Key Fiscal Management Practices

Key Fiscal Management Practices are policy statements that provide a sense of the budgetary environment. Governmental budgeting is the process used to allocate financial resources to public services and projects. Budgeting helps policy makers set goals, assists program managers and Departmental Directors to improve organizational performance, and ensures that both the elected and appointed officials are accountable to the public.

The following formal policy statements are presented as principles that will govern the budget, accounting, and financial reporting for Fiscal Year 2019-2020.

Note: The following policy principles represent new or amendments to existing policies…

Fund Balances (Amended)
Revenue Stabilization Reserves: The City of Maricopa will maintain a revenue stabilization reserve at a level equal to 30% of the General Fund budgeted expenditures. Any funds in excess of this maximum will be available for capital projects and/or "one time only" General Fund expenditures as approved by the City Council. As a result of City Council action, the City Manager or his/her designee is authorized and empowered to assign fund balance to a specific purpose in accordance with, and in relation to City budget and financial policies. Amounts in the assigned fund balance classification are intended to be used by the City for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed.

Assigned fund balance amounts will be allocated as described below. (Note: current policy states, "shall strive to maintain" a 30% fund balance)

General Fund – Assigned Fund Balance
After calculating the 30% General Fund Operating Reserve, any General Fund surplus (net amount by which the fund balance is increased in that fiscal year) will be assigned as special reserve as limited by the total amount transferred into the General Fund through the annual indirect cost allocation if any. The surplus will be assigned as follows - 40% to streets maintenance, 15% assigned to economic development, 15% assigned to technology enhancement and 30% transferred to Asset Replacement Fund. The City Council reserves the right to transfer excess funds to other capital projects as determined.

Asset Replacement Fund (New)
The City of Maricopa will maintain committed fund balance in the Asset Replacement Fund for the purchase of new and replacement vehicles and other capital assets. The committed fund balance classification includes amounts that can be used only for the specific purposes imposed by formal action of the Mayor and City Council. Those committed amounts cannot be used for any other purpose unless the Mayor and City Council removes or changes the specified use by taking the same type of action it employed to previously commit those amounts. In addition to any funds transferred from the General Fund as described above, the fund will be supported by any receipts from the sale of used assets and further by any General Fund allocations. General Fund allocations will be calculated utilizing the annual asset depreciation expense, and allocated through a modified Fleet Allocation process. In the case where funds reserved in the

Asset Replacement Fund for a particular asset to be replaced, or an additional new asset to be purchased, are insufficient to cover the entire cost of the asset, additional amounts will be expensed to the appropriate Operating Fund in that year. It is noted, that as this is a new fund, it may take several years before the fund is optimized.

Self-Insured Losses Reserve (New)
After calculating the 30% General Fund operating reserve and before the assignment of general fund balance the City of Maricopa will assign and maintain a self-insured losses reserve equal to $1 million. These reserved dollars will be used for losses not covered under existing insurance programs.

General Fund Disaster Contingency Reserve (New)
After calculating the 30% General Fund operating reserve and before the assignment of general fund balance the City of Maricopa will assign and maintain an emergency reserve equal to $1 million. These reserved dollars will be used in the event of a "declared" emergency providing financial support for recovery efforts as directed by the City Council.

De-obligation (New)
In the event that an unplanned capital project is identified as a higher priority than a budget initially appropriated, the funded project list may be altered to take into account the new project. In this event, all projects will be reviewed and a new priority list established. Any project(s) that are removed from the current funded project list will have the attached funding source de-obligated and that funding source will be attached to the new project(s) and/or returned to the reserve. Further, when a capital project has been completed per the defined scope of the project, any unused funds will be de-obligated and returned to the reserve.

Revenues (Amended)
Revenue Projection: All revenue forecasts shall be conservative meaning it will be slightly underestimated to reduce the probability of a revenue shortfall. Previous year trends, current economic conditions, and City population will be guiding factors in forecasting revenues.

Budget Oversight (New)
The City Manager, in consultation with the City's Finance Team, has authority to move line items to a "frozen appropriation" status or seek appropriate cuts if revenues fail to keep pace with projections.

Reserve Analysis:
Reserves are the cornerstone of financial flexibility. Reserves provide a government with options for responding to unexpected issues and a buffer against shocks and other forms of risk. Managing reserves, however, can be a challenge. The main question is how much money to maintain in reserve – how much is enough, and when does it become too much? This can be a sensitive question, since money held in reserve is money taken from constituents, and it can be argued that excessive reserves should be returned to citizens in the form of lower taxes.

The GFOA (Government Finance Officers Association) suggest a "Triple-A" approach to sizing a reserve requirement.

<u>Accept</u>: First, we must accept that we are subject to uncertainty, including events we haven't even imagined.

Assess: Next, we must assess the potential impact of the uncertainty. Historical references are a useful baseline.

Augment: The range of uncertainty we really face will almost always be greater than we assess it to be, so we should augment that range. Historical reference cases provide a baseline, but that baseline may not be adequate to account for all future possibilities.

Risk Assessments:

Revenue Volatility – Preparing for an economic downturn.

Infrastructure Risks – To repair or replace an asset that fails expectedly

Extreme Events – Is the City subject to extreme events that could pose a significant threat to life and property

Adding It Up – The above analysis, along with an analysis of any secondary risk factors (typically debt service, pension liabilities, potential for unfavorable lawsuit judgement, etc.)

The GFOA recommends that the reserve amounts be categorized by component, making the purpose of the reserve more transparent. For example, having a reserve for emergencies and a reserve for economic uncertainty; to retain service levels in the event of lost revenues, etc.

GFOA recommends a minimum of 16% as a baseline. Cities range from between 0% (few) to 25% with most falling in less than 25% but striving to reach 25%. It is my opinion that 30% is a realistic and justified number based on the above assessment guidelines coupled with the fact that the City of Maricopa is still a fairly new City with less historical data upon which to draw our analysis. This coupled with the new reserves recommended above for "Disaster Contingency" and "Self-Insured Losses" will provide the City more than adequate reserve coverage.

FY 2019-2020 Budget Projection:	$48,370,360 Revenues
	$48,336,095 Expenditures
	$ 34,265 Projected Excess

Budget includes $1.3 million contingency. (Potential for revenues to exceed expenditures by approximately $2 million)

70% Reserve Balance Equals	$33,857,551
30% Reserve Balance Equals	$14,500,829
Disaster Contingency	$ 1,000,000
Self-Insured Losses Contingency	$ 1,000,000
Balance	$17,356,722