

CITY OF SCOTTSDALE, AZ  
COMPREHENSIVE FINANCIAL POLICIES  
FISCAL YEAR 2023/24

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## Introduction

The City of Scottsdale's (city) mission is to provide simply better service for a world-class community. A vital component to achieving this mission is to carefully account for public funds, to manage finances wisely, and to plan for the adequate funding of services desired by the public, including the provision and maintenance of public facilities.

These Comprehensive Financial Policies (Policies) establish the standards for stewardship over the city's financial resources and provide guidance for sound fiscal planning, budgeting, accounting, and financial reporting to support the city's mission and financial goals. The city's financial goals are broad and represent the financial position the city seeks to attain:

- To deliver quality services in an affordable, efficient, and cost-effective basis providing full value for each tax dollar.
- To maintain an adequate financial base to sustain a sufficient level of municipal services, thereby preserving the quality of life in Scottsdale.
- To have the ability to withstand local and regional economic fluctuations, to adjust to changes in the service requirements of our community, and to respond to changes in Federal and State priorities and funding as they affect the city's residents and business owners.
- To maintain a high bond credit rating to ensure the city's access to the bond markets and to provide assurance to the city's taxpayers that the city government is well managed and financially sound.

All divisions will participate in the responsibility of meeting policy goals and ensuring the long-term financial health of the city. Future service plans and program initiatives will be developed to reflect current policy directives, projected resources, and future service requirements.

These Policies are adopted by council resolution each year. By their nature, policies must change and evolve over time as the city grows and to respond to changes in law, new industry standards, or best practices. Accordingly, these Policies will be subject to annual review and recommendation for revisions, if any, will be presented to the Scottsdale City Council (council) for approval.

In addition to these Policies, the city maintains internal Administrative Regulations (AR) to provide city manager directives for staff, where necessary. ARs are written orders or directives issued by the city manager intended to articulate citywide policies and procedures. These are referenced throughout these Policies, where applicable.

## Policy 1 Fiscal Planning and Budgeting

Fiscal planning refers to the process of identifying resources and allocating those resources among numerous and complex competing purposes. The primary vehicle for this planning is the preparation, monitoring, and analysis of the city's budget. The purpose of this policy is to provide guidance on the city's budget process and development to ensure sound financial management and application of best practices in budgeting and fiscal planning.

Accompanying the Policies are a set of budget governing guidance which provides direction for allocating certain annual city resources through the budget process to meet council priorities and goals. These guidelines are attached as Appendix A Budget Governing Guidance.

- 1.01 Budget Period. The city will budget revenues and expenditures for all funds on a fiscal year basis which begins July 1 and ends on the following June 30.
- 1.02 Budget Adoption. Pursuant to Article 3, Section 2 and Article 6, Sections 3 and 5 of the Scottsdale City Charter, the city manager shall submit to the council a proposed annual budget. The full council will solicit resident input and review the operating and capital budget recommendations from a division, program, and goals perspective. The council shall adopt the budget for the following fiscal year at the first regular meeting in June.
- 1.03 Budget Basis. The annual budget will be prepared on a basis consistent with Generally Accepted Accounting Principles (GAAP)<sup>1</sup> whereby Governmental Funds (General Fund, Special Revenue Funds, Debt Service Funds, and Capital Project Funds) are budgeted on a modified accrual basis and Proprietary Funds (Enterprise Funds and Internal Service Funds)<sup>1</sup> are budgeted on a full accrual basis except for the following:
  - a) Amortized lease revenues and associated interest
  - b) Payroll accruals and accrued compensated absences
  - c) Change in fair value of investments
  - d) Depreciation and amortization expenditures
  - e) Long-term revenue and expenditure activity
- 1.04 Alignment with Goals and Performance Measurement. The budget will be developed in accordance with council's established goals and priorities, the needs of the community, and local, state, and federal laws. Performance management will be utilized to align council goals and organization strategic efforts. The annual budget will include department goals, objectives, and performance measures to show that intended goals and objectives are achieved in an efficient and effective manner.
- 1.05 Long-Range Financial Forecasts. To promote long-term strategic thinking and demonstrate the city's ability to adapt to changes in the economy, operating requirements, and capital demands, the city will prepare a balanced five-year financial forecast that will incorporate both revenue and expenditure estimates and reserve requirements for the city's primary funds. The five-year

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<sup>1</sup> GAAP and fund types are all defined by the Governmental Accounting Standards Board (GASB) as defined by the Statements of Governmental Accounting Standards.

forecast will identify revenues and expenditures that are anticipated to be sustainable over the five-year period. The five-year forecast will be updated annually and provided to executive leadership during the city's budget process.

- 1.06 Expenditure Limitation Review. The city shall ensure that its expenditures adopted through the annual budget process are below the expenditure limitation established by the state. At a minimum of every five years, the city treasurer shall report to the council the expenditure limitation capacity of the city. In the event that projections through the budget process result in the city reaching or exceeding ninety percent (90%) of the expenditure limitation, the city treasurer shall provide council with formal notification and recommendations for council action.
- 1.07 Balanced Budget. The budget shall be considered balanced if all sources of revenue, as estimated, are equal to, or exceed, the total of amounts proposed to be used in the operating budget for the current fiscal year, by fund. To the extent unencumbered balances from the preceding fiscal year are required to achieve a balanced budget, use of unencumbered balances from the preceding fiscal year will be only as authorized by council. The budget will not use one-time (non-recurring) sources to fund continuing (recurring) uses or use external borrowing for operational requirements. The budget will incorporate the best available estimates of revenues and expenditures.
- 1.08 Cost Allocation. The city shall establish an indirect cost allocation plan to determine the administrative service and other indirect staff support provided to divisions, programs, and funds. Administrative costs incurred in the General Fund to support operations of the Enterprise Funds (Water, Wastewater, Solid Waste, and Aviation) will be recovered through the indirect cost allocation plan.
- 1.09 Contingency. The city's annual budget will include contingency appropriations to provide for unanticipated increases in service delivery costs and unexpected needs that may arise throughout the fiscal year. Use of contingency appropriation will require identifying a funding source and should be utilized only after all budget sources have been examined for available funds. The contingency appropriation can only be expended upon separate council approval.
- 1.10 Budget Control. The city shall establish appropriate management controls to monitor expenditure budgets to ensure they do not exceed authorizations. For operating budgets, this control shall be exercised at the division/fund level. For capital budgets, this control shall be at the project level. See Policy 3 Expenditure Management for further policy guidance on budget controls.
- 1.11 Budget Amendments. The city can amend appropriations for line items, funds, projects, or divisions if total expenditures do not exceed the final appropriation budget adopted by council. Requests for amendments within the same division, fund, and account categories (personnel services, contractual services, commodities, and capital outlays) must be approved by the division's executive director and the city's budget director. Pursuant to Article 6, Section 11 of the Scottsdale City Charter and as clarified by these Policies, amendments requiring the transfer of contingency appropriation or the transfer of appropriation between general classification of expenditures such as between operating and capital budgets, funds, divisions, account

categories, and between capital projects can be made at the direction of the city manager subject to council approval.

- 1.12 Budget Deficit. If a deficit is projected during the fiscal year, the city will take steps to reduce expenditures or increase revenues before considering using fund balance or reserves. The city manager may institute a cessation during the fiscal year on hiring, promotions, transfers, capital equipment purchases, and capital projects. Such action will not be taken arbitrarily or without knowledge of the council.
- 1.13 Unspent Appropriations. Unspent appropriations for programs and major projects may be considered for re-appropriation in the subsequent fiscal year. Such carryover of appropriation shall be included in the proposed budget to be authorized by the council.
- 1.14 Distinguished Budget Award. The city will prepare a budget in accordance with the Government Finance Officers Association policies and best practices established by the "Government Finance Officers Association Distinguished Budget Award" program. Staff will submit the budget document to the Government Finance Officers Association each year for review in the award program.

## Policy 2 Reserves and Fund Balance

Maintaining adequate reserves is critical to ensure the city's financial stability through economic downturns, catastrophic events, natural disasters, and other unforeseen emergencies and events. Adequate reserves are also essential in preserving the city's high bond ratings and achieving the city's financial goals. The purpose of this policy is to establish reserve targets and fund balance, the conditions under which reserves and fund balance may be spent, and the method by which reserves and fund balance will be restored. Reserves should only be used after all other budget sources have been examined.

- 2.01 General Fund Operating Reserves. The General Fund is the city's main operating fund that pays for public safety, community services, parks, libraries, and other general city operations. The General Fund is considered to have a high level of risk due to its dependence on economically sensitive revenues. The General Fund is the main funding source when responding to city-wide emergencies and unexpected events. In consideration of these risks and other driving factors, the city will maintain an "Operating Reserve" in the General Fund of 20 percent of operating uses, excluding transfers out, to provide stability and flexibility to respond to unexpected events.

The reserve is intended for unexpected events (such as a significant unexpected loss of revenues, unexpected mandates, or large-scale emergencies) whose impact is significant. Use of this reserve requires council approval and must be replenished to the required General Fund Operating Reserve policy level of 20 percent within the next two fiscal years following the fiscal year in which the funds were used.

- 2.02 General Fund Emergency Reserves. The city will maintain an "Emergency Reserve" in the General Fund of 5 percent of operating uses, excluding transfers out. The reserve is intended for unexpected emergencies and events where immediate action must be taken in the best interest of the city's residents and business owners. Use of reserves must be appropriated by council action. However, the city manager may approve the use of this reserve in the event that immediate expenditure of funds is needed to protect the health, safety, and welfare of the city. When this occurs, the city manager will provide a report for council approval as soon as practical on the usage of these funds. The city will strive to restore the reserves to the required General Fund Emergency Reserve policy level of 5 percent within the next fiscal year following the fiscal year in which the funds were used.

- 2.03 Transportation Fund Operating Reserves. The city will maintain an "Operating Reserve" in the Transportation Fund of 10 percent of operating uses, excluding transfers out, to provide funding to deal with fluctuations in economic cycles and unexpected one-time operating requirements. Use of this reserve requires council approval, and the city shall strive to restore the reserves to the required Transportation Fund Operating Reserve policy level of 10 percent within the next two fiscal years following the fiscal year in which the funds were used.

- 2.04 Enterprise Fund Operating Reserves. Enterprise Funds (Water, Wastewater, Solid Waste, and Aviation) are intended to be self-supporting and not depend on the General Fund to fund operating and capital costs. The city will maintain "Operating Reserves" in its Enterprise Funds as follows to provide for emergencies, unexpected declines in revenues and other unanticipated events. Use of these reserves require council approval, and the city shall strive to restore the

reserves to the defined level within the next two fiscal years following the fiscal year in which the funds were used.

- a) Water and Wastewater Funds - 25 percent of operating uses, excluding transfers out and debt service.
- b) Aviation Fund - 25 percent of operating uses, excluding transfers out and debt service.
- c) Solid Waste Fund - 15 percent of operating uses, excluding transfers out and debt service.

2.05 Water and Wastewater Asset Replacement Reserves. The city will maintain a "Water and Wastewater Asset Replacement Reserve" equal to 2 percent of the undepreciated book value of tangible fixed assets. The reserve may be used to provide funding for the repair and maintenance of critical infrastructure. Use of this reserve requires council approval and the city shall strive to restore the reserve to the defined level within the next two fiscal years following the fiscal year in which the funds were used.

2.06 Debt Service Reserves. The city will maintain "Debt Service Reserves" in the General Obligation Bond Debt Service Fund for secondary property tax supported debt of no more than 10 percent of the amount of annual principal and interest needed to service the outstanding debt. The city will maintain "Debt Service Reserves" for governmental debt supported by excise taxes, dedicated taxes, or revenues, at a minimum of 25 percent of the next fiscal year's debt service.

2.07 Self-Insurance Reserves. The city will maintain "Self-Insurance Reserves" at a level that will adequately fund the city's financial obligations for the payment of property, workers' compensation, liability, and health benefit losses. A qualified actuarial firm shall be retained on an annual basis to project and develop losses to recommend appropriate reserve levels. The Loss Trust Fund Board's target is to maintain a Risk Management reserve fund balance equivalent to the actuary's 75 percent confidence interval of projected total outstanding claims liability.

2.08 Other Reserves and Fund Balance. The city may maintain other reserves or fund balance as deemed necessary to ensure adequate resources to cover future expenditures.

## Policy 3 Expenditure Management

Division or department management is expected to manage their expenditures wisely and to look for efficient and effective ways to deliver services— including alternative means of service delivery—to residents and businesses while meeting council goals. This policy provides guidance and standards to ensure careful management of expenditures in accordance with legal requirements and to ensure sound financial management practices and accountability for public funds.

### 3.01 Operating Expenditure Management.

- a) Budget Level Control. Operating expenditures will be controlled by an annual appropriated budget at the division/fund level. A division cannot spend more than the budget appropriated for the division or fund unless additional appropriation is approved by council through a budget transfer or amendment process. If a transfer of appropriation between expenditure categories is necessary, council approval is required. Requests for new, on-going programs made outside the budget process will be discouraged and only accepted when approved by the city manager and the related budget authority must also be approved by council.
- b) Transfer of Appropriation. In accordance with Article 6, Section 11 of the Scottsdale City Charter, the city manager, subject to approval of the council, may transfer any unencumbered or unrestricted appropriation balance between general classifications of expenditures within a division/department or fund or from one division/department or fund to another.
- c) Position Control. A system will be used to facilitate position control. The number of full-time and regular part-time employees on the payroll shall not exceed the total number of full-time equivalents (FTEs) authorized by council through the budget process. The budget will identify the resources required to support the authorized staffing. Personnel additions outside of the budget process are discouraged and only accepted when approved by the city manager and the related budget authority must also be approved by council.
- d) Health Benefits. Benefits and compensation will be administered in accordance with policy given by council. As part of a cost-containment strategy, total costs for health insurance premiums will be shared between the employer, employees, and public safety disabled retirees. Total premiums will be evaluated on an annual basis to ensure they are reasonable and competitive and that total premiums are expected to provide adequate funding of anticipated claims and a reasonable level of loss reserves.

### 3.02 Capital Expenditure Management.

- a) Capital Improvement Plan (CIP). The CIP is a planning and fiscal management tool used by the city for long-term planning for capital improvements. The five-year CIP will be updated annually, including anticipated spending as well as funding sources, and submitted to council for review and adoption. CIP projects are defined typically as multi-year efforts which may include purchases or construction of infrastructure or equipment which results in

a new capitalized asset costing more than \$50,000 and having a useful life of five years or more.

- b) Project Review and Selection. Proposed CIP projects will include a detailed project description, identification of need and funding sources, full cost estimates, anticipated time schedule, full operating impacts, and other information necessary for proper evaluation of the city's investment in, and the ability to fund, the projects. Proposed CIP projects will be reviewed and prioritized by a cross-divisional team to ensure they are consistent with the council goals.
- c) Funding of CIP Projects. CIP projects must have sufficient budget authority and a funding source identified in the current budget year to meet the entire amount of the commitment. Future operating, maintenance, and capital costs associated with new capital improvements approved by council will be forecasted and included in the operating budget, five-year financial plan, and the CIP.
- d) Balanced CIP Budget. For each year of the CIP, total anticipated expenditures and commitments will not exceed projected starting fund balance plus total anticipated revenues for that year.
- e) Pay-as-you-go. The city shall incorporate "pay-as-you-go" funding in the annual CIP. Pay-as-you-go funding should account for a minimum of 25 percent of the capital improvement plan (CIP) for each five-year planning period, except for capital improvement programs funded by voter approved debt where the amount of debt is authorized by voters. Pay-as-you-go funding is defined as all sources of revenue other than city debt issuance, i.e., fund balance, dedicated revenues, contributions, grants etc.
- f) Approval for Capital Project Cost Increases. Cost increases to capital projects greater than 10 percent and \$1.0 million as a result of scope increases or other cost increases require council presentation or a written update to council, and council approval.

3.03 Financial Obligations and Commitments. Divisions contemplating entering into financial obligations and commitments for new programs, projects, or services and requiring future budget appropriations over \$1.0 million that is currently not in the five-year CIP or operating forecast requires city manager approval and council presentation and approval before entering into the financial obligation or commitment.

## Policy 4 Revenue Management

The revenue management policy establishes the city's revenue principles and practices for ensuring financial stability and sustainability and achieving the city's financial goals of maintaining an adequate financial base for municipal services.

- 4.01 Custody. In accordance with Scottsdale Revised Code Chapter 2 Article IV, Section 2-131, the city treasurer shall control receipts and have custody of all the money of the city.
- 4.02 Revenue Collection. The city will maintain effective internal controls and formal procedures to ensure the proper billing, collection, and accounting of all receipts and receivables. The city will vigilantly pursue collecting all revenues, late penalties, and related interest as authorized by the Arizona Revised Statutes and city policies.
- 4.03 Revenue Base. The city will strive to maintain a diversified and stable General Fund revenue base to shelter it from economic changes or short-term fluctuations by exploring appropriate and allowable sources of revenues for funding programs and projects which may include revenues from assessments, contracts, grants and contributions, taxes, and fees.
- 4.04 Dedicated Revenues. Revenues will not be dedicated for specific purposes, unless approved by council, required by law, or restricted by an outside party. All non-restricted revenues (except for Proprietary Fund revenues) will be deposited in the General Fund.
- 4.05 User Fees and Charges. For services that largely or solely benefit individuals, the city shall recover full or partial cost of service delivery through user fees and charges. New fees and fee increases must be approved by council before implementation.

The city will periodically evaluate the full cost of providing a service for which fees are charged. The calculation of full cost will include all reasonable and justifiable direct and indirect cost components.

- 4.06 Fleet and IT Replacement Rates. The use or replacement of Fleet and Information Technology (PC, phones, and copier systems) will be accounted for through the use of a direct or a "rental" rate structure. The rates will be revised annually to ensure that charges to operating divisions are sufficient for operation and replacement of vehicles and other equipment. Replacement costs will be based upon equipment lifecycle financial analysis.
- 4.07 Development Impact Fees. Development impact fees, as permitted by state law, for capital expenses attributable to new development will be reviewed periodically with an engineering assessment to ensure that fees recover all direct development-related expenses and be approved by council.
- 4.08 Unanticipated One-Time Non-Operating Revenues. Use of significant unanticipated one-time, non-operating revenues (except for grants) such as the sale of land, requires council presentation and approval.

## Policy 5 Grants Management

Grant funding will be considered to leverage city funds. This policy provides guidance to ensure careful review of grant opportunities and their fiscal impact, prior to determining whether an application should be made for these grant funds. The city also maintains AR #255, which governs the Grant Acquisition and Administration process.

- 5.01 Grant Application. The city shall apply for only those grants that are consistent with the goals and priority needs of the city. The potential for incurring ongoing costs, including the assumption of support for grant-funded positions from local revenues, will be considered prior to applying for a grant. Application or acceptance of grants meeting the parameters of AR #255 are subject to council approval.
- 5.02 Match Requirements. All grant submittals shall be reviewed for their cash match requirements, their potential impact on the operating budget, and the extent to which they meet the city's goals. If there is a cash match requirement, the source of funding shall be identified prior to application.
- 5.03 Budget Control. The city should avoid relying on grant funding to support on-going programs. All grant program initiatives will be evaluated as part of the budget process. In the event of reduced grant funding, or inconsistent and/or fluctuating grants, city resources may be substituted only after all program priorities and alternatives are considered during the budget process.

## Policy 6 Capital Asset Maintenance and Replacement

Proper preventative maintenance, repair, renewal, and replacement are essential to protecting the city's investment in its capital assets and ensuring the continued performance and use of these assets for the provision of services to our residents. Deferring essential maintenance or replacement can impact service delivery and increase long term costs. This policy provides guidance to ensure a system for assessing capital assets and providing adequate funding for the maintenance, repair, renewal, and replacement of capital assets. The city also maintains AR #226, which governs Capital Assets: Acquisition, Inventory and Disposal.

- 6.01 Maintenance and Replacement Plans. Periodic physical inventories and assessments for all types of capital assets should be conducted to determine the condition, use, repair, and replacement needs of the assets. A multi-year maintenance and replacement plan should be maintained for critical assets.
- 6.02 On-going Funding. The city will establish an on-going source of funds to provide for and avoid deferral of critical capital asset maintenance, repair, renewal, and replacement needs.
- 6.03 Fleet and Equipment Reserves. Replacement funds or reserves for certain fleet vehicles, certain computer equipment, and other asset categories will be determined as part of the annual budget process, as deemed necessary, to ensure adequate funding for systematic replacement and operational needs.

## Policy 7 Cash and Investment Management

The city has a fiduciary responsibility over public funds, including the on-going managing and monitoring of treasury and investment activities. This policy provides guidance and standards of care for the proper management of the city's cash and investments. The city also maintains AR #268, which ensures a system of internal controls and governs the city's cash collection, handling, training, and procedures program.

- 7.01 Investment Policy. The city shall maintain and comply with a separate written Investment Policy that has been approved by the council. The city treasurer, as chief investment officer, or his/her designee shall invest all funds of the city according to the approved Investment Policy. City funds will be managed in a prudent and diligent manner with an emphasis on safety of principal, liquidity, and financial returns on principal, in that order. The city treasurer shall provide the council with quarterly investment reports.
- 7.02 Management of Funds. The city will collect, deposit, invest, and disburse all funds on a schedule that insures optimum cash flow liquidity and investment of public funds. Bond funds will be segregated from all other funds for arbitrage and accounting purposes. To optimize investment performance, the city will consolidate cash balances from various funds for investment purposes.
- 7.03 Financial Institutions. The city will conduct its treasury and investment activities with qualified financial institution(s) that have balance sheet strength, high credit quality, and dedicated government operations that can fully serve the city's complex treasury and investment needs. Arrangements with financial institutions will be based on written contracts. The city and financial institution(s) will adhere to state laws and city code for the proper collateralization of public deposits.
- 7.04 Custody of Investments. Ownership of the city's investment securities will be protected through third party custody safekeeping. Arrangements with third party custodian services will be based on written contracts.

## Policy 8 Debt Management

The city utilizes debt to finance needed capital projects too large to fund with current resources or where the issuance of debt provides financial or economic benefits to the city's residents and business owners. The issuance of debt obligations (bonds, notes, certificates of participation, capital leases, and other debt instruments) has a significant impact on the city's finances and must be carefully considered and managed to ensure prudent financial management, mitigation of risks, and preservation of the city's high bond ratings. This policy provides guidelines for the appropriate uses of debt, establishing debt management goals, ensuring compliance with federal, state, and local laws, and maintaining the city's high bond ratings.

8.01 Evaluation for Issuance of Debt Obligations. The city treasurer shall evaluate and consider various conditions, including but not limited to the following, when analyzing, reviewing, and recommending the issuance of debt obligations:

- a) Appropriate use of debt;
- b) Financing and funding alternatives;
- c) Acquisition and construction cash flow projections;
- d) Impact on the General Fund and other operating funds;
- e) Debt burden on tax base or user fees;
- f) Availability and sufficiency of pledged revenues for current and future debt service;
- g) Debt coverage and other ratios, debt security, reserve requirements, and proposed debt covenants.

8.02 Conditions for Issuance of Debt Obligations. The issuance of all debt obligations is subject to approval by the city treasurer and council. In addition, the issuance of debt obligations is subject to but not limited to the following requirements:

- a) Debt financing shall not be obtained to fund operations.
- b) Capital projects to be financed should first be developed and approved in accordance with the capital improvement process.
- c) The city treasurer will seek input from the city's external financial advisor and bond counsel and carefully consider the debt service structure, timing, terms, and other such matters concerning each debt issuance.
- d) The debt portfolio's principal and interest payments should generally be structured to result in level debt service or to align with the useful life of the assets, unless an alternate structure is warranted. Deferral of principal is discouraged.
- e) The weighted average maturity of the debt issuance should generally be no greater than the reasonably expected average economic life of all the assets being financed.
- f) Debt proceeds will reasonably be utilized within three years, and in approved circumstances five-years, in compliance with Internal Revenue Service (IRS) regulations.
- g) Debt obligations must comply with all applicable federal, state, and local laws, regulations, and covenants.

8.03 Outside Professional Services. The city treasurer (and city attorney for bond counsel services) shall be responsible for the solicitation, selection, and securing of professional services required

to assist the city in the issuance and administration of its debt obligations. The city shall use an external financial advisor on all debt issuances. The external financial advisor will have a fiduciary responsibility to the city, will have the proper experience and qualifications to advise the city, and will comply with all applicable municipal advisor rules and regulations promulgated by the Securities and Exchange Commission (SEC) and Municipal Securities Rulemaking Board (MSRB). The financial advisory relationship will be evidenced through a written contract. The solicitation and selection of outside professionals shall be done in conformance with the city's procurement code and competitive selection process for professional service contracts.

#### 8.04 Types of Debt Obligations:

##### General Obligation (G.O.) Bonds.

- a) G.O. Bonds are voter authorized debt supported by (secondary) property tax revenues. The issuance of G.O. Bonds shall be carefully considered and used only for public projects benefitting a broad public interest.
- b) Issuances will be managed to match debt issuance proceeds to CIP cash flow requirements.
- c) The city will not exceed \$1.50 combined (primary and secondary) property tax rate per \$100 net assessed limited property value unless otherwise directed by the council.
- d) Outstanding G.O. Bonds are limited by the Arizona Constitution to 20 percent of net assessed full cash property value for projects involving water, sewer, streets, transportation, public safety artificial light, parks, open space, and recreational facility improvements, and 6 percent of net assessed full cash property value for any other general municipal-purpose projects.
- e) The city will maintain appropriate debt service reserves as stated in Policy 2.

##### Excise Tax/Revenue Secured Obligations.

- a) Non-voter authorized debt (i.e., Municipal Property Corporation (MPC)<sup>2</sup>, Excise Tax Obligations, Revenue Obligations, and other non-voter authorized debt) will be used only when a dedicated non-property tax source (e.g., excise taxes and utility revenues) can be identified to pay or reimburse the General Fund for paying debt service expenses.
- b) Issuances will be managed to match debt issuance proceeds to CIP cash flow requirements.
- c) The General Fund excise tax debt service should not exceed 10 percent of the General Fund's current or future annual operating revenue in order to control fixed costs and ensure expenditure flexibility.
- d) The city treasurer shall perform a five-year analysis of debt coverage and other ratios, debt security, and reserve requirements for each debt issuance.
- e) Careful consideration of the intended use of the financed facilities, including private activity use, must be evaluated when determining the appropriate debt structure.
- f) McDowell Sonoran Preserve (Preserve) debt service will be funded by the dedicated 0.35 percent privilege tax. The city will strive to maintain a dedicated debt service ratio of at least

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<sup>2</sup> The City of Scottsdale Municipal Property Corporation (MPC) is a non-profit corporation created in 1967 by the city as a financing mechanism for the purpose of financing the construction or acquisition of capital improvement projects for lease to and use by the city. The MPC is governed by a board of directors consisting of citizens from the community approved by the city council. MPC bonds are secured by the city's lease payments which are in turn secured by city excise tax and other undesignated general fund revenues. These bonds may be issued without a vote of the citizens.

1.5:1 for senior lien debt to ensure the city's ability to pay for Preserve debt from this elastic revenue source.

- g) The city will maintain appropriate Debt Service Reserves as stated in Policy 2.

Improvement District (ID) Bonds.

- a) IDs are a funding mechanism primarily used for existing neighborhoods desiring improvements to public infrastructure that specifically benefit the neighborhood such as street paving, improvements to sidewalks, curbs, gutters, sewers, ditches, drains, off-street parking, street lighting, undergrounding utility facilities, etc.
- b) ID bonds, as authorized by state statutes for certain ID improvements, shall not have maturities longer than ten years and are secured by a first lien on the property benefited. ID bonds will be utilized only when it is expected that the debt will be issued for their full term.
- c) ID debt will be permitted only when the net assessed full cash property value of the district, as reported by the Maricopa County Assessor's Office, to debt ratio (prior to improvements being installed) is a minimum of 3:1 prior to issuance of debt and 5:1 or higher after construction of improvements. Should the net assessed full cash property value to debt ratio not meet the minimum requirements, property values may be determined by an appraisal paid for by the applicant and administered by the city.

Community Facility District (CFD) Bonds.

- a) CFDs are special taxing districts created to provide a funding mechanism to finance construction, acquisition, operation, and maintenance of public infrastructure that benefits real property within the CFD.
- b) CFDs have statutory taxing and borrowing authority within the city. For that reason, council must fully understand the benefits, potential drawbacks, risks, and legal exposures, to ensure the financial protection of the city and its property owners and taxpayers, and to ensure the success of the CFD, when considering each CFD formation. The city will maintain a separate written CFD policy to establish policy directions, application, and formation procedures.
- c) CFDs should be considered primarily in connection with the financing and funding of major public infrastructure that conforms to council goals, the city's general plan, infrastructure plans, or capital improvement plans.
- d) The city treasurer will carefully assess the proposed financing plan, financial assurances, overlapping tax and financial burden on property owners, and other factors for each proposed CFD formation.
- e) CFD debt will be permitted only when the net assessed full cash property value of the district, as reported by the Maricopa County Assessor's Office, to debt ratio (prior to improvements being installed) is a minimum of 3:1 prior to issuance of debt and 5:1 or higher after construction of improvements.
- f) Voter approval is required for the CFD to issue G.O. bonds.
- g) The landowner/developer shall also contribute \$0.25 in public infrastructure improvement costs for each dollar of public infrastructure improvement debt to be financed by the CFD.

- 8.05 Refunding Bonds. Refunding bonds are issued to retire all or a portion of an outstanding bond issue. Typically, this is done to achieve lower interest costs, reduce debt service payments, or to restructure the debt to meet the city's goals. When making a determination on refunding bonds, the city treasurer will consider the following conditions:

- a) A present value analysis must be prepared to identify the economic effects of the potential refunding.
- b) For refunding transactions undertaken solely to achieve cost savings, the target net present value savings as a percent of par, shall be at least 3 percent of the refunded par amount, net of transaction expenses, and in excess of \$1,000,000.
- c) Modification of restrictive covenants or existing debt structure to the benefit of the city.

8.06 Investment of Bond Proceeds. The city treasurer or his/her designee will direct the investment of bond proceeds in accordance with permitted investments for each bond issue and with the city's separately written Investment Policy. Bond interest earnings will be limited to funding changes to the bond financed CIP, as approved by the council or be applied to debt service payments on the bonds issued. The investment of bond proceeds shall comply with all applicable federal, state, and indenture restrictions.

8.07 Use of Bond Proceeds. The city shall not give or loan its bond proceeds to any individual, association, or corporation unless legally authorized and approved by council.

8.08 Lending of City's Credit. The city shall not loan, give its credit, or guarantee loans for private developers or private party financing arrangements.

8.09 Issuance and Post Issuance Compliance and Continuing Disclosure Undertakings. The city will comply with arbitrage rebate requirements of Internal Revenue Code Section 148 and related Treasury Regulations and shall maintain and comply with separately written procedures for tax-exempt bonds (Written Policies Relating to Issuance and Post-Issuance Compliance Procedures for Tax-Advantaged Obligations of the City of Scottsdale, Arizona) to ensure tax-exempt bonds remain in compliance with federal tax requirements. Additionally, the city will comply with Rule 15c2-12 of the Securities and Exchange Act of 1934 adopted by the SEC for reporting significant events and shall maintain and comply with separately written procedures for continuing disclosure compliance (Continuing Disclosure Compliance Procedures Regarding the Securities and Exchange Commission Rule 15c2-12 for the City of Scottsdale, Arizona).

## Policy 9 Enterprise Funds

The city's Enterprise Fund operations (Water, Wastewater, Solid Waste, and Aviation) are self-supporting operations that generate revenues to fully recover the cost of service. The city invests significantly in its enterprise systems and operations to ensure safe and reliable service to our residents and businesses. This policy provides guidance for the proper management, stewardship, and safeguarding of the Enterprise Fund assets and resources and to ensure financial stability and sustainability of the city's enterprise systems. Enterprise Funds will comply with all Policies where applicable.

- 9.01 Enterprise Funds. Separate funds will be established and maintained to properly account for each enterprise operation. Enterprise Funds will not be used to subsidize the operations of other non-Enterprise Funds. Interfund charges will be assessed for the administrative support of the enterprise activity based on a rational nexus between the charges and cost of the benefits received.
- 9.02 Rates and Fees. The city will establish rates and fees at levels that recover the total direct and indirect costs for operating and capital requirements, including debt service and debt coverage requirements for water, wastewater, solid waste, and general aviation services. All existing enterprise rates and charges will be reviewed annually and developed pursuant to a multi-year financial plan that strives to gradually implement user rate adjustments to avoid acute fluctuations.
- 9.03 Enterprise Rate Stabilization. In order to ensure long-term stability of the city's enterprise systems and rates, the city will develop its rates to include future capital needs. In conjunction with debt issuances, funds in excess of reserves and operating requirements will be used to supplement "pay as you go" capital expenditures to avoid significant and unplanned rate adjustments.
- 9.04 Operating Reserves. The city will maintain "Operating Reserves" in its Enterprise Funds as stated in Policy 2 to provide for emergencies, unexpected declines in revenues, and other unanticipated events.
- 9.05 Water and Wastewater Asset Replacement Reserve. The city will maintain a "Water and Wastewater Asset Replacement Reserve" in its Enterprise Fund as stated in Policy 2 to provide funding for the repair and maintenance of critical assets.
- 9.06 Debt Financing. Debt financing will be used for capital projects too large to fund with current resources and when a debt issuance is affordable and appropriate to facilitate "intergenerational equity," wherein projects with longer lives are paid over several generations through debt service payments. The Enterprise Funds shall incorporate "pay-as-you-go" funding in the annual CIP. Pay-as-you-go funding should account for a minimum of 25 percent of the capital improvement plan (CIP), for each five-year planning period. Pay-as-you-go funding is defined as all sources of revenue other than city debt issuance, i.e., fund balance, dedicated revenues, contributions, grants, etc.
- 9.07 Debt Coverage Ratio Target. Bond covenants may exist that require maintaining a minimum debt coverage ratio. In order to maintain the city's high bond rating, the city will recommend

rates based on a target debt coverage ratio of at least 2.0 times for Water and Wastewater and 1.5 times for Aviation and Solid Waste. For financial planning purposes, the debt coverage ratios will be calculated without consideration of development fee revenues.

## Policy 10 Tourism Development Fund

The city assesses a 5 percent transient tax for lodging (bed tax) on businesses charging for lodging on a daily, weekly, or any other basis for less than 30 consecutive days. The purpose of this policy is to comply with state law and city elections as well as provide for the proper allocation of the transient tax for lodging in accordance with Scottsdale Ordinance No. 4534.

- 10.01 Deposits to the Tourism Development Fund. 100 percent of the bed tax received by the city shall be deposited into the Special Revenue Fund for Tourism Development (Tourism Development Fund). Additionally, the Tourism Development Fund shall receive 100 percent of Princess Hotel lease revenues.
- 10.02 Allocation of Bed Taxes. As approved by the voters, 50 percent of the bed tax revenues shall be used for destination marketing to promote tourism and 50 percent shall be divided among tourism-related event support, tourism research, tourism-related capital projects and other eligible uses as determined by city ordinance and state law.

As approved by council ordinance and in compliance with state law, the annual allocation of the second 50 percent of bed taxes is as follows<sup>3</sup>:

- a) Twelve percent for the General Fund;
  - b) Nine percent for tourism-related events and event development;
  - c) Four percent for tourism-related administration and research;
  - d) Twenty-five percent, plus the lease payments on the Princess Resort, or the balance of the remaining Tourism Development Fund revenues, for tourism-related operating expenses, capital projects and/or operating impacts that are directly associated with tourism-related capital projects, in the form of one-time commitments or multi-year annual commitments, not to exceed \$600,000 per commitment unless otherwise approved by council.
- 10.03 Unused Funds. Subject to council approval, at the end of each fiscal year, any unused funds from the second 50 percent as referenced in 10.02 above will be available for use in following years for any of the non-marketing tourism categories (except the General Fund category) and may be allocated without limitations, except that they may not be leveraged for multi-year annual commitments, such as debt service payments.
- 10.04 Allocation Priority. In the event of a decrease in Tourism Development Fund revenues, debt service is the priority and will be met first.

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<sup>3</sup> Three percent of the bed tax was grandfathered in and is not subject to the A.R.S. § 9-500.06 restrictions on the use of bed tax funds for the promotion of tourism, and thus is only restricted by city election.

## Policy 11 Economic Development

The city may utilize public funds to encourage private development projects that have a direct benefit to the city, subject to state law and Scottsdale City Charter restrictions. The city strives to expand and diversify its economic base by attracting, retaining, and expanding targeted industries to the city as identified in the city's Economic Development Strategic Plan. The purpose of this policy is to provide guidance on the use of public funds in economic development to focus on job opportunities and other community benefits that diversify and strengthen the local economy and align with the Scottsdale General Plan.

- 11.01 Compliance with State Law and the Scottsdale City Charter. Use of public funds in development agreements and contracts for economic development shall be applied consistent with state law and the Scottsdale City Charter and prove to have a clearly identified public purpose and direct benefit to the city.
- 11.02 Evaluation of Costs and Financial Impacts. Development agreements and contracts for economic development will be carefully evaluated to ensure financial and cost impacts are fully understood. Such costs and financial impacts will be forecasted and included in the operating budget, five-year financial plan, and/or the CIP.
- 11.03 Restricted Use of Public Funds for Economic Development. The city shall not give or loan its credit in aid of, nor make any donation, grant, or payment of any public funds, by subsidy or otherwise, to any individual, association, or corporation except where there is a clearly identified public purpose and the city either receives direct consideration substantially equal to its expenditure or provides direct assistance to those in need.

Use of public funds for economic development shall be in accordance with council's established goals and priorities and subject to council approval.

## Policy 12 Risk Management

Risk management has become increasingly important to guard against economic loss and ensure public safety in a time of increasing public liability and litigation. This policy outlines how risk management is an on-going process of identifying, assessing, and prioritizing of risks, followed by the application of resources to minimize, monitor, and control the probability and/or impact of unfortunate events.

- 12.01 Mitigation of Risks. The city shall make diligent efforts to prevent or mitigate the loss of city assets and to reduce the city's exposure to liability claims through on-going risk assessments, training, safety reviews, loss prevention, and the transfer of risk when prudent.
- 12.02 Self-Insurance. The city has elected to manage its exposure to risk, and third-party liability claims through self-insurance, in addition to purchasing excess workers' compensation, property, and casualty insurance.
- 12.03 Risk Exposure Controls. The city will utilize additional risk control measures to further control its exposure to risk. Measures include, but are not limited to, hold harmless provisions, indemnification language, and in many cases requiring contractors or vendors to procure additional insurance to address the various exposures presented to the city by their activities.
- 12.04 Self-Insurance Reserves. Financial reserves shall be maintained at a level which, together with any excess insurance, will adequately protect the city's assets and defend its elected officials, officers, and directors against financial loss. The Risk Management Department relies on an annual actuarial study to identify probable losses and is used as a basis for determining self-insurance fund balances based on historical loss data. See Policy 2 for additional information.
- 12.05 Annual Report. Each year, the Risk Management Department will prepare an annual report depicting a summary of the revenues and expenses received in relation to the workers' compensation, property, and casualty program for the fiscal year.
- 12.06 Cost Allocations. Cost allocations to various funds will be based on an analysis of contributing factors, such as claims experience, reserve requirements, cost of risk management, and mitigation, etc.
- 12.07 Liability Tort Settlements and Judgments. Annually, the city shall include liability tort settlements and judgments authorized by the State of Arizona's Property Tax Oversight Commission into the primary property tax creating a reimbursement revenue to the Risk Management Fund.

## Policy 13 Accounting, Auditing, and Financial Reporting

Accounting, auditing, and financial reporting form the foundation for financial transparency and accountability. This policy provides guidance on the city's accounting, auditing, and reporting functions to ensure timely, accurate, and comprehensive information is provided to the council, management, residents, investors, creditors, and other interested parties.

- 13.01 Financial Records. The city treasurer maintains the official financial records of the city, to include the general ledger, the city's budget documents, debt-related documents, etc.
- 13.02 Compliance. The city's accounting and financial reporting systems will be maintained in conformance with all state and federal laws, General Accepted Accounting Principles (GAAP), and standards of the Governmental Accounting Standards Board (GASB).
- 13.03 Internal Controls. A system of internal accounting controls and procedures will be maintained to provide reasonable assurance of the safeguarding of assets, the proper recording of financial transactions of the city, and compliance with applicable laws and regulations.
- 13.04 Monthly Financial Reports. The city treasurer shall issue timely monthly financial reports to council in accordance with the Scottsdale City Charter.
- 13.05 Audit. Prior to the end of the fiscal year, the council shall designate certified public accountants who shall perform an independent audit of the city's financial statements in accordance with generally accepted governmental auditing standards. The certified public accountants shall be independent of the city government, having no personal interest, direct or indirect, in the fiscal affairs of the city government or any of its officers. The certified public accountants shall submit their reports to the council. All such audit reports shall be a matter of public record.
- 13.06 Annual Financial Report. The city will prepare an Annual Comprehensive Financial Report (ACFR) in accordance with the principles and guidelines established by the Government Finance Officers Association "Certificate of Achievement for Excellence in Financial Reporting" program. Staff will submit the ACFR each year for review in the award program.

## Policy 14 Pension Funding

An adequately funded pension plan not only provides assurance to employees but also achieves taxpayer and member intergenerational equity by not placing an unfair burden on future taxpayers and members. This policy provides guidance for pension funding to ensure the city maintains adequate assets to fund benefits payable in its pension plans.

- 14.01 Annual Required Contributions. The city shall fund the full amount of the Annual Required Contribution (ARC) each year as determined by the actuarial valuation report for its defined benefit contribution plans. The ARC is the amount necessary to be contributed by an employer to adequately fund a public pension plan.
- 14.02 Funding Policy. The city shall maintain and comply with a separate written pension funding policy for its Public Safety Personnel Retirement System that is approved by the council annually in accordance with A.R.S. § 38-863.01.
- 14.03 Funding Status. It is the intent of the city to maintain adequate assets to fund benefits payable in its defined benefit plans. In the event the funded status falls to an unacceptable level, the city shall strive to make additional contributions above the ARC to restore the funded status to an acceptable level.
- 14.04 Use of Debt. Pension obligation bonds add a level of risk that should be analyzed thoroughly, and the city shall not rely on pension obligation bonds to reduce unfunded pension liabilities.

## Appendix A Budget Governing Guidance

The following represents budget governing guidance which provides direction for allocating city resources to fund operating or capital expenditures. The below guidance may be changed during the annual budget process to respond to council priorities or to better align resources with operating or capital needs as recommended by the city manager and city treasurer. Changes to the below guidance must be approved by the council through the budget process.

- 1) Funding for General Fund CIP.
  - a) 50 percent of the unrestricted portion of construction privilege tax revenues.
  - b) 100 percent of General Fund interest earnings.
  - c) Any additional funding as recommended through the budget process.
- 2) General Fund Operating Surplus. Year-end General Fund operating surpluses not needed to restore contingency, reserves, or designations or to cover unforeseen shortfalls in the budget will be considered for one-time operating needs or transferred to the General Fund CIP in the following fiscal year's budget development process.
- 3) Funding for Public Safety Accidental Disabled Retirees. A General Fund transfer will be made to the Benefits Healthcare Self-Insurance Fund to subsidize the cost of providing healthcare benefits to sworn public safety accidental disabled retirees.
- 4) Transportation Fund Operating Surpluses. Year-end Transportation Fund operating surpluses not needed to restore contingency or reserves or to cover unforeseen shortfalls in the budget will be considered for one-time operating needs or transferred to the Transportation Fund CIP in the following fiscal year's budget development process.
- 5) Allocation of Dedicated 0.2 Percent Transportation Privilege Tax. No less than 50 percent of the dedicated 0.2 percent privilege tax revenue for transportation improvements will be allocated to the capital budget for planning, design, construction, and acquisition costs associated with building, renovating, or enhancing capital projects for streets, highways, traffic control, and transit.