

RESOLUTION 29-2019

A RESOLUTION OF THE MAYOR AND COUNCIL OF THE CITY OF BENSON, ARIZONA, APPROVING AND ADOPTING FINANCIAL POLICIES

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

WHEREAS, the existence of written financial policies is a factor in securing and maintaining a favorable municipal bond rating; and

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

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

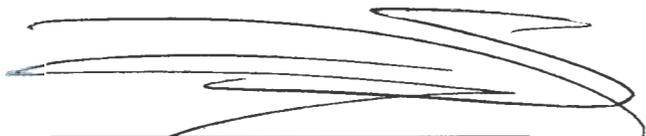
WHEREAS, financial policies set forth guidelines against which current performance may be measured and proposals for future programs can be evaluated; and

WHEREAS, the staff of the City has developed financial policies in accordance with the Government Finance Officers Association Best Practice (the "Financial Policies"), which are attached hereto as Exhibit "A" and incorporated herein by this reference; and

WHEREAS, the Mayor and Council of the City of Benson have reviewed the terms, scope, objectives, and conditions of the Financial Policies, and have determined that the approval and adoption of those Financial Policies are in the best interests of the City of Benson and its residents.

NOW, THEREFORE, BE IT RESOLVED by the Mayor and Council of the City of Benson, that the City of Benson hereby approves and adopts the Financial Policies, attached hereto as Exhibit "A," and those Financial Policies adopted by this Resolution supersede any and all conflicting policies previously adopted by the Mayor and Council of the City of Benson.

PASSED AND ADOPTED BY THE MAYOR AND COUNCIL OF THE CITY OF BENSON, ARIZONA, September 23, 2019.



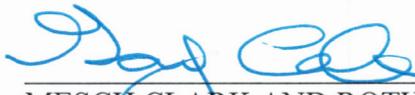
TONEY D. KING, SR. Mayor

ATTEST:



VICKI L. VIVIAN, CMC, City Clerk

APPROVED AS TO FORM:



MESCH CLARK AND ROTHSCHILD
By Gary J. Cohen
City's Attorney

Debt Management Policy

The purpose of the Debt Management Policy is to provide guidelines for the issuance of bonds and other forms of indebtedness to finance necessary land acquisitions, capital construction, equipment, and other items for the City, as well as guidelines for monitoring outstanding debt. This policy will assist the City in determining appropriate uses of debt financing, establish certain debt management goals, and assist the City in maintaining, and if possible, improving its current credit ratings, while assuming a prudent level of financial risk and preserving the City's flexibility to finance future capital programs and requirements.

Scope

This policy shall govern, except as otherwise covered by federal and state regulations and City Code, the issuance and management of all debt and lease financings funded in the capital markets. While adherence to this policy is desired, changes in the capital markets as well as unforeseen circumstances may from time to time produce situations that are not covered by the policy and may require modifications or exceptions to achieve City goals. The City's Debt Management Policy shall be reviewed annually.

Debt Issuance Process

Assessing Financing Needs for Capital Programs: The determination of how much indebtedness the City can afford begins by assessing the sufficiency of future revenues to fund the 5-year Capital Improvement Plan (CIP). Factors such as debt service coverage requirements outlined in the bond indentures, the impact on businesses and citizens, tax rates, user fees, voter authorization, and any impact on the bond ratings **will** be carefully considered.

Approval of Issuance: The bond sale amount **will** be determined based on financial cash flow projections, will comply with federal, state, and local legal requirements, and **will** obtain issuance approval from City Council.

Method of Sale: Three methods of sale for issuing debt obligations **will** be considered; competitive sale, negotiated sale, and private placement. Each type of bond sale has the potential to provide the lowest cost, given the right market conditions. The method of sale that is most advantageous to the City will be determined under consultation with the City's Financial Advisor.

Financial Service Providers: The City Manager and the City Finance Director shall be responsible for establishing a solicitation and selection process that complies with City Code requirements for securing professional services (i.e. bond counsel, financial advisor, arbitrage compliance specialist, underwriters) that are required to develop and implement the City's debt program.

Credit Ratings: Staff will assess the importance of credit ratings for each new debt. If credit ratings are to be obtained, the goal will be to maintain or improve ratings from all 3 rating agencies.

Limitations on City Indebtedness

Debt Coverage Goals: Utility rates will be set, as a minimum, to ensure the rates of revenue to debt service meet bond indenture requirements of 1.2 times coverage (ongoing system revenues will cover ongoing debt at 120%) to comply with existing Debt Covenants. The goal **will** be from 1.5 to 2 times coverage to allow for fluctuations in revenue collection and to achieve the highest credit rating when bonds are sold. Excise Tax revenue will be greater than 3 times (the goal will be over 5 times) the amount of debt service outstanding to meet Excise Tax Revenue Obligations debt coverage requirements.

Target Limitation on General Obligation (GO) Debt: State Statutes limit the amount of GO debt that a municipality can have outstanding. In general, the City's outstanding GO debt for the water, wastewater, parks, public safety, transportation, and street lighting programs is limited to 20% of the City's net assessed Limited Property Valuation (LPV) and for all other programs the amount of outstanding GO debt is limited to 6% of the City's LPV. Other factors, such as providing capacity for future programs will also be taken into consideration.

Target Limitations on the Issuance of Revenue/Excise Tax Secured Debt Obligations: The City shall seek to

finance the capital needs of its revenue producing enterprise activities through the issuance of revenue-secured or excise tax-secured debt obligations. Prior to issuing revenue-secured debt obligations, financial plans will be updated and reviewed to determine required rates and charges needed to support the planned financing, and the impact on rate payers and other affected parties. The amount of revenue-secured debt obligations issued by the City will be limited by the feasibility of the overall financing. Revenue-secured debt levels shall be limited by coverage and parity covenants and potential credit rating impacts.

Target Limitation on Lease-Purchase Financing: The City may enter into short-term lease-purchase obligations to finance the acquisition of capital equipment with estimated useful lives of less than seven years. Repayment of these lease-purchase obligations shall occur over a period not to exceed the useful life of the underlying asset. The Finance Department shall be responsible for developing procedures for use by City departments interested in participating in the lease-purchase program, and for setting repayment terms and amortization schedules, in consultation with participating departments.

Improvement District Debt: The City may issue Improvement District debt only when there is a general City benefit. Improvement Districts are generally formed only by property owners in a designated area within the City in which they agree to be assessed for the repayment of the costs of constructing improvements that benefit the owner's property. Improvement District debt is secured by a lien on the property and improvements of all parcels within each district. Each Improvement District financing must be closely evaluated since it is also secured by the General Fund and is viewed by the credit rating agencies as an indirect debt of the City.

Variable Rate Debt: The City shall not issue Variable Rate Debt.

Voter Authorized Debt

Voter authorized debt shall be used, but non-voter authorized debt (i.e. Municipal Property Corporation (MPC), Excise Tax Revenue Obligations (ETROs) may be used when dedicated revenue sources (i.e., Water and Wastewater user fees) other than secondary property taxes can be identified to pay debt service expenses and the following conditions are considered:

- a. A project requires additional funds over and above what is available from other sources and meets the City's goals and objectives.
- b. Emergency situations, such as an unfunded mandate or circumstance affecting the public health and welfare.
- c. The project will generate a positive net revenue position (i.e. revenues will exceed the cost of financing).

Debt Management Process

Debt Service Structure: The Finance Director will carefully consider the debt service structure for each bond issue. Factors such as the flow of revenues available for a particular credit, the need to fill in gaps created by refunding specific principal maturities or to structure savings from a refunding in a particular year will be considered. Accelerated repayment may be considered within the bonding capacity constraints to provide capacity for future capital programs. Bonds will be amortized over a period of time not to exceed the useful life of the assets being financed.

Maturity: The final maturity of a bond sale shall be equal to or less than the remaining useful life of the assets being financed, and the average life of the financing shall not exceed 120% of the average useful life of the assets being financed.

Investment of Bond Proceeds: The City shall comply with all applicable federal, state, and indenture restrictions, if any, regarding the use and investment of bond proceeds. This includes compliance with any restrictions on the types of investment securities allowed, restrictions on the allowable yield of invested funds, as well as restrictions on the time period over which some bond proceeds may be invested. Finance Director, or his/her designee, will direct the investment of bond proceeds in accordance with the permitted investments for each bond issue. Investments such as guaranteed investment contracts may be considered when their use is in the best interest of the City and will be selected on a competitive basis.

Refunding Bonds: Refunding bonds are issued to retire all or a portion of an outstanding bond issue. Most typically this is done to refinance at a lower interest rate to reduce debt service. Alternatively, some refundings

are executed for reasons other than to achieve cost savings, such as to restructure the repayment schedule of the debt, to change the type of debt instruments being used, or to retire an indenture in order to remove undesirable covenants. A present value analysis must be prepared that identifies the economic effects of any potential refunding. For refunding transactions solely undertaken to achieve cost savings, the target savings amount shall be measured using the present value savings as percentage of par method. The target present value savings from any refunding candidate shall generally be at least 3% of the refunded par amount net of all transaction expenses and in excess of \$1,000,000. The Finance Director in collaboration with the City's Financial Advisor, shall have discretion in making the final determination to include individual refunding candidates that are slightly below the target in order to optimize the City's financial objectives.

Arbitrage Rebate: The City shall comply with all arbitrage rebate requirements as established by the Internal Revenue Service (IRS) and establish a system of recordkeeping and reporting to meet the arbitrage rebate compliance requirements of the federal tax code. This effort shall include tracking project expenditures financed with bond proceeds, tracking investment earnings on bond proceeds, calculating rebate payments in compliance with tax law, and remitting any rebate earnings to the federal government in a timely manner in order to preserve the tax-exempt status of the City's outstanding tax-exempt debt issues. Arbitrage service providers may be used to assist the City with complying with arbitrage regulations.

Issuance & Post-Issuance Compliance Procedures: Adopted procedures for tax-exempt bonds shall be followed. Staff will work closely with the City's Bond Counsel, Financial Advisor, and Arbitrage Compliance Specialist to ensure tax-exempt bonds remain in compliance with federal tax requirements from the time they are issued until they are no longer outstanding.

Continuing Disclosure Undertaking (CDU): The City will comply with the requirements of Rule 15c2-12 of the Securities and Exchange Commission (SEC) when applicable. The Finance Director, or his/her designee, will be responsible for filing the annual requirements.

Declaration of Official Intent: In order to ensure debt can be issued to reimburse the City for project expenses prior to issuing debt, a Declaration of Official Intent (under Treasury Regulation Section 1.150-2) must be completed annually and filed with the City Clerk. The Declaration shall list all projects for the upcoming fiscal year. This will allow the City to reimburse certain capital expenses with the proceeds from tax-exempt reimbursement bonds, should such bonds be sold in the upcoming fiscal year.

Reserve Policy

The purpose of the Reserve Policy is to ensure the City remains a financially stable organization by maintaining appropriate reserves. Adequate reserves position an organization to effectively plan for cash funded needs, as well as unplanned needs caused by significant economic downturns, manage the consequences of outside agency actions that may result in revenue reductions, and address unexpected emergencies, such as natural disasters, catastrophic events caused by human activity, or excessive liabilities or legal judgments against the organization. In concert with the City's other financial policies, the City's Reserve Policy serves as an important tool to guide the use of City resources in meeting the City's financial commitments and provides a framework for addressing unexpected future events in a fiscally prudent manner.

This policy documents the City's approach to establishing and maintaining adequate reserves (target levels) based on consideration of risks to operations, in the budgetary fund balance across a spectrum of City operations in various funds. The budgetary fund balance represents the one-time amount accumulated from prior years, which is different than the fund balance under Generally Accepted Accounting Principles (GAAP) but includes the same constraints on spending.

Governmental Accounting Standards Board (GASB) Statement No. 54 defines five reserve classifications of fund balance based on the level of restrictions placed on the specific purposes for which amounts can be spent: non-spendable fund balance, restricted fund balance, committed fund balance, assigned fund balance, and unassigned fund balance. The last three classifications are termed Unrestricted Fund Balance since the constraint on spending is imposed by the government itself, therefore subject to this reserve policy. Additionally, contingencies and reserves can be appropriated and unappropriated, depending if the City would like the reserve to be available for spending in the current budget year or not.

General Fund Reserve Policy

The General Fund is the main operating fund that pays for general services provided by the City, such as public safety, parks, and library services. The General Fund accounts for all general revenues of the City and for expenditures related to the rendering of the City's general services. The General Fund is considered to have a high level of risk to operations due to its dependence on revenue streams that are susceptible to economic downturns and revenue reduction impacts from outside agency actions. In addition, the General Fund is the main funding source when responding to unexpected events or emergencies.

Consideration of potential risk and other drivers influence the targeted minimum level of total Unrestricted Fund Balance that should be maintained. The Government Finance Officers Association (GFOA) recommends no less than two months of General Fund Unrestricted Budgetary Fund Balance.

The City desires to maintain a prudent level of reserves based on the revenue impacts described above and the City's desire to maintain strong bond ratings to minimize borrowing costs. This reserve policy sets the targeted minimum level at three months of budgeted General Fund operating revenues, excluding onetime transfers in to provide stability and flexibility to respond to unexpected adversity and/or opportunities. Should the minimum reserve level fall below its target, a plan will be formulated to restore within a three-year period. The Unrestricted Budgetary General Fund Balance can include the following contingency and reserve types.

General Fund Contingencies/Reserves (Type/Appropriated or Not/GASB 54 Classification)

General Fund Contingency/Appropriated/Unassigned: This Contingency **will** be maintained equal to 15% of General Fund operating revenues, excluding one-time transfers in. Acceptable contingency reserve uses are emergency situations, unexpected one-time opportunities, and appropriation transfers to allow spending in other funds. Use of this reserve requires Council approval unless delegated in the Budget Resolution. The 15% General Fund Contingency reserve must be replenished annually.

City Manager Contingency / Appropriated / Unassigned: This Contingency will be created annually in the amount of \$50,000 for use by the City Manager or their designee. This reserve is to be used for emergency situations, unexpected one-time opportunities, and appropriation transfers to allow spending in other funds.

Other Fund Reserve Policies

Other funds have been identified as needing reserves due to one or more of the following reasons: self supporting nature, the potential for unanticipated revenue or expense changes that can negatively affect operations, to help maintain a stable fee structure, or to cover the potential of unanticipated events threatening the public health, safety, or welfare. Reserves have been created in Enterprise Operating Funds (i.e., Water, Wastewater, Solid Waste, Gas, Golf Course and Airport) and the Highway User Revenue Fund (HURF).

Targeted reserves will be maintained as described below. A portion of the reserve will be appropriated annually for each applicable fund to provide for unanticipated revenue shortfalls and/or unexpected expense increases in the current year. Reserves should only be utilized after all other budget sources have been examined for available funds. Should the minimum target level for any of the funds identified fall below its target, a plan will be formulated to restore as soon as possible.

Gas Operating Enterprise Fund accounts for specific services funded directly by fees and charges to City Gas customers. The fund is intended to be self-supporting and will maintain a minimum target reserve of 25% of operating revenues.

Water Operating Enterprise Fund accounts for specific services funded directly by fees and charges to City Water customers. The fund is intended to be self-supporting and will maintain a minimum target reserve of 25% of operating revenues.

Wastewater Operating Enterprise Fund accounts for specific services funded directly by fees and charges to City Wastewater customers. The fund is intended to be self-supporting and will maintain a minimum target reserve of 25% of operating revenues.

Solid Waste Operating Enterprise Fund accounts for specific services funded directly by fees and charges to City Solid Waste customers. The fund is intended to be self-supporting and will maintain a minimum target reserve of 15% of operating revenues.

Airport Operating Enterprise Fund accounts for specific services funded directly by fees and charges to City Airport customers. The fund is not currently intended to be self-supporting and depends on the General Fund to fund a portion of operating and capital costs; therefore, a minimum target reserve is not a reasonable expectation until the Airport is determined as self-sustainable by Council.

Highway User Revenue Fund (HURF) accounts for Highway Users Tax received and spent on street and highway maintenance and construction projects. The fund is not currently intended to be self-supporting and depends on the General Fund to fund a portion of operating and capital costs; therefore, a minimum target reserve is not a reasonable expectation until the HURF fund is determined as self-sustainable by Council.

Golf Course Operating Enterprise Fund accounts for specific revenues funded directly by fees and charges to San Pedro Golf Course and Benson City Grille customers. The fund is not currently intended to be self-supporting and depends on the General Fund to fund a portion of operating and capital costs; therefore, a minimum target reserve is not a reasonable expectation until the Golf Course fund is determined as self-sustainable by Council.

Accounting, Auditing, and Financial Reporting Policy

The purpose of this Accounting, Auditing, and Financial Reporting Policy is to set guidelines on how the City will account for its financial resources and be accountable for making financial information available to the public.

Accounting and Internal Control

The City's accounting and financial reporting systems **will** be maintained in conformance with Generally Accepted Accounting Principles (GAAP), standards of the Governmental Accounting Standards Board (GASB), and the Government Finance Officers Association (GFOA).

Financial systems will be maintained to monitor operating and capital revenues, expenditures, and program performance on an ongoing basis.

The City will maintain a system of internal control to safeguard its assets against loss, check the accuracy and reliability of its accounting data, promote operational efficiency, and encourage adherence to prescribed managerial policies.

Independent Audit

An annual audit of the City will be performed by an independent public accounting firm with an audit opinion to be included in the City's published Comprehensive Annual Financial Report (CAFR). An electronic copy of the CAFR will be posted online in compliance with State statutes.

Financial Reporting

External Financial Reporting: As an additional independent confirmation of the quality of the City's financial reporting, the City may annually seek to obtain the GFOA Certification of Achievement for Excellence in Financial Reporting. The CAFR, in conformity with GAAP, will be presented in a way designed to effectively communicate with citizens about the financial affairs of the City.

As an additional independent confirmation of the quality of the City's budget document, the City may annually seek to obtain the GFOA Distinguished Budget Presentation Award. The budget **will** satisfy criteria as a financial and programmatic policy document, a comprehensive financial plan, an operations guide for all organizational units, and a communication device. The Adopted Budget and Auditor General Budget forms will be posted online in compliance with State statutes.

Internal Financial Reporting: Monthly (General Fund & Enterprise Funds) and Quarterly (All funds) budget to actual financial reports will be presented to the City Council throughout the Fiscal Year. Such reports will enable the City Council to be constantly informed of the financial status of the City. These reports will be available online with the corresponding Council Packet for viewing by citizens as well.

Capital Management Policy

The purpose of the Capital Management Policy is to provide guidance on capital planning, budgeting, and management to ensure well maintained infrastructure, allowing Benson to provide quality services and maintain economic vitality and quality of life in a financially sustainable manner.

Timing and Scope: During the annual budget process, a five-year Capital Improvement Plan (CIP) is developed and submitted to Council for approval. The Council shall adopt the CIP on the same date as the final adoption of the Annual Budget. The first year of the adopted CIP, along with any unspent prior year projects (if any), will be the capital budget for that fiscal year.

CIP projects shall be over \$10,000 and include items with a useful life of 3 or more years. CIP projects may be for infrastructure, facilities, equipment, technology software/hardware, and studies to determine infrastructure needs.

Project Identification and Review: Proposed CIP projects will include a detailed project description, full cost estimates (i.e. design, construction, right-of-way, land, equipment, etc.), anticipated funding sources, recommended time schedules for each improvement, reference to planning document(s) that identify the need for the investment when applicable, and the estimated operating income or cost of maintaining the facilities to be constructed (i.e. personnel, operations and maintenance).

The City's Finance Department will serve as a central forum for cross-departmental communication regarding capital planning, identifying opportunities for efficiencies, and making a CIP recommendation to the City Manager.

Project Selection: Capital fund forecasts will be updated annually to assess financial feasibility of proposed CIP projects. Other considerations for project selection may be their impact on other projects, ability to fund preliminary design, maintaining existing infrastructure versus new construction, impact on operations, and alignment with planning documents (i.e. Council Goals, Strategic Plan).

CIP project funding will be evaluated for pay-as-you-go versus financing, by considering various economic factors, asset useful life, bond authorization levels, and projects nature/ability to finance.

Balanced CIP: The CIP projected expenditures must equal capital resources using conservative yet realistic revenue projections in the first 4 years of the five-year plan. Impacts to tax and utility rates should be clearly weighed and communicated, and all necessary rate studies should be either budgeted for or completed before beginning the project.

Capital Asset Maintenance: Maintenance and replacement of existing infrastructure and capital assets will be prioritized to keep assets in good condition and well-maintained. Replacement funds will be maintained to plan for replacement of technology, equipment, and vehicles, allowing for the monitoring of inventory, standardization, right-sizing, and cost containment.

Grant Management Policy

The purpose of the Grant Management Policy is to ensure grant oversight to support creativity and innovation in identifying and addressing existing and desired City program or partnership needs that cannot be resolved with existing resources but may be suitable areas for seeking grant funds. The policy sets standards for the consistent acquisition and administration of grants and applies to all grants provided to or facilitated by City departments (federal, state, county, local, corporate, Indian community, and private foundation). Grant support is encouraged unless the prospective grant conflicts with the City's strategic goals, generates more cost than benefit, or restricts the mission of the City.

Grant Identification, Evaluation and Application

Once potential grants have been identified and prior to the submittal of a grant application to an agency or acceptance of funds from an organization, the Department should give consideration as to whether the grant is consistent with the City's Strategic and Department Goals, and a funding evaluation should be completed to determine the effect of the grant on the current and future City resources or operations. Factors to consider are:

- a. Available funding for required grant matches (i.e. the City's portion of project costs or in-kind costs)
- b. Current and future year(s) budget implications (i.e. added positions, equipment)
- c. Capacity and experience of the Department and staff to effectively administer and implement all aspects of the grant.

Grant Approval, Administration, and Operational Oversight

To ensure transparent management of grants, grants valued with City resource commitments that exceed \$20,000, or any amount if required by law or the grant agreement, require City Council approval prior to acceptance of funds or upon submittal if award signifies acceptance. Grants do not require City Council approval if governed by another authority (i.e. Public Housing Authority Commission). The City Council item should include the grant's purpose, term and amount, as well as current and future year budget or operational implications, during and after the grant is completed. City Manager or designee is authorized to approve and execute documents related to grants with a gross value of \$20,000 or less, unless the grant agreement specifically requires City Council approval.

If an approved grant requires an ongoing General Fund commitment from the City, it will be incorporated into the forecast to ensure expenditures can be supported when the grant expires. If the position funding is only for the life of the grant, the expenditures shall be budgeted from one-time funding.

The City of Benson's City Code related to procurement shall be utilized for the purchase of materials, services, and construction with grant funds, in conjunction with any procurement requirements stipulated in the grant requirements.

Each Department Director as well as the City Finance Department shall ensure compliance with all required state and federal laws as applicable in the administration of the grant funding.

Department Directors shall ensure compliance with all grant requirements through ongoing administrative and operational support (i.e. trained staff resources, financial and/or program reporting, subcontractor monitoring of activities and/or performance, pass-thru monitoring, audit compliance by grantor and/or by external auditors, record retention, and any additional requirements detailed in the Grant award documentation such as federal circulars related to federal grants).

Operating Management Policy

The purpose of the Operating Management Policy is to provide guidance and clarification on how the budget will be structured and developed, how to amend the budget, and specific revenue and expenditure principles to ensure ongoing financial sustainability and operating practices.

Key Budget Features

Scope and Length of Budget Period: The budget shall be based on a fiscal year beginning July 1 through June 30, and revenue and expenditures for all funds shall be adopted annually (excluding funds maintained for financial reporting purposes only).

Level of Control: The budget process shall be collaborative with the Finance Office, asking all Departments to provide updated revenue and expenditure amounts for the existing fiscal year as well as projected for the next fiscal year entered directly into an Excel spreadsheet that will be turned into the Finance Office. Budgetary control shall be managed at the Departmental level and a Department cannot spend more than the total budget appropriated for their department; however, line item appropriations shall be established for each cost center (division) within each Department.

Balanced Budget Definition: According to the Arizona Revised Statutes, the total of proposed expenditures shall not exceed the total of estimated income and fund balances available. Each fund in the budget must also be in balance; total anticipated revenues plus the necessary portion of fund balance (all resources) must equal total expenditure appropriations for the upcoming fiscal year. Appropriation shall be for a specific fund and balanced based on specific funding sources, therefore savings in one fund shall not be used to cover over-expenditure in another fund.

Basis of Budgeting: The City's accounting system is maintained on the same basis as the Adopted Budget. This enables Departmental budgets to be easily monitored via accounting system reports on a monthly basis. The City's financial records, as reported each year in the Comprehensive Annual Financial Report (CAFR), are maintained in accordance with Generally Accepted Accounting Principles (GAAP). For comparison purposes, the City's financial statements show fund revenues and expenditures on both a budget basis and a GAAP basis in all funds for which budgets are adopted.

The budgets for general governmental fund types, (i.e., General Fund, Special Revenue, Capital Projects, and Expendable Trust) are prepared on a modified accrual basis, which is a mixture of the cash and accrual basis. This basis is consistent with GAAP except for the following:

- a. Compensated absences are recorded as expenditures when paid (cash basis) as opposed to a liability that is expected to be liquidated from available financial resources as earned and accrued by employees (GAAP basis).
- b. Sales tax and grant revenue are recorded on the basis of cash collected (cash basis) as opposed to the accrual basis (GAAP basis) whereby amounts are recorded to the period the revenue was earned.
- c. Capital outlays for Enterprise funds are recorded as expenses (cash basis) as opposed to fixed assets (GAAP basis).
- d. Principal payments on long-term debt are recorded as expenses (cash basis) as opposed to a reduction of a liability (GAAP basis).
- e. Proceeds from the sale of bonds and utility system development fee revenues are recognized as revenue when received (cash basis) as opposed to a reduction of a liability and an increase in contributed capital (GAAP basis).
- f. No depreciation is budgeted (on a cash basis for any fund) as opposed to depreciation expense recorded in financial statements (GAAP basis).

The budgets for Proprietary fund types such as the City's Enterprise (water, wastewater, gas, solid waste, golf course and airport), Internal Service, Fiduciary, and Permanent Trust funds are budgeted and reported on a full accrual basis of accounting. Under the full accrual basis, expenses are recorded at the time liabilities are incurred, and revenues are recognized when they are obligated to the City (for example, water user fees are recognized as revenue when bills are produced, not when the cash is received). All operating and capital expenditures (except depreciation) are identified in the budgeting process because of the need for appropriation authority.

Long-Term Financial Forecasts: Forecasts will be prepared annually covering a five-year period and considered during budget development.

Budget Principles and Process

Budget Links to Strategic Plans: The City's annual budget will be developed in accordance with the policies and priorities set forth in the Strategic Plan, the needs of the community, and local, federal and state laws.

Examination of Spending Patterns: The City will seek to maximize the value the public receives through its spending by critically examining existing spending patterns to make sure they continue to provide value, and if not, reallocate to services that do.

Prioritizing Services:

Department budgetary needs will be submitted to the Finance Office through "Decision Package Requests" and will be weighed taking into account based on available City resources within projected fiscal constraints and prioritized with Council's strategic goals. All requests must be fully justified to show that they will maintain or enhance service delivery or support new programs to achieve strategic goals for the City. Decision Packages will be reviewed and prioritized in conjunction with the City Manager's office and then submitted to Council during the budgetary process.

Additions to Department budgets outside of the annual budget process are discouraged and only approved by the City Manager's office in unique circumstances or by Mayor and Council when required per Arizona Revised Statutes.

Funding Liabilities: The current portion of long-term liabilities (i.e. capital infrastructure, annual costs of maintaining and replacing capital assets, contributions to employee pensions), at a minimum, should be funded in the annual budget so as to maintain the trust of creditors and ensure a manageable payment plan.

Budget Process: The budget will be developed following a detailed calendar to ensure timely preparation and execution, provide opportunities for citizen participation at different points, follow State law and City Code, and be summarized within a budget document to clearly communicate policy decisions.

Budget Control System

Base Budget Method: Department's base budget will be utilized for the starting point of determining ongoing Operations and Maintenance (O&M) appropriation. Departments shall be allocated the prior year's base budget to support all ongoing operations but each line item will be reviewed annually collaboratively with the Finance Office to determine if prior year funding should be reduced or transferred to another line item. Departments may also request supplemental funding through a decision package. Requests approved in the Adopted Budget shall be incorporated into Department's base budgets.

Personnel Services Budgeting: All personnel costs are funded outside of the base budgets, and any personnel savings accumulated remain in their original fund. The Budget Division develops all personnel services budgets based on full funding of all approved positions. If revenues are available during the budget process, positions may be added to maintain or enhance service levels after City Manager review and City Council approval. Additions outside of the budget process are discouraged and only approved by the City Manager's Office in unique circumstances. Overspending of overtime and temporary budgets must be funded

from base budgets if not directly related to a vacancy.

Budget Resolution Transfer Authority: The Adopted Budget Resolution for each fiscal year gives authority to the City Manager or his/her designee regarding transfers in line within their departments. The City Manager is authorized to make transfers from the General Fund “operating contingency” to departments in all funds. The central General Fund Contingency reserve in the non-departmental account can only be transferred to departments or other funds by Council approval.

Budget Expenditure Limitation: State Expenditure Limitation options, the level at which expenditures cannot legally exceed the appropriated amount, will be reviewed and implemented as required by State statute to ensure the best approach for the City. The City of Benson currently falls under the Home Rule Option. Under the Home Rule Option, the expenditure limitation is free from any ties to the State imposed expenditure limitation if the majority of the qualified electors vote in favor of this alternative. On November 8, 2016, the City of Benson voters approved to continue under Home Rule for four years. Benson adopts its expenditure limitation along with the annual budget. The maximum legal expenditure limit is the total of all departmental appropriations in the final budget adopted by the City Council. The City's next Home Rule election will be in November 2020.

Budget Amendments

In accordance with the City's Alternative Expenditure Limitation, total expenditures may not exceed the final appropriation once the budget is adopted. The City can amend the total appropriation for an individual fund; however, if one fund's total appropriation is increased, another fund must be decreased by an equal amount by Council action.

Amendments moving budget appropriation between departments may be processed at any time during the fiscal year upon written request by the City Manager to the City Council per Arizona Revised Statutes. Organizational changes resulting in appropriation shifts between departments should be timed for the start of a new budget year, whenever possible.

Revenue and Expenditure Principles

One-time expenses will be funded from one-time balances/revenues and ongoing expenses will be funded by ongoing revenues

Fund balances are non-recurring revenues and will be appropriately used for one-time expenditures or budgeted as contingency fund appropriations.

Revenues: The City strives to ensure diversification and stabilization of its revenue base.

Revenue projections will be based on historical trends by developing base lines for ongoing types of revenues versus one-time.

Projections used to balance revenues to expenditures will be prepared for a five period and updated annually to ensure financial sustainability.

Conservative but realistic revenue projections will be prepared to assess the limits of budget appropriation using trend analysis and current data to minimize estimating too high, which could result in mid-fiscal year budget cuts.

User fees and charges will be periodically analyzed and updated to ensure that revenues are covering expenditures.

Utility rate consultant studies will be performed at a minimum every four years, and internal rate analyses will be completed every year for Water, Wastewater, Solid Waste and Gas funds based on ten-year projections completed by the Finance Director and the City's Financial Consultant. Reviews will ensure fees are adequate to fund operations, debt service, bond covenants and reserves. Additionally, periodic reviews of the rate design and cost of service between customer classes will be completed.

Expenditures: The City will commit to a level of expenditures sufficient to ensure the ongoing health, safety, and welfare of citizens.

Departments are encouraged to periodically review operations for efficiencies and reallocate existing expenditure appropriation before requesting new funding.

Personnel expenditures, the largest operating cost, will be appropriated based on full funding of all approved positions. Vacant positions will either be budgeted at bottom of range or within the range if more experience is required for the position.

Employee benefits expenditures (i.e. pensions, health, worker's compensation) will be appropriated at levels to ensure adequate funding to remain current and maintain appropriate reserves if self-insured.

Compensation packages will be reviewed periodically to ensure they are sufficient to attract and retain quality employees.