



TO: HONORABLE MAYOR AND TOWN COUNCIL

THROUGH: BRUCE GARDNER, TOWN MANAGER

FROM: SCOTT MCCARTY, FINANCE DIRECTOR

**RE: Consideration and possible approval of Resolution 1527-23
approving changes to the financial policies and governing guidance
included with the FY 2023-24 Budget**

DATE: June 7, 2023

Proposed Motion:

Motion to approve Resolution 1527-23 approving changes to the financial policies and governing guidance included with the FY 2023-24 Budget.

Relevant Council Goals:



Effective Government

Discussion:

Queen Creek's Financial Policies establish a formal framework for the Town's overall financial planning and management. Individual policies address the following key areas of sound financial management:

- Operating Management
- Pensions
- Reserves
- Revenue Management
- Investments
- Capital Management
- Debt Management
- Fixed Assets
- Budget
- Financial Reporting

Adherence to adopted financial policies promotes sound financial planning and management of public funds. These policies are the basic tenets of the Town's long-range financial planning and serve as guidelines for the development of the annual budget.

Publicly adopted financial policy statements contribute greatly toward increased public confidence, transparency, and accountability by government and are a Government Finance Officers Association (GFOA) recommended best practice. Having clear policies provides a better understanding of the Town's financial affairs to citizens. Explicit financial policies provide clear direction to staff concerning the diligence and stewardship with which public monies are to be managed.

Publicly adopted policies also demonstrate the Town's ongoing commitment to sound financial management. Bond rating agencies have cited the Town's very strong financial policies (with specific emphasis on the Town's Pension Funding Policy), as well as management's diligence in adhering to those policies, as key factors in the Town's AA+ rating. Strong bond ratings contribute to lower borrowing costs for capital projects.

The Town has an established practice of bringing the full set of financial policies to the Town Council on an annual basis for review and amendments as a part of the budget adoption process. The Town Council last approved these policies with Resolution 1465-22 on June 1, 2022.

Amendments to the Financial Policies this year include new policies previously discussed with the Town Council as well as some administrative clean up and clarifications. Following are the significant changes, with reference to the page of the attached document:

1. Property Tax Levy (p. 2) – This new policy states that the Town will set the primary property tax rate at the Truth in Taxation levy rate through FY 2027-28 as long as the following two conditions are met:
 - a. The levy rate exceeds \$1.40 per \$100 of assessed value
 - b. The total amount of property taxes assessed is at least 20% of public safety expenses.

This policy has the effect of “freezing” property taxes for existing property owners. As values of existing properties increase, the tax rate will decrease so that the Town collects the same amount of property tax from existing properties that it did in the prior year. Any increase to property tax revenue will only come from new assessed values resulting from new construction (e.g., new homes, new businesses, etc.). This policy will be re-evaluated in five years.

2. Police Master Plan Future Budget Capacity (p. 2) – This new policy requires the Town to create an expense placeholder in the Operating Budget to begin building budget capacity for costs of implementing future phases of the Police Master Plan. The amount set aside in FY 2023-24 is \$500,000, and the annual set-aside amount increases by \$500,000 each year until the Operating Budget has sufficient capacity to debt finance the infrastructure identified in the Police Master Plan. These capital expenses are estimated to be \$81M and the annual debt service costs are estimated to be \$5M.
3. Parks Master Plan Future Budget Capacity (p. 2) – This amendment to the existing policy clarifies that the annual set-aside amount for future Parks Master Plan costs is intended for debt service only.

4. Operating Budget Asset / Repair & Replacement Accounts (p. 2) – The annual amount of repair and replacement funding for HPEC will increase from \$150,000 to \$200,000 (the FY 2023-24 budget includes the higher amount). Increased usage and the age of the facility have required more repairs recently, and inflation has increased the cost of those repairs. Staff notes that the IT and Facilities repair & replacement amounts were each increased by \$100,000 last fiscal year for similar reasons.
5. Budgetary Fund Classifications (p. 8) – This new language codifies our existing practice by clarifying the definition of “fund” for budgetary purposes. The policy acknowledges that the level at which the Town establishes the budgets for certain funds is different than the level at which some funds are reported in the audited financial statements. For example, the Town’s budget includes separate budgets for the Emergency Services and HPEC funds, but these funds are not displayed separately in the audited financial statements; rather, they are combined with the General Fund. This clarification helps ensure all budgetary policies are interpreted at the budgetary fund level and not at the financial statement reporting level.
6. Budget Amendment Policies (p. 8-9) – The changes include the following:
 - a. Deletion of language regarding carry-forward for CIP projects that had a sunset date of June 30, 2023.
 - b. Addition of language codifying existing practice that any remaining funds in a CIP project budget are moved to the Contingency account once the project is complete.
 - c. Deletion of language that contradicts state laws that prevent the Town from increasing our expenditure budget once it is adopted, while clarifying that increases to revenue budgets require Town Council approval.
 - d. Addition of new language regarding budget transfers between departments within the same fund, allowing the Town Manager to approve such amendments up to \$50,000 (e.g., moving budget from IT to Development Services within the General Fund; moving budget from Police to Fire/Medical within the Emergency Services Fund). The Town’s policy was previously silent on such intra-fund budget transfers. The \$50,000 amount matches the current policy that allows the Town Manager to make adjustments between capital project accounts.
7. Carry-Forward of Capital Project Budgets (p. 9) – This language codifies the new approach for CIP budgeting that was discussed during the Budget Committee and Town Council budget presentations. Funding for a previously approved capital project that is not yet committed under contract will not be automatically carried forward to the next fiscal year. Rather, projects will be re-prioritized during the annual budget preparation process to ensure capital funding remains allocated to the Town’s most critical and time-sensitive projects. This new approach to CIP budgeting is intended to help manage the size of the Town’s overall budget and maintain a connection to the voter-approved expenditure limitation approved at the August 2022 election.

8. Mid-Year Market Adjustment for Police Sworn Staff (p. 10) – This new policy outlines the process for adjusting the salaries of sworn staff in the Police Department, as discussed during the Budget Committee and Town Council budget presentations. An adjustment to sworn staff salaries will be made in January as necessary to bring QCPD sworn staff into the top three salary levels of comparable cities' police sworn staff.
9. Budget Process (p. 10) – Clarified language to be consistent with existing budgetary fund definitions and budget amendment policies.

The full list of financial policies is included as Attachment #2, with new additions identified in bold and underlined, and deletions identified with strike-through text.

Fiscal Impact:

The FY 2023-24 budget was developed based on these policies.

Alternative:

If the Town Council desires to address any specific policy included here, staff could bring it back as a separate discussion item at a later Council meeting.

Attachments:

1. Resolution 1527-23
2. Queen Creek Financial Policies, with amendments identified

RESOLUTION NO. 1527-23

A RESOLUTION OF THE MAYOR AND COMMON COUNCIL OF THE TOWN OF QUEEN CREEK, ARIZONA, AFFIRMING AND ESTABLISHING FINANCIAL POLICIES AND GOVERNING GUIDANCE

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

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

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

WHEREAS, the Government Finance Officers Association (GFOA) recommends adopting financial policies as a best practice; and

WHEREAS, establishing financial policies helps the Town maintain its strong bond rating;

NOW, THEREFORE, BE IT RESOLVED by the Mayor and Common Council of the Town of Queen Creek, Arizona, as follows:

Section 1: The comprehensive financial policies and governing guidance attached hereto as Exhibit "A" and incorporated herein by this reference are hereby approved and adopted.

PASSED AND ADOPTED by the Mayor and Common Council of the Town of Queen Creek, Arizona, this 7th day of June, 2023.

FOR THE TOWN OF QUEEN CREEK:



Julia Wheatley, Mayor

ATTESTED TO:



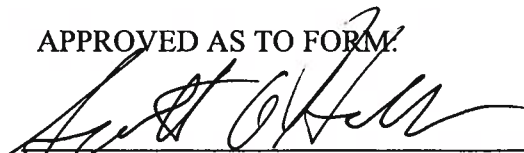
Maria Gonzalez, Town Clerk

REVIEWED BY:



Bruce Gardner, Town Manager

APPROVED AS TO FORM:



Dickinson Wright, PLLC
Town Attorneys



Financial Policies

The financial policies establish the framework for overall fiscal planning and management. They set forth guidelines for both current activities and long-range planning. The policies are reviewed annually to assure the highest standards of fiscal management. The Town Manager and the Town Council Budget Committee have the primary role of reviewing financial actions and providing guidance to the Town Council. The following policies will be affirmed and adopted per Council Resolution when the Town Council adopts the final budget.

Overall Goals

The overall financial goals underlying these policies are:

- Fiscal conservatism: To ensure that the Town is at all times in a solid financial condition. This can be defined as:
 - Cash Solvency - the ability to pay bills.
 - Budgetary Solvency - the ability to balance the budget. Neither a budget deficit nor budget surplus is present in the budget. Revenues equal expenditures.
 - Long-run Solvency - the ability to pay future costs.
- Flexibility: To ensure that the Town is in a position to respond to changes in the economy or new service challenges without an undue amount of financial stress.
- Adherence to the highest accounting and management practices: To ensure compliance with standards for financial reporting and budgeting established by the Government Finance Officers' Association (GFOA), the Governmental Accounting Standards Board (GASB), and other professional best practices.

Operating Management Policies

- Ongoing operating costs should be supported by ongoing, stable revenue sources as much as possible. Some corollaries to this policy are:
 - Fund balances should be used only for one-time expenditures, such as capital equipment and improvements or contingency accounts.
 - Ongoing maintenance costs should be financed through operating revenues rather than debt.
 - Fluctuating federal grants should not be used to finance ongoing programs.
- Revenues from growth or development should be allocated to one-time costs as much as possible. This policy implies a commitment to identifying the portions of the Town revenue stream that result from growth.
- Unassigned fund balances in the General Fund must equal 25% of revenue in the Operating Budget, per Town Council policy, to provide a cushion to address emergency situations and unforeseen circumstances.
- Enterprise Funds should be self-sufficient. They should include a sufficient unrestricted fund balance to absorb fluctuations in annual revenue. Enterprise Funds should be charged directly for expenditures such as staff salaries and fringes and direct operating expenditures. Departmental support costs for such General Fund support as Information Technology, Communications & Marketing, Finance, Budget, Human Resources, etc. will be charged at least quarterly to these funds based upon an approved methodology. Operational revenue should be great enough to cover debt service and replacement capital costs.
- A financial forecasting model should be developed to test annually the ability of the Town to absorb operating costs due to capital improvements and to react to changes in the economy or service demands. This annual forecast should at minimum cover the current and next fiscal year.
- Laws and policies on limitations on revenue sources should be explicitly addressed in the budget process. These include:



Financial Policies

- Annual Local Transportation Assistance Funds (LTAF) must be used for public transit or streets, but a small portion (10%) may be used for cultural purposes.
- Highway User Revenue Fund (HURF) must be used for expenditures found in the right-of-way including streets, sidewalks, curbs, etc.
- **Property taxes must be used only for Public Safety expenditures. The primary property tax rate will be set at the Truth in Taxation levy rate through FY 2027/28 provided: (1) the levy rate exceeds \$1.40 per \$100 of assessed value; and (2) the total amount of property taxes assessed is at least 20% of the Town's Public Safety Expenses. This policy has the effect of freezing property taxes for existing property owners. As values of existing properties increase, the tax rate will decrease so that the Town collects the same amount of property tax from existing properties that it did in the prior year. Any increase to property tax revenue will only come from new assessed values resulting from new construction (e.g., new homes, new businesses, etc.). This policy will be re-evaluated during fiscal year 2027-28.**
- Comparison of service delivery will be made on a periodic basis to ensure that quality services are provided to citizens at the most competitive and economical cost. The review of service delivery alternatives will be performed on a periodic basis.
- **Police Master Plan Future Budget Capacity – For fiscal year 2023/24, the Town will set aside \$500,000 in the Operating Budget as an expense placeholder to begin building budget capacity for possible future debt service costs related to implementing the Police Master Plan. The amount set aside each year thereafter will increase by \$500,000 until the Operating Budget has sufficient capacity to accommodate new expenses related to future phases of the Police Master Plan.**
- Parks Master Plan Future Budget Capacity – For fiscal year 2022/23, the Town will set aside \$500,000 in the Operating Budget as an expense placeholder to begin building budget capacity for ~~operational costs~~ and possible future debt service costs related to implementing future phases of the Town's Parks Master Plan. The amount set aside each year thereafter will increase by \$500,000 until the Operating Budget has sufficient capacity to accommodate the new expenses related to future phases of the Parks Master Plan.
- Operating Budget Asset / Repair & Replacement Accounts – Each year the Town will set aside fixed amounts in certain departmental budgets within the Operating Budget to be used for ongoing repairs, maintenance, and replacement of critical operating assets. Any unused budget appropriations will lapse at the end of the fiscal year. The following amounts will be budgeted annually:
 - Information Technology - \$425,000
 - Facilities Maintenance - \$350,000
 - HPEC - ~~\$150,000~~ **\$200,000**
- Treatment Effluent Purchase Policy – Treated wastewater effluent (TWE) is a valuable water resource and can directly offset groundwater pumping recharge requirements as established by the Arizona Groundwater Management Act. TWE is a by-product of the wastewater treatment process, which costs are the responsibility of the Town's Wastewater System. TWE is an asset only to the Town's Water System.
 - Because of the significant and distinct difference between the customer base of the Town's Water and Wastewater Systems, the Town's Water System shall purchase any TWE produced and recharged annually that is available as a water resource to the Town's Water System.
 - The Town Council, as part of the adopted annual budget, shall establish the internal rate and charge for TWE for any given year.



Financial Policies

Pension Funding Policies

The Town Council will annually review the Pension Funding Policy. The objectives of this policy are:

1. Fully funded pension plans. Maintain adequate assets so that current plan assets plus future contributions and investment earnings are sufficient to fund all benefits expected to be paid to members and their beneficiaries. The target funded ratio goal is 100% (full funding). Taxpayer and member equity is best achieved at full funding. At full funding, both the member and taxpayer have paid the appropriate costs incurred to date.
2. Maintain intergenerational equity. Pension costs are paid by the generation of taxpayers who receive the services. Fully funded pension plans are the best way to achieve taxpayer and member intergenerational equity. Pensions that are less than fully funded place the cost of service provided in earlier periods on the current and future taxpayers. If the plan is underfunded (less than 100%), future members and taxpayer are responsible for an unfair portion of plan costs.
3. Maintain stability of the Town's contribution amounts.
4. Maintain public policy goals of accountability and transparency. Each policy element is clear in intent and effect, and each should allow an assessment of whether, how and when the funding requirements of the plan will be met.

The Town Council will fully fund the pension liabilities for the three pension systems by directing resources created from revenues in excess of expenses at the end of every fiscal year. The three pension liabilities will be fully funded in the following priority order: first, the fire unfunded pension liability; second, the police unfunded pension liability; and third, the ASRS unfunded pension liability.

Specific Funding Practices:

1. Fire Plan in PSPRS. Prior to June 30th annually, the Town will remit a one-time payment to PSPRS. The amount remitted will be the greater of the Net Pension Liability reported in the Queen Creek Fire Department's most recent GASB 68 Employer Reporting Accounting Schedules, or the Unfunded Actuarial Accrued Liability reported in the Queen Creek Fire Department's most recent Actuarial Valuation. The amount will be based on Tier 1 and 2 employees only.
2. Police Plan in PSPRS. A Police_Unfunded Pension Liability Reserve account is created in the General Fund. The amount recorded in this reserve represents the Town's share of the greater of the Net Pension Liability as reported in the Queen Creek Police Department's most recent GASB 68 Employer Reporting Accounting Schedules, or the Unfunded Actuarial Accrued Liability as reported in the Queen Creek Police Department's most recent Actuarial Valuation. Additionally, the amount held in the Town's former MCSO Unfunded Pension Liability Reserve account will be transferred to the Police Unfunded Pension Liability Reserve account at the end of fiscal year 2021/22 and will remain in the Police Reserve account to provide resources for funding future pension liabilities. Over time, as the actuarial valuations of the PSPRS Plan mature, the monies in the Town's reserve account will be transferred to the PSPRS Plan.
3. Arizona State Retirement System (ASRS). ASRS Unfunded Pension Liability Reserve accounts are created in the General Fund and each Enterprise Fund. The amounts recorded in these reserves represent the Town's share of the ASRS Net Pension Liability as reported in the ASRS's most recent GASB 68 Employer Reporting Accounting Schedules. The ASRS Actuarial Valuation does not have sufficient information to allocate or estimate the Town's portion of the ASRS UAAL, therefore only the GASB 68 reports will be used for this policy.

Allocation of Resources to Fund Reserve Accounts:

- a. Annually, all available resources in the Operating Budget in excess of the Town's Operating Budget 25% Unassigned Fund Balance Reserve will be directed in the following priority order until both reserves are



Financial Policies

fully funded: first, to the Police Unfunded Pension Liability Reserve and second, to the ASRS Unfunded Pension Liability Reserve in the General Fund.

- b. Annually, unrestricted net position in each Enterprise Fund will be directed to the ASRS Unfunded Pension Liability Reserve in the respective Enterprise Fund until the reserves are fully funded. Each Enterprise Fund's share of the ASRS Net Pension Liability will be based on that fund's covered payroll relative to total covered payroll for all of the Town's ASRS-eligible employees.

Reserve Policies

The Town's reserve policy covers the General Fund, Enterprise Funds (Water, Sewer and Solid Waste), and Special Revenue Funds (e.g., HURF, Emergency Services Fund, Town Center Fund). The Town Development Fee Funds and capital project funds (Drainage and Transportation, and General CIP) are excluded from this policy and are covered by the reserves established for the General Fund. The reserve policy varies by fund depending upon the underlying revenue risk.

Fund balance is an important indicator of the Town's financial position. Maintaining reserves is considered a prudent management practice. Adequate fund balances are maintained to allow the Town to continue providing services to the community in case of unexpected emergencies or requirements, economic downturns, and "pay-as-you-go" funding for capital projects or one-time expenditures.

In an effort to ensure the continuance of sound financial management of public resources, the Town of Queen Creek's Unassigned General Fund Balance will be maintained to provide the Town with sufficient working capital and a comfortable margin of safety to address emergencies, sudden loss of revenue or operating needs, and unexpected downturns without borrowing.

This policy establishes the amounts the Town will strive to maintain in its fund balances, the conditions under which fund balance may be spent, and the method by which fund balances will be restored. These amounts are expressed as goals, recognizing that fund balance levels can fluctuate from year to year in the normal course of operations for any local government.

- Operating Budget (General Fund, Emergency Management Services Fund, HURF, and Horseshoe Park Fund). The Town will strive to maintain an Unassigned Fund Balance reserve in the General Fund equivalent to 25% of the following year's Operating Budget revenue (excluding one-time grant revenue). It is the intent of the Town to limit use of Operating reserves to non-recurring needs such as to address emergency situations, unexpected events where damage is incurred and immediate, remedial action must be taken to protect the health and safety of residents (e.g. floods, fires, and storm damage), capital needs and other such non-recurring needs. Fund Balance may decline year over year, due to a sudden decline in revenue during the last quarter of the fiscal year, and expenditure savings cannot be achieved fully in this limited timeframe. The Town will consider this funding situation as part of new fiscal year budget discussions. The Town's objective is not to use Fund Balance for recurring expenditures. Any planned usage of the Unassigned Fund Balance reserve must be appropriated by the Town Council. Any unplanned usage or drawdown caused by revenue declines will be reported to the Council as part of normal financial reporting to Council.
- Road Replacement Reserve – Beginning in fiscal year 2021/22, the Town will set aside \$500,000 as a separate reserve in the Operating Budget to provide resources for future replacement of the Town's transportation infrastructure. The amount set aside each year thereafter will increase by \$500,000 until the annual set-aside amount approximates the annualized repair and replacement costs of the Town's major transportation infrastructure.
- Special Revenue Funds - The Town will strive to maintain a Restricted Fund Balance reserve in Special Revenue Funds, as defined by GAAP, equivalent to 10% of annual recurring revenues in these funds.



Financial Policies

- Water and Wastewater Funds – After fully funding the pension reserves required by the Town’s Pension Funding Policy, Queen Creek shall establish and maintain two types of reserves for both the Water and Wastewater Funds – an operating reserve and a repair/replacement reserve.
 - The target of the Water and Wastewater operating reserves will be equal to one year of each respective fund’s operating expenses.
 - The target level of the Water and Wastewater repair/replacement reserves will be equal to 1.5 times the annual depreciation of each respective fund’s capital assets.
 - Annual net budgetary basis operating income results will be designated into these fund balances – with 30% going to fund the operating reserve and 70% going to fund the repair/replacement reserve – until fully funded.

Any appropriation from any Water or Wastewater reserve fund shall require the approval of the Town Council. The Council may authorize use of reserve funds for unanticipated events threatening public health, safety or welfare. The use of any reserve should be requested only after all other budget sources have been examined for available funds. Any approval of the use of the reserve funds must also include a repayment plan that restores the reserve to the minimum adopted level within three fiscal years following the fiscal year in which the use occurred. Compliance with the provisions of this policy shall be reviewed annually as part of the budget adoption process.

- The Chief Financial Officer is authorized to classify available fund balance for specific purposes in accordance with GASB Statement 54. It is the policy of the Town that when expenditures are incurred for which more than one category of fund balance could be used, the order of use is Restricted Fund Balance, Committed Fund Balance, Assigned Fund Balance, and Unassigned Fund Balance.

Revenue Management Policies

- The Town will strive for a more diversified and stable revenue system, maintained to ensure the fiscal health of the community.
- User fees for all operations will be examined annually to ensure that fees cover direct and indirect cost of service as much as possible.
- Enterprise fees (Water, Wastewater and Solid Waste) shall be set to fully recover their respective operating costs, including debt service.
- Development fees for one-time capital expenses attributable to new development will be reviewed at least every five years to ensure that fees match development-related expenses.
- Central Arizona Groundwater Replenishment District (CAGR) Credits will be allocated annually per Resolution 1204-18.
- The Town Utilities (Water and Wastewater) will include payments to the Operating Budget that reflect the true cost of utility operations, similar to expenses for private utilities, including: franchise fees, payments in lieu of property taxes and the recovery of a reasonable rate of return. These additional Operating Budget revenues will be dedicated to fund Public Safety and Fire/EMS.
 - In-Lieu Property Taxes shall be equivalent to the Town’s Primary Property Tax Rate per \$100 of 18% (the current statutory assessment ratio) of the net asset values for real and personal property owned by the Water and Wastewater Systems.
 - Franchise Fees shall be 5% of annual Water and Wastewater operating revenues.
 - Return on Investment shall be 10% of the annual operating revenues generated by non-Town resident customers.



Financial Policies

Investment Policies

The primary objectives of the Town's investment activities are:

- Safety of principal – the Town will seek to ensure preservation of principal in the overall portfolio.
- Liquidity – the investment pools and funds will remain sufficiently liquid to enable the Town to meet all operating requirements that might be reasonably anticipated.
- Return on investment – the investment pools and funds shall be managed with the objective of attaining a competitive rate of return given the constraints of the aforementioned safety and liquidity objectives.

Capital Management Policies

- A five-year capital improvement plan (CIP) will be prepared and updated each year. This includes all projects that carry out the Town's strategic and general plans.
- Each department must, when planning capital projects, estimate the impact on the Town's operating budget over the next five years.
- Amendments to capital appropriations fall under the same guidelines as changes to the operating budget noted in the Budget Policies Section.

Debt Management Policies

The debt policy is to be used in conjunction with the adopted budget, the Capital Improvement Program (CIP) and other financial policies as directed by the Mayor and Town Council. Bond, lease/purchase financing; internal borrowing between funds, and state agency financing through the Greater Arizona Development Authority (GADA) and the Water Infrastructure Finance Authority of Arizona (WIFA) will be considered for financing major capital improvements and equipment for the Town.

- Annual debt service cost should not exceed 25% of the total annual revenue of the Town, including revenue from the General Fund, Development Fees, Water Fund, Sewer Fund, HURF, LTAF, and transportation revenues.
- Bonds must be investment grade without assistance from a credit enhancement.
- The Town must adhere to the State statutes that prescribe the amount of outstanding general obligation debt that a town can have at any one time (20% of the secondary assessed value for water, sewer, parks, public safety, lights and transportation and 6% for all other programs). The Town currently has no general obligation debt outstanding.
- The Town must adhere to Continuing Disclosure compliance procedures to ensure the Town complies with continuing disclosure undertakings entered into by the Town. Such procedures shall ensure the Town meets all disclosure requirements of Rule 15c2-12 decreed by the Securities and Exchange Commission under the Securities Exchange Act of 1934.

Fixed Asset Policy

- The Town has set its capitalization threshold for all assets with an initial individual cost of \$10,000 or more and an estimated useful life of one year. Assets having value under \$10,000, regardless of their useful life, will not be reported as assets in the fixed asset system. Individual departments are responsible for maintaining inventory and records of all assets under \$10,000.



Financial Policies

- All Town departments are required to provide detailed information on all assets, newly acquired during the fiscal year, no later than 30 days prior to the end of the fiscal year.
- Non-cancelable lease agreements are handled in accordance with the Financial Accounting Standards Board (FASB) Statement No. 13.
- Donated assets will be entered into the system at acquisition value as determined through appraisal.
- Construction-in-process is considered a separate type of asset and is tracked separately from the capital assets until the time of completion.
- Costs subsequent to acquisition should be capitalized if any of the following exists:
 - Useful life of asset is increased
 - Quality of services produced from asset is increased
 - Quality of units produced by asset is enhanced
- Disposal of assets shall be in accordance with all applicable federal, state and local regulations and policy.

Financial Reporting Policies

- The Town's accounting and financial reporting systems will be maintained in conformity with Generally Accepted Accounting Principles (GAAP) and standards of the Governmental Accounting Standards Board (GASB).
- The Town's budget will be submitted to the GFOA Distinguished Budget Presentation Program. The budget should satisfy criteria as a financial and programmatic policy document, as a comprehensive financial plan, as an operations guide for all organizational units and as a communications device for all significant budgetary issues, trends, and resource choices.
- The Town's Annual Audited Financial Report will be submitted to the GFOA Certificate of Achievement for Excellence in Financial Reporting Program within six months of the close of each fiscal year. The Report will satisfy both GAAP and applicable legal requirements in compliance with Program requirements and sufficient to receive a Certificate of Achievement from the GFOA.
- As required by State law, the Town will prepare an annual Impact Fee Report, which will be adopted by the Town Council.
- The Town will prepare an annual Capacity Fee Report, which will be adopted by the Town Council.
- As required by State law, the Town will undergo a biennial impact fee audit by an independent auditing firm. The audit report will be adopted by the Town Council.
- Financial systems will be maintained to monitor revenues, expenditures, and program performance on an ongoing basis.



Budget Process & Procedures

Budget Policies

In accordance with Arizona state law, Queen Creek annually adopts a balanced budget, which is all-inclusive. Arizona Revised Statute §42-17151 requires all estimated sources of revenue, and restricted and unrestricted unencumbered balances from the preceding fiscal year, shall equal the total of amounts proposed to be spent in the budget for the current fiscal year. All-inclusive means that if an item is not budgeted it cannot legally be spent during the fiscal year. Therefore, the budget must include sufficient contingency appropriation provisions for expenditures related to revenues that cannot be accurately determined or anticipated when the budget is adopted.

Budgetary Fund Classifications

~~Arizona Revised Statutes only requires communities to prepare a budget for two funds—the General Fund and HURF. In addition to these two funds, Queen Creek prepares budgets and requests legal appropriation for all of its governmental and proprietary funds: General Fund, HURF, Special Revenue, Emergency Services, all other Special Revenue, Enterprise, Capital Improvement, Debt Service and Internal Service. Budgets will be prepared for all funds at the same fund reporting level as presented in the Town’s audited financial statements, except for the following:~~

- A separate budget will be prepared for the Emergency Services Fund and HPEC Fund, even though these funds are combined with the General Fund in the financial statements. All budget policies will apply to each of these funds individually for purposes of budgetary compliance.
- Separate budgets will be prepared for the operating, capacity fee, capital projects, and debt service funds within the Town’s Water Enterprise function, even though these funds are presented as a single fund in the financial statements. All budget policies will apply to each of these funds individually for purposes of budgetary compliance.
- Separate budgets will be prepared for the operating, capacity fee, capital projects, and debt service funds within the Town’s Wastewater Enterprise function, even though these funds are combined as a single fund in the financial statements. All budget policies will apply to each of these funds individually for purposes of budgetary compliance.

Budget Amendment Policies

- ~~Except as provided below, r~~Reallocation of expenditure authority between Town departments from any non-departmental account, including Contingency, and budget adjustments that include creating new full-time positions, may be done only with approval of the Town Council.
 - ~~Reallocation of expenditure authority from contingency at the beginning of a fiscal year for projects that have previously received budgetary expenditure authority, that are currently in process and/or under construction, and that are being carried forward into the next fiscal year does not require Town Council approval. [Note: this exception will sunset on June 30, 2023.]~~
- When a capital project is completed and closed out, any remaining budget authority in the project account automatically reverts to Contingency.
- Budget adjustments to increase Town estimated revenues in order to fund increasing expenditure authority must be approved by the Town Council. ~~The only exception is with the Town’s Enterprise Funds in which more flexible budgeting is required. Within these funds, the sale of a good or material is first dependent on the Town acquiring the item. In those cases in which added sales or revenue generation is directly linked to the acquisition of the item, the Town Manager can approve such appropriations and revenue increases to the budget, up to a cap of \$100,000. Such adjustments must stay within the annual budget ceiling adopted for the Town.~~



Budget Process & Procedures

- Reallocation of expenditure authority between Town funds (e.g. General Fund, HURF, Development Fee Funds, etc.) requires the approval of the Town Council.
- **Reallocation of expenditure authority between departments within the same fund (e.g., Development Services, IT, Community Services) may be made under the following conditions:**
 - **Budget Office verification of sufficient budget being available for the request**
 - **Town Manager approval for amounts up to \$50,000**
 - **Town Council approval for amounts greater than \$50,000.**
- Reallocation of expenditure authority of up to \$50,000 between capital project accounts requires the Town Manager's approval only; transfers above that amount require Town Council approval.
- Reallocation of expenditure authority from one expenditure account to another within a Town departmental budget (Intradepartmental Appropriation Transfer) are as follows, **subject to** ~~—All amendments are contingent upon~~ Budget Office verification of sufficient budget being available for the request:-
 - Department Director approval only up to \$25,000 from one expenditure account to another within a departmental budget.
 - Town Manager approval only for amendments greater than \$25,000 within a departmental budget.

Carry-Forward of Capital Project Budgets

- **During the annual budget preparation process, the Town will evaluate all active and proposed capital projects against the Town's strategic priorities to ensure capital funding is allocated to projects that are most critical and time-sensitive to meeting the Town's objectives. Budget authority for priority projects will be included in the next fiscal year's budget, including an allowance to carry forward existing budget authority for projects that are already approved and underway.**
- **If a capital project budget was approved in prior years but the funding is not yet committed under a contract, or if the capital project has not yet started, budget authority for the project will not automatically carry forward into the next fiscal year.**
- **Projects that are not specifically carried forward or funded in the next fiscal year will remain active and eligible for funding from Contingency once the project is ready to move forward, provided sufficient funds exist in Contingency to accommodate the project. Allocation of expenditure authority from Contingency for the project requires Town Council approval.**

Review of Market Compensation Levels (excerpts from Administrative Policies and Procedures Manual)

- Comprehensive Market Review – When the salary structure is updated due to a comprehensive market review, all merit status employees who are below the proposed minimum of their salary ranges will be brought up to the new minimum. If financially possible, all employees within the structure will be moved the same percentage as the structure, and remain at their respective place within the range to prevent compression.
- Market Adjustment – The Town Manager may recommend to the Council each budget year a market adjustment. The overall amount allocated for a market adjustment, if any, will be determined based on the Town's determination of its fiscal constraints and designated competitive position. Market adjustments are applied to each salary range, and to the salary of each employee, except those employees that are above the maximum of the range and/or redlined. Whether to award a market adjustment on any given year shall at all times be within the discretion of the Town. As approved by the Town Council in



Budget Process & Procedures

February 2014, when evaluating a market adjustment, the Town Manager shall consider economic indicators for that evaluation, which Human Resources have identified as:

- Employment Cost Index for State and Local Government Workers
- Consumer Price Index for Western Region
- **Mid-Year Market Adjustment for Police Sworn Staff – Beginning no later than October 15 of each year, the Human Resources Department will analyze the Town’s current Police Sworn salary ranges against the Police Market Comparison cities and towns. If the mid-point of the Town’s Police Sworn salary ranges are below the top three entities in the Police Market Comparison, the Town Manager may approve a mid-year market adjustment to realign the Town’s competitive position within the local market of police comparisons. If approved by the Town Manager, the mid-year adjustment will become effective on the first pay date in January. Any such mid-year market adjustment will be subject to available funding as approved by the Town Council.**

Budgetary Process

The Town Council follows these procedures in establishing the budgetary data reflected in the financial statements:

1. In accordance with Arizona Revised Statutes, the Town Manager submits to the Town Council a proposed budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them for the upcoming year.
2. Public hearings are conducted to obtain taxpayer comment.
3. State law sets a limit on the expenditures of local governments. State statute sets the limits based on Economic Estimates Commission unless otherwise approved by voters. The Town of Queen Creek received voter approval to increase this limitation. The Town of Queen Creek has adopted an alternative expenditure limitation, also called home rule, in which total budgeted expenditures as adopted by the Town Council become the expenditure limitation.
4. Expenditures may not legally exceed the expenditure limitation of all fund types as a whole. For management purposes, the Town adopts a budget by department for the General Fund **and Emergency Services Fund**, and in total by fund for Capital **Improvements, Debt Service, and Special Revenue Funds, Emergency Services Fund and Enterprise, and Internal Service** Funds. ~~The Town Manager, subject to Town Council approval can at any time transfer any unencumbered appropriation balance or portion thereof between departments or programs.~~ The adopted budget can be amended by following the Council-approved reallocation procedures.
5. Formal budgetary integration is employed as a management control device during the year for the General Fund and Capital and Special Revenue Funds on essentially the same modified accrual basis of accounting used to record actual revenues and expenditures.

Budgetary and Accounting Basis

Queen Creek’s budget is prepared on a basis generally consistent with Generally Accepted Accounting Principles.

Governmental Funds – the General Fund, Special Revenue Funds, Debt Service and Capital Project Funds budgets are developed using the modified accrual basis of accounting. Under the modified accrual basis:

- Revenues are recognized as soon as they are measurable and available to finance expenditures in the current period or soon enough thereafter to pay liabilities of the current period.



Budget Process & Procedures

- Expenditures are recognized when the related fund liability is incurred, except for items such as principal and interest on general long-term debt that are recognized when due and compensated absences, which are recorded when payment occurs.

Fixed assets used in governmental fund type operations are accounted for in the Town's Balance Sheet. Public domain (infrastructure) assets consisting of certain improvements other than buildings, such as roads and sidewalks, are not capitalized since these assets are immovable and of value only to the government.

Property, plant and equipment acquired or constructed for general governmental operations are recorded at the time of purchase as expenditures in the funds from which the expenditures were made.

Property, plant and equipment are recorded at historical cost or estimated historical cost if actual historical cost is not available. Donated fixed assets are valued at their acquisition value on the date donated.

Assets in the general fixed asset area are not depreciated.

Proprietary Funds – Water, Sewer and Solid Waste Enterprise Funds - are accounted for using the full accrual basis of accounting. Under the full accrual basis:

- Revenues are recognized when earned, and expenses are recognized when incurred.
- Expenditure estimates are developed for all expenses incurred during the fiscal year.

Property, plant and equipment acquired for proprietary funds are capitalized in the respective funds to which they apply.

Property, plant and equipment are recorded at historical cost or estimated historical cost if actual historical cost is not available. Donated fixed assets are valued at their acquisition value on the date donated.

Depreciation of buildings, equipment and vehicles in the proprietary fund types is computed using the straight-line method.

Fund Equity – The unrestricted fund balances for governmental funds represent the amounts available for budgeting future operations. The restricted fund balances for governmental funds represent amounts that have been legally identified for specific purposes. Unrestricted net position for proprietary funds represent the net assets available for future operations or distribution. The restricted net assets in proprietary funds represent the amounts that have been legally identified for specific purposes.

Inventories – In governmental funds, purchases of inventory are recorded at the time of purchase as expenditures/expenses in the funds from which the expenditures/expenses were made. In proprietary funds, purchases of inventory are recorded as an asset and expensed when consumed.