



**LAKE HAVASU CITY, ARIZONA**

**FISCAL SUSTAINABILITY POLICY**

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## **I. INTRODUCTION**

This policy document establishes guidelines for the City’s overall fiscal planning and management. The City has an important responsibility to its citizens to account for public funds, to manage its finances, and to plan for the funding of core City services, including the provision and maintenance of public facilities.

Financial goals were developed to foster the financial strength, financial stability, bond rating, credibility with the citizens of Lake Havasu City:

- A. Deliver quality services in an affordable, efficient, and cost-effective way.
- B. Maintain an adequate financial base to sustain a sufficient level of municipal services, thereby preserving the quality of life in Lake Havasu City.
- C. Provide essential public facilities and prevent deterioration of the City’s public facilities and its capital assets.
- D. Respond to impacts of 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.
- E. Protect and enhance the City’s credit rating in the financial community.
- F. Ensure the legal use of all City funds through adherence to the highest accounting and management practices as set by the Government Finance Officers Association (GFOA) standards for financial reporting and budgeting, by the Governmental Accounting Standards Board (GASB), as well as other professional standards, and by adherence to State Law.

## **II. BUDGET ADMINISTRATION AND CONTROLS**

Every year during the budget preparation process, the City reassess our goals and objectives and the means to accomplish our short-term and long-term goals and objectives.

- A. The City Manager shall submit to the City Council a proposed annual budget, with recommendations, and shall execute the budget as finally adopted, pursuant to ARS §42.17101 through §42.17105.
- B. The adopted budget shall not exceed the expenditure limitation imposed by the Arizona Constitution.
- C. The adopted budget shall be a balanced budget, meaning estimated expenditures do not exceed estimated revenues plus current available resources.

- D. The City budgets revenues and expenditures on the basis of a fiscal year, which begins July 1 and ends the following June 30.
- E. The City Council adopt the budget no later than the third Monday in July or as set forth in state law.
- F. The City prepares a budget based on the guidelines established by the GFOA, which contains the following:
  - 1. Revenue estimates by major category and by major fund;
  - 2. Expenditure estimates by fund, department, and major expenditure category;
  - 3. Estimated current available resources by major fund;
  - 4. Debt service by issue detailing principal and interest amounts by fund;
  - 5. Proposed personnel staffing levels;
  - 6. A detailed schedule of capital projects.
- G. The Administrative Services Department, in consultation with the City Manager, shall annually provide a budget preparation schedule outlining the preparation timelines for the proposed budget. Budget documents for the preparation of the budget, including forms and instructions, shall be distributed to City departments in a timely manner for the departments' completion. Department officials shall prepare and return the budget requests to the Administrative Services Department, by the end of February, or as required in the budget preparation schedule.
- H. The City uses one-time monies or current available resources for one-time costs and capital expenditures and not ongoing current expenditures. If financial circumstances require the use of one-time monies or the Budget Stabilization Reserve (BSR) for current expenditures, the City Manager will present a plan for balancing the structural deficit in the long-term and a plan for replenishing the BSR.
- I. The City's annual budget includes contingency appropriations in each major fund sufficient to provide for unanticipated costs and needs that may arise throughout the fiscal year. Expenditures from these contingency appropriations may only be expended with approval of the City Manager (up to \$50,000) and ratified by Council action (if over \$50,000). The amount of contingency budgeted per fiscal year is based on historical use and adjusted annually to protect against unknown risks and uncertainty.
- J. The budget is adopted by Council at the fund or department level.

- K. Department Directors cannot approve expenditures that exceed the total departmental expenditure budget, by category.
- L. Budgetary transfers are granted only with proper approval level, as outlined in the Operating Policies and Procedures (OPP).
- M. Administrative Services staff regularly monitors and updates projected annual revenues. If a deficit is projected during any fiscal year, the City will take steps to reduce expenditures, or increase revenues. The City may also use contingency appropriations, BSR, or current available resources to the extent necessary to ensure a balanced budget at the close of the fiscal year.
- N. The City Manager may institute a cessation during the fiscal year on hiring, promotions, transfers, travel, capital equipment purchases, wage adjustments, and other similar actions to ensure the proper use of City resources.

### **III. FUND BALANCE AND NET POSITION OBJECTIVES**

- A. Fund balance (Governmental Funds) and Net Position (used to represent Enterprise Fund Net Resources) are important indicators of the City's financial position. Adequate fund balances and Net Position allow the City to continue providing services to the community in case of economic downturns and/or unexpected emergencies or requirements.
- B. Government Accounting, Auditing, and Financial Reporting (GAAFR) standards provide that Fund Balance is comprised of Non-spendable, Restricted, Committed, Assigned, and Unassigned (most to least restricted) funding categories. These categories reflect the extent to which fund balance is available for appropriation and the constraints placed on how funds may be spent.
- C. Lake Havasu City General Fund's Fund Balance shall be maintained to provide the City with sufficient working capital and a comfortable margin of safety to address emergencies and unexpected declines in revenue.
- D. Lake Havasu City's Irrigation & Drainage District (Water) Fund and Wastewater Fund shall maintain sufficient Unrestricted Net Position to provide those utilities with sufficient working capital, a comfortable margin to address emergencies, and reserves to provide for capital replacement, as needed.

### **IV. BUDGET STABILIZATION RESERVE**

The BSR is a tool used to stabilize a budget when impacted by a shortfall in revenues and/or an unanticipated emergency expense. It is used as a revenue source of last resort to avoid a budget deficit.

- A. The City maintains a BSR in the General Fund of twenty-five percent (25%) of the average actual fund revenues for the preceding five fiscal years. By action of the City Council, the BSR is Committed Funds for the purpose of maintaining a reserve balance. The BSR is only used if specific action is taken by the City Council and appropriated Contingency Funds and Unassigned Fund Balance are depleted.

Ongoing funding and, if necessary, replenishment of the BSR occurs under the following circumstances:

1. If General Fund revenues increase 0-5% above budgeted revenues for any year, 25% of the increase in revenues is transferred from Unassigned Fund Balance to the BSR as Committed Fund Balance in the next fiscal year.
  2. If General Fund revenues increase greater than 5% above budgeted revenues for any year, 50% of the increase in revenues is transferred from Unassigned Fund Balance to the BSR as Committed Fund Balance in the next fiscal year.
  3. If General Fund revenues decrease 0-5% from budgeted revenues for any year, then no transfer is made to or from the BSR in the next fiscal year.
  4. If General Fund revenues decrease more than 5% from budgeted revenues for any year, then with the approval of the City Council, a transfer is made from the BSR to the General Fund Unassigned Fund Balance to be included in the Adopted Budget in the next fiscal year.
  5. The balance of the BSR is capped at 25% of the average actual General Fund revenues for the preceding five fiscal years. If the balance of the BSR reaches 25% of the average actual revenues for the preceding five fiscal years, no transfers from Unassigned Fund Balance to the BSR occurs until the balance of the BSR dips below the 25% cap.
- B. Funds in excess of the BSR cap are retained in the Unassigned General Fund balance and may be considered to supplement "pay as you go" capital outlay expenditures, or may be used to prepay existing City debt. As a general policy, these funds should not be used to establish or support costs that are recurring in nature.
- C. The City maintains a BSR balance in the Irrigation and Drainage District (Water) Fund and Wastewater Fund of fifteen percent (15%) of the average actual revenues for the preceding five fiscal years. The BSR is only used if specific action is taken by the City Council and used to cover emergencies and unplanned capital or infrastructure repairs. If these reserves are expended, the City will increase its revenues or decrease its expenses to the extent necessary to prevent the continued use of these reserves and to restore the funds for future years. Additional funds necessary to restore the fifteen percent (15%) reserve are provided in at least approximately equal contributions during the three fiscal years following the fiscal

year in which the event occurred. The BSR is in addition to any and all reserves or funds required by bond or financing resolutions.

- D. Interfund loans may be made from one fund to another with approval of the City Council. Loans to Special Revenue Funds for negative cash does not require approval of the City Council. Factors considered when evaluating an interfund loan may include the purpose of the loan, the repayment terms, and the financial condition of the borrowing fund.

## V. LONG-TERM FINANCIAL PLANNING

Long-term financial planning is a projection of future revenues and expenditures over a period of at least five years used to avoid a future financial pitfall due to an imbalance of revenues and expenditures. The long-term financial projections are based on assumptions derived from population, economic indicators, information received from the other governmental entities, anticipated operational needs, scheduled Capital Improvement Plan (CIP) projects, and debt amortization schedules.

- A. The Administrative Services Department shall annually prepare five-year financial projections for all major funds and present it to the City Council during the budget process.
- B. If financial projections indicate a deficit in any of the major funds within the next five years, corrective action shall be taken to address the deficit before the adoption of the annual final budget by the City Council.

## VI. REVENUES AND COLLECTIONS

### A. Governmental Funds.

The City must have reliable revenue sources to provide funding for consistent service delivery. Diverse revenues must be collected equitably, timely, and efficiently.

1. The City's goal is a General Fund revenue base balanced between taxes, intergovernmental shared revenues, and other revenue sources such as licenses and permits, user fees, and other miscellaneous revenues.
2. The City strives to maintain a diversified and stable revenue base to shelter it from economic changes or short-term fluctuations in any one revenue source by doing the following:
  - i. Evaluate the need for new charges and fees, as permitted by law.
  - ii. Pursue legislative change to enhance the City's financial health.
  - iii. Collect all revenues, late penalties and related interest as authorized by the Arizona Revised Statutes.

3. The City monitors all tax collections to ensure they are equitably administered, timely and accurate. Fees and charges shall be recovered at the listed percentage of reasonable cost necessary to provide the listed services, products, or regulations as specified by City Code.
4. The City should pursue intergovernmental aid for those programs and activities that address a recognized need and are consistent with the City's long-range objectives. Any decision to pursue intergovernmental aid should include consideration of the following:
  - i. Present and future funding requirements;
  - ii. Cost of administering the funds;
  - iii. Costs associated with special conditions or regulations attached to a grant award.
5. The City 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 other governmental entities and school districts, Council may determine to recover less than full cost of services provided. In the case of state and federally mandated programs, the City will attempt to obtain full funding for the service from the governmental entity requiring the service be provided.

B. Enterprise Funds

Government enterprises generate revenue to offset the cost of providing certain services including water, wastewater, and airport. User charges are established to offset the cost of providing these services in accordance with the City Code.

1. Separate funds are established and maintained to properly account for each enterprise operation. Enterprise Funds are not used to subsidize the operations of other funds. However, operating transfers are acceptable with proper justification and approval from the City Council. Interfund charges are assessed for the administrative support of the enterprise activity.
2. The City establishes rates and fees at levels that fully cover the total direct and indirect costs, including operations, capital outlay, debt service, and bonded debt coverage requirements for water and wastewater services.
3. All existing water and sewer rates and charges are reviewed annually to recommend changes in order to maintain a minimum bonded debt coverage of at least 1.2 times. The target debt coverage ratio is 1.5 times.
4. Non-major Enterprise Funds, such as the Airport, may be subsidized by the General Fund with approval from Council through the budget adoption process.

## **VII. EXPENDITURE CONTROL**

Expenditure control ensure expenditures are approved and utilized for the intended purpose. Purchases and expenditures must comply with legal requirements, policies, and procedures set forth by the City.

- A. The City Council shall establish appropriations through the budget process. The Council may transfer these appropriations as necessary through the budget amendment process.
- B. Administrative approval and processing of certain budget transfers within departments is governed by the City OPPs.
- C. The City shall 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 City's purchasing policies, guidelines and procedures, and state and federal laws. The City obtains supplies, equipment, and services as economically as possible.
- D. Expenditures shall be controlled through appropriate internal controls and procedures in processing invoices for payment.
- E. The City shall pay applicable contractor invoices in accordance with the requirements of Arizona Revised Statutes (ARS) §34-221.
- F. The State of Arizona sets a limit on the expenditures of local jurisdictions. The City remains in compliance and submits all required reports in a timely manner.

## **VIII. ACCOUNTING, AUDITING, AND FINANCIAL REPORTING**

Accounting, auditing, and financial reporting establishes and maintains high standards of accounting practices, provides full transparency to the citizens of the community and provides important information to the City Council, management, citizens, investors, and creditors.

- A. The City complies with generally accepted accounting principles (GAAP) in its accounting and financial reporting, as contained in the following publications:
  - 1. Codification of Governmental Accounting and Financial Reporting Standards, issued by the Governmental Accounting Standard Board (GASB).
  - 2. Governmental Accounting, Auditing, and Financial Reporting (GAAFR), issued by the Government Finance Officers Association (GFOA) of the United States and Canada.

3. Municipal Budget and Finance Manual, prepared by the League of Arizona Cities and Towns.
  4. Audits of State and Local Governmental Units, an industry audit guide published by the American Institute of Certified Public Accounts (AICPA).
  5. Government Accounting Standards, issued by the Controller General of the United States.
  6. U.S. Office of Management and Budget (OMB) Circular A-133, issued by the U.S. Office of Management and Budget.
- B. Monthly financial reports are prepared summarizing financial activity comparing actual revenues and expenditures with budgeted amounts.
- C. A system of internal accounting controls and procedures is maintained to provide reasonable assurance of the safeguarding of assets and proper recording of financial transactions of the City and compliance with applicable laws and regulations.
- D. In accordance with State law, a comprehensive financial audit, including an audit of federal grants according to the Single Audit Act of 1984, as amended, and the OMB Circular A-133, will be performed annually by an independent public accounting firm, with the objective of expressing an opinion on the City's financial statements. The City prepares its financial statements in accordance with applicable standards and will account for its operations in a manner consistent with the goal of obtaining an unmodified opinion from its auditors.
- E. The City prepares a Comprehensive Annual Financial Report (CAFR) in accordance with the principles and guidelines established by the GFOA "Certificate of Achievement for Excellence in Financial Reporting" program. The CAFR is issued by December 31 of each year for the preceding fiscal year or as required by the Arizona Revised Statutes.
- F. All departments provide notice of any and all significant events and financial and related matters to the Administrative Services Director for the City's annual disclosures, as required by the SEC Regulation 15-C-2-12, to the municipal markets, financial statements and bond representations. The Administrative Services Director will notify all Nationally Recognized Municipal Securities Information Repositories of these significant events.
- G. The City's CAFR includes the bond-related on-going disclosure requirements and fully discloses all significant events and financial-related issues as provided by the departments to the Administrative Services Director.
- H. The City makes the CAFR available to the appropriate agencies and posts it to the City's website.