town Manager shall prepare 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 beginning July 1 and ending the following June 30. The Town Council will adopt the budget no later than June 30. By adopting the budget and the various funds set forth therein, the Town Council expresses its intent to commit fund balances for the purpose of GASB 54 classifications. The Town Manager shall execute the Town Council policies as set forth in the finally adopted budget.

4.2 Budget Preparation. 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.

- B. Expenditure estimates by department levels and major expenditure category, by fund.
 - C. Estimated fund balance by 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.
- 4.3 Operating Budget. 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.
- 4.4 Revenue Sources. 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.
- 4.5 Revenue Estimate. The Town Manager will provide an estimate of the Town's revenues annually for each fiscal year, as well as estimates of special (grant, excise tax, etc.) revenues and interfund transfers.
- 4.6 Staffing. 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.
- 4.7 Budget Preparation Schedule. Annually, the Town Manager shall provide 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.
- 4.8 Performance Measurement. Performance measurement indicators will be integrated into the budget process as appropriate.

- 4.9 Efficiency Analysis. 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.
- 4.10 Department Responsibility. Department Directors are required to monitor revenues and control expenditures to prevent exceeding their total departmental expenditure budgets. Department Directors shall immediately notify the Town Manager of any exceptional circumstances that could cause a departmental expenditure budget to be exceeded.
- 4.11 Quarterly Report. 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.
- 4.12 Deficit. 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 or 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.

- 5.1 Budgeted Expenditures. 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.
- 5.2 Purchasing System and Policies. 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.
- 5.3 Internal Controls. Expenditures will be controlled through appropriate internal controls and procedures in processing invoices for payment.
- 5.4 State Expenditure Limit. 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.

- 5.5 Capitalized Assets. All assets of \$10,000 or more will be capitalized and recorded in the Town of Fountain Hills Summary of Capital 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.

- 6.1 Balanced Revenue Base. 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.
- 6.2 Stable Revenue Base. 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.
- 6.3 Monitoring Collection. 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.
- 6.4 Intergovernmental Aid. 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.
- 6.5 Cost Recovery. 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.

- 6.6 Growth Revenues. 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 50% of those one-time revenues to the Capital Projects Fund. Monthly, 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.

- 7.1 Establishing Fees. The Town may establish user fees and charges for certain services provided to users receiving a specific benefit. 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.
- 7.2 Recalculation. 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. CASH HANDLING POLICY

Collecting and controlling cash at the Town are very important functions. The Customer Service Representatives and Permit Technicians are the Town’s cash handling agents. Strong internal controls for cash collection and handling are necessary to prevent mistreatment of Town funds and to safeguard and protect employees from unwarranted charges of mishandling funds.

Historical practices shall not constitute justification for deviation from these procedures. The material contained in this Section supersedes any previous policies and procedures regarding the handling of cash followed within the Town and/or within Departments. The Finance Division will conduct periodic reviews of cash handling procedures. Any amendments to the policies require Town Council approval, but the Town Manager may make interpretations and exceptions to the policies contained in this Section as more particularly set forth in Subsection 8.13 below.

- 8.1 Individual Responsibilities. All cash transactions are to be processed by Town staff (including cash, credit cards, checks, etc.) and not volunteers. Any Department Director or manager with responsibilities for managing Town cash receipts and those employees who are entrusted with the receipt, deposit and reconciliation of cash for Town-related

activities shall be responsible for knowledge of and compliance with this Section VIII. A reference to this Section should be included as part of all departmental policies and procedures.

8.2 Establishing Cash Handling Sites. Ideally, from a control perspective, collecting and controlling cash should be centralized in one location; however, that is not always possible or practical. As a result, the collection of money is, in part, decentralized. The Finance Division must authorize all cash handling sites, including one-time requests for cash for special events. Departments requesting status as a cash handling site (or special events where money is being collected and a cash float is needed) must submit a request to the Finance Division at least 24 hours prior to the special event that includes:

- A. Reason(s) why cash handling site or cash float is needed.
- B. A list of the personnel involved with the cash handling site, descriptions of their duties and how segregation of duties will be maintained.
- C. Whether a change drawer will be needed.
- D. A description of the reconciliation process, including frequency of reconciliation.
- E. A description of the process for safeguarding cash until it is deposited.
- F. A schedule of how often and where cash deposits will be made.

8.3 Procedures for Cash Collection.

- A. “Cash” is defined as any of the following accepted methods of payment for Town transactions:
 - (1) Cash (coin and currency).
 - (2) Checks (made payable to the Town, no third party checks).
 - (3) Credit Cards (MasterCard, Visa, Discover, American Express-ACTIVE Net only).
 - (4) Money Orders.
- B. Cash should be physically protected through the use of vaults, safes, cash registers, etc. Each Department is responsible to make the necessary provisions to properly safeguard the cash receipts in its area and maintain the necessary safe or vault that will ensure the security. Generally, any amount of cash on hand must be maintained in a vault or heavy safe (one which cannot be easily moved by two persons using a hand cart). Cash should not be retained in desk drawers or standard file cabinets without a locking mechanism; petty cash must be secured in a locked file cabinet and keys should be secured separately.

- C. The cash drawer should be kept shut when not in use and after each transaction. The cash drawer, when open, should not be left unattended when it contains money. The contents of cash drawers should be placed in a safe, vault, or an approved, locked location after each day; all safes are to be kept locked.

8.4 Receipts.

- A. Procedures must be in place to record the daily beginning and ending receipt numbers of the cash register, and include safeguards to prevent manipulation of register totals, receipt numbers, etc. Automatic numbering of receipts through a computerized system is an acceptable alternative.
- B. Receipts should be generated from either receipt books or cash register receipt system.
- C. Cash registers must be programmed to issue receipts, which shall contain all information required by the accounting system to properly credit and track payments.
- D. Receipt books, if issued for special events, must be issued in sequential order. All books should be accounted for from the time of delivery and returned to the Finance Division.
- E. Only those receipt books that have been distributed by the Finance Division may be used.
- F. At a minimum, sequential, pre-numbered receipt forms must contain the following information:
 - (1) Date issued.
 - (2) Cashier and/or Department issuing the receipt.
 - (3) Name of payor (not the department name or revenue source).
 - (4) Net amount received.
 - (5) Sufficient information to identify the purpose of the payment.
 - (6) Form of payment (cash, check, credit card, etc.).
- G. The receipt forms should also:
 - (1) Contain all available identifying numbers and other pertinent, descriptive information including invoice numbers.

- (2) Be issued in a minimum of two copies, one for the payor and one to accompany the deposit.
- (3) Never be altered; if any type of change is necessary, all copies of the receipt must be clearly marked “void” and a new receipt issued.
- (4) Be filed sequentially and retained by the Department (including void receipts).

8.5 Cash Received in Person.

- A. When a customer produces a mutilated bill (where a portion is missing), the receiver should request that the customer have a bank redeem the bill. No bill will be considered for acceptance if both serial numbers are not present.
- B. A printed receipt must be issued for each payment received when the customer pays in person. At a remote location (for special events), manual pre-numbered receipts may be used when cash register receipts are not available.
- C. Departments may not accept post-dated checks, IOU’s, or third party checks.
- D. All cash received must be recorded through the computerized accounting system (MUNIS and/or ACTIVE Net) with computer-generated official Town cash receipts. When a cash handling site with a computerized accounting system has to use temporary cash receipts, those temporary receipts must be converted over to computerized receipts as soon as possible. If the conversion cannot be accomplished within 48 hours, the cash should be deposited into the Department’s safe and tracked in detail until it is recorded on the computerized accounting system.
- E. The customer must be presented an official Town receipt form with a duplicate record being retained by the receiving Department. All numbered receipts must be accounted for, including the original of voided receipts.
- F. The cash handling site must maintain a clear separation of duties. An individual should not have responsibility for more than one of the cash handling components: collecting, depositing, disbursement and reconciling.
- G. The procedures below are to be followed to safeguard the employee and the cash:
 - (1) Account for cash as soon as it is received – count the cash in front of customer.
 - (2) Keep cash received in view of the customer until the transaction is complete.
 - (3) If change is required, count all cash and change in front of customer.

- (4) Reconcile the funds received to the computerized accounting system cash report or to the total of the temporary receipts at the end of the day or at the end of each shift and balance the receipts as set forth in Subsection 8.9.
- (5) Immediately place all cash in a cash drawer, safe or other secure place until deposited. A secure area for processing and safeguarding funds received should be provided and restricted to authorized personnel.
- (6) Personal transactions with Town cash funds are prohibited. Monies may never be borrowed nor loaned from cash funds, nor may personal checks be cashed from receipts.
- (7) All employees paying for Town services (rentals, movie tickets, animal license, business license, etc.) must be rung up by a different employee under a separate user ID.
- (8) Deposit all cash intact and not intermingled or substituted with other cash.
- (9) Pay refunds or expenditures through the appropriate Town bank account on a Town-generated check from the main accounts payable account or petty cash for the smaller accounts. If the original payment was made using credit/debit card, then refunds will be issued through the credit card per credit card regulations.
- (10) Provide printed receipts generated by the point of sale (POS) program for every transaction involving money.
- (11) Voided cash receipts must be approved and initialed by a supervisor before the daily deposit is done, noting the reason for voiding the transaction.
- (12) Deposit daily cash report and cash promptly at the end of each day into the Finance Division safe.
- (13) Place cash in amounts over \$500.00 in the Finance Division safe immediately following the transaction until the end of day close out.
- (14) Cashiers should enter transactions using their personal logins (switch user) during a single shift.
- (15) All packaged coin or strapped currency received as payment should be removed from the package or straps and verified.

H. Cashing checks from Town deposits, borrowing cash for personal use, lapping receipts to cover shortages in cash receipts, withholding checks for deposit in order to float checks, commingling personal and Town funds and modifying cash

records are all serious offenses and may result in discipline up to and including immediate discharge from employment.

8.6 Cash Received Through the Mail.

- A. When mail is opened, if the cash received is not credited directly into the appropriate Town account or issued a receipt through a computerized accounting system, a log of the checks, credit card transactions and or cash should be prepared and submitted to the Finance Division. The log should include the customer's name, amount received, check number and any other information available that may assist in proper allocation of the funds. The envelope also should be retained as part of the records.
- B. When mail is opened, checks must be endorsed promptly with a restrictive endorsement stamp. Checks must be stored in a safe or other secure place approved by the Finance Division until deposited.
- C. Unidentified receipts must be deposited to a depository account approved for such purposes. All reasonable attempts should be made to identify the correct account and transfer the funds.

8.7 Check Acceptance.

- A. The Federal Reserve has established a regulation to standardize check endorsements:
 - (1) Checks must be made payable to the Town of Fountain Hills and endorsed promptly with a restrictive endorsement stamp payable to the Town of Fountain Hills. The endorsement stamps must be distributed by the Finance Division; this stamp protects the check if lost or stolen.
 - (2) All depositor's endorsements are limited to the top 1.5 inches on the back side of the check, at the trailing edge of the check. This area is where endorsements are normally placed. If you look at the face of the check, the endorsement area is directly behind where "Pay to the Order of" is printed.
 - (3) Any check that has been endorsed may not be returned to the customer. Any marks below the 1.5 inches on the check may obscure the bank routing number, cause delays in returning checks, and forfeit the Town's right to recovery. The purpose of this regulation is to speed collection and returns.
 - (4) The endorsement must include the following:

FOR DEPOSIT ONLY
TOWN OF FOUNTAIN HILLS
[Account Number]

- (5) Checks should have the customer information pre-printed on the face of the check. Bank issued/generated checks are acceptable.
 - (6) Personal checks from employees for cash may not be cashed at any counter in a Town facility.
 - (7) Checks or credit card transactions will not be cashed or processed for more than the amount of purchase. Departments are not authorized to return currency to the payor in the event that the check exceeds the amount due to the Town.
- B. Be sure that the name, branch, city and state where the drawer's bank is located is printed on the check.
- C. The Town will not accept a check that is:
- (1) Illegible or not written out clearly; checks should be written out in blue or black ink only.
 - (2) For anything other than the exact amount (no change will be given).
 - (3) A third party check (that is, checks made out to someone other than the Town).
 - (4) Altered or changed.
 - (5) Undated, post-dated or stale dated (older than six months).
 - (6) Not signed.
 - (7) A starter check, i.e. a check without the name, address and check number on the face of the check.
 - (8) Not in U.S. funds.
 - (9) From a foreign bank, even if payable in U.S. funds.
 - (10) Transfer checks.
- D. If the written amount on a check does not match the numerical amount, the written amount will govern.
- E. Money orders should be filled out by the customer in the presence of Town staff; the customer must countersign and write Town of Fountain Hills in the payee section.

8.8 Credit Card Acceptance.

- A. Credit cards accepted are Visa, MasterCard, Discover and American Express (ACTIVE Net only).
- B. When presented with a credit card, the Department cashier shall:
 - (1) Verify that the card has not been altered and is not expired.
 - (2) Check customer identification to verify that the name on the card and the account name are the same, unless someone is paying for other family members.
 - (3) Retain the credit card until the transaction is complete.
 - (4) Enter the credit card transaction by swiping the card through the terminal on the keyboard; if the keyboard does not have a terminal, the swipe reader is not functioning or payment is being taken over the telephone, the credit card number should be entered manually when prompted by ACTIVE Net or Class software programs.
 - (5) If the credit card information is being input from a paper registration form that includes the card number and payor signature, shred or permanently mark over the portion of the form that includes the credit card information as soon as the transaction is complete and the card is accepted.
 - (6) If receiving credit card information over the phone, verify the caller's name as it appears on the card, verify the amount to be processed, enter the credit card number, expiration date and security code directly into the ACTIVE Net or Class program – immediately shred any piece of paper where the information can be viewed or taken.

8.9 Balancing of Cash Receipts.

- A. All funds collected must be balanced daily, by mode of payment, by comparing the total of the cash, checks and credit cards to the computerized accounting reports, to the manual receipts totals, including the totals of the money received by mail. All cash receipts and supporting documentation (daily deposit slip, system receipts, and system reports) should be transferred daily to the accounting system and all discrepancies should be resolved before the end of the day/shift.
- B. Daily cash counts and reconciliations will be performed on a random basis by the Accountant or other senior Finance Division staff member. These reconciliations should be signed and dated by the reviewer. The total monthly receipts should be balanced with the monthly bank account statements and accounting system monthly reports and all discrepancies should be resolved.

- C. Currency and coin must be reconciled separately from checks, credit cards and money orders by comparing actual cash received to the cash total from the cash report or to the sum of the cash sales from the manual receipts.
- D. Over/short amounts must be separately recorded, investigated and resolved to the extent possible as set out in the over/short portion of this Section.
- E. Because balancing can be a time-consuming task and requires attention to detail, it is recommended that each cashier pre-balance his/her own drawer periodically during the day.

NOTE: On the rare occasion that a check needs to be forwarded to another party by the Town of Fountain Hills, the check cannot be endorsed. Any of the following positions are authorized to approve this receipt without endorsement: the Town Manager, the Finance Director and the Town Clerk. Approval to accept this instrument in this manner requires approval from one of the Town's authorized signatories in writing prior to the presentation of the instrument.

- F. End of day close out process for cash collection points includes the following:
 - (1) Two signatures on the daily cash report before submitting to the Finance Division.
 - (2) Total deposit must match the printed report from the software program.
 - (3) Deposits are turned in daily and deposited in the Finance Division safe by the responsible party.

8.10 Cash Over & Short.

- A. A daily accounting of cash received should be balanced against the total amount on the daily reports run by the Department. Any amount that is over or short shall be reported on the same day to the Department Director and the Accountant.
- B. The discipline procedures set forth below should be followed if the established dollar limits and frequency of overages and/or shortages are exceeded. The current established dollar limit is five dollars. A log should be established to record any overages and shortages, and the employee's name and date. Patterns, frequencies and inconsistencies should be noted on the employee's performance review. Overages or shortages of \$50.00 or more are to be reported to the Finance Director.
- C. Warnings or exceptions involving cash overages or shortages shall be retained in the employee's permanent file.

- D. If the shortage is the result of a suspected or documented theft, the shortage must be reported immediately and in writing to the Accountant, the Finance Director and the Town Manager who will submit to law enforcement for investigation, regardless of amount.
- E. Employees who handle cash are expected to be careful and accurate and to balance their funds each day without overages or shortages. Failure to follow internal controls and checks and balances as approved by the Finance Division is considered to be at least negligence and could be considered misconduct subject to the following disciplinary procedures:
 - (1) Verbal Warning. A verbal warning will be given if an employee has:
 - (i) Two or more over/shorts in any 90-day period (regardless of the amount).
 - (ii) Cumulative over/shorts of \$75.00 or more in any 30-day period.
 - (2) Written Warning.
 - (i) After an employee has received two verbal warnings, the third warning will be in the form of a written warning. A fourth warning will be subject to disciplinary action as determined by the Department Director.
 - (ii) A written warning will be issued if an employee exceeds a cumulative total of \$100.00 or more cash short in any month regardless of the number of verbal warnings.

8.11 Returned Check Procedures.

- A. Any checks returned by the Town's depository bank as uncollected shall be sent to the Finance Division. Examples of returned checks include: non-sufficient funds (NSF), account closed, payor's signature missing, refer to maker and post-dated or stale-dated checks.
- B. When a check is returned, the Finance Division prepares a negative entry to the revenue journal, debiting the originating account for the amount of the check and at the same time assessing a service fee in the amount set forth in the Town's adopted fee schedule. It is the responsibility of the Department that was credited with the revenue to notify the check writer and use due diligence to collect the amount of the check and the service fee. The check writer will be prohibited from receiving Town services until the Town is paid the full amount, plus the returned check fee. Restitution should be in the form of currency, money order, cashier's check or certified check. The Finance Division will maintain an aging report on all non-collectable items; this report will be submitted monthly to the Finance Director.

- C. When restitution is obtained, the same account should be used that was used on the negative entry and the deposit should be transferred to the Customer Service Representative for inclusion in the daily deposit.
- D. If after proper due diligence is performed, collection has not been made, the Accountant may be consulted regarding returned items that remain uncollected for further action through the State.

8.12 Preparation of Deposits (performed by the Finance Division).

- A. The Finance Division shall prepare all deposits.
- B. All checks must be made payable to Town of Fountain Hills and endorsed. A calculator tape of the checks should be included with the checks bundled together.
- C. Cash must be recorded on the deposit slip in the appropriate space.
- D. Only depository-issued deposit slips, including the appropriate account number(s) and sub-code(s) are to be used.
- E. Someone not involved with collecting the cash, opening the mail or reconciling the deposit must prepare the deposit.
- F. Deposit from the Municipal Court should be secured in locking deposit bags, which are available from the bank.
- G. Trips to the bank should be at random times during each day.

8.13 Exceptions to Cash Handling Policy.

- A. Any exception to this Section **must** be approved in writing by the Department Director and requires the concurrence of the Finance Director. For example, in cases where there is not enough staff available to maintain complete separation of duties, an alternate process to safeguard Town funds must be established and approved by the Finance Director. Requests for exceptions to these procedures must be submitted to the Finance Director in writing.
- B. Town personnel are prohibited from depositing Town cash into checking or other bank accounts unless the account has been set up by the Finance Division.

8.14 Records Retention. All cash receipts and related documents must be maintained in accordance with Records Retention Schedules pursuant to ARIZ. REV. STAT. §§ 39-101 through 39-103 and 41-151.15 through 41-151.19. Accounting reports, deposit slips, credit card receipts, copies of manual cash receipts, etc. should be kept for the period specified by the Records Retention Schedules.

IX. 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.

9.1 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.

9.2 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 ranking criteria will give greatest weight to those projects that 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 except in extraordinary circumstances.

- C. Lease-purchase financing shall be undertaken only 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 that 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. The following steps shall be used to prepare the Capital Improvement Program (“CIP”):
 - (1) Establish Capital Improvement policies, including:
 - (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) Private contributions.
 - (e) Issuance of securities.
 - (f) Capital leases.
 - (6) Approve the CIP and Budget.
 - (a) Town Council review.

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

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 detailed descriptions of the useful life of capital projects submitted in conjunction with the preparation of the Town's CIP. 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.

9.3 Financing Alternatives.

- A. Financing alternatives include, but are not limited to:
 - (1) Grants.
 - (2) Developer Contributions.
 - (3) General Obligation ("GO") Bond – requires voter approval, supported by an ad valorem (property) tax.
 - (4) Revenue Bonds – repaid with dedicated revenue source (HURF, revenue generated by project).
 - (5) Municipal Property Corporation ("MPC") Bonds – repaid with a dedicated revenue source.
 - (6) Community Facilities District ("CFD") or Special District Bonds – supported by an ad valorem property tax, revenues of the district or assessments of the cost of public infrastructure or enhanced municipal services.
 - (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 Bonds, Revenue Bonds, MPC Bonds, Leases) shall not exceed 20% of the Town's operating revenue in order to control fixed costs and ensure expenditure flexibility. Improvement 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 for CFDs have been established and included within the Town's CFD policy.

- C. The Town shall comply with all U.S. Internal Revenue Service arbitrage rebate requirements for bonded indebtedness.
- D. Where applicable, the Town will structure GO 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.
- E. 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.
- F. 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.
- G. 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.
- H. MPC 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).

- I. The Town's privilege/excise tax to debt service goal will be a ratio of at least 2.5:1 to ensure the Town's ability to pay for long-term debt from this elastic revenue source.

9.4 Issuance of Obligations.

- A. The Town shall select the underwriter and the paying agent/registrars for each debt issuance based on competitive bid. The underwriter must be a firm 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 will sell bonds through public sale, online bidding process or an accelerated bidding process unless the Town Council authorizes the bond to be sold by negotiated sale or private placement.
- 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 Town Manager and the Town Attorney shall consult and jointly select the bond counsel for a bond issue.
- 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 all financial information on an annual basis and notices of listed events in a timely manner, not in excess of ten business days after the occurrence of event, to the rating agencies and the Municipal Securities Rulemaking Board's ("MSRB's") Electronic Municipal Market Access (EMMA) system. The annual report will include but not be limited to the Town's annual Comprehensive Annual Financial Report (CAFR) and other items specified in the Town's continuing disclosure undertakings.
- 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 Securities and Exchange Commission Rule 15c2-12 and MSRB Rule G-36. The Town will follow its adopted issuance and post-issuance compliance procedures relating to its tax-exempt financings.