



CITY OF SURPRISE
Regular City Council Work Session
16000 N. Civic Center Plaza
Surprise, AZ 85374
Tuesday, May 4, 2021 @ 4:30 PM
COUNCIL CHAMBERS

- A. Call To Order
- B. Roll Call
- C. Pledge of Allegiance
- D. Proclamation and Community Acknowledgements
- E. City Manager Report
- F. City Clerk Report
- G. Call To The Public

INSTRUCTIONS: In order to address the City Council, you will need to fill out a Call to the Public Form available at the front counter, and then turn it in to the City Clerk before the meeting begins.

[Download the Call to the Public form](#) (PDF download requires Adobe Acrobat Reader)

[Fill out the Call to the Public form online](#) If submitting form electronically, please submit to City Clerk at least one hour before the meeting start time.

The Call to the Public form is also available at the front counter.

Note: A.R.S. 38-431.01(H)- During this time members of the public may address City Council only on issues within the jurisdiction of the City Council which are not an item on the agenda. At the conclusion of the open call, City Council may respond to criticism, may ask staff to review the matter or may ask that the matter be put on a future agenda. No discussion or action shall take place on any item raised.

Approval of items on the Consent Agenda – all items with an asterisk (*) are considered to be routine matters and will be enacted by one motion and one roll call vote to the City Council. There will be no separate discussion on these items unless a Councilmember requests, in which event the item will be removed from the consent agenda and considered in its normal sequence on the agenda.

Please be aware that Council Members may not discuss or respond to matters raised during call to the public that are not specifically identified on the agenda. Council Members may however, in their discretion, discuss or respond to relevant matters raised during a noticed public hearing or agenda item.

H. Regular City Council Work Session Agenda

CONSENT AGENDA:

REGULAR AGENDA ITEM - PUBLIC HEARING:

REGULAR AGENDA ITEM - NON-PUBLIC HEARING:

- | | | | |
|----|----------|--|------|
| 1. | Citywide | Presentation and discussion pertaining to White Tanks Conservancy initiatives. | None |
|----|----------|--|------|

Jodi Tas
Mayor and Council

2.	Internal	Presentation and discussion pertaining to annual updates to the City's financial policies.	None
			Andrea Davis Finance

I. Other Business and Future Agenda Items

J. City Council Reports

K. Executive Session

For information Purposes; Upon a public majority vote of a quorum of the City Council, the Council may hold an executive session, which will not be open to the public, but for only the following purposes:

- discussion or consideration of personnel matters (A.R.S. §38-431.03 (A)(1));
- discussion or consideration of records exempt by law from public inspection (A.R.S. §38-401.03 (A)(2));

L. Adjournment

SHERRY ANN AGUILAR, CITY CLERK, MMC

POSTED: April 29, 2021 at 11:05 AM

SPECIAL NOTE: PERSONS WITH SPECIAL ACCESSIBILITY NEEDS, INCLUDING LARGE PRINT MATERIALS OR INTERPRETER, SHOULD CONTACT THE CITY CLERK'S OFFICE @ 623.222.1200 OR TTY 623.222.1002, BY NO LATER THAN 24 HOURS IN ADVANCE OF THE REGULAR SCHEDULED MEETING TIME.



CITY OF SURPRISE
Regular City Council Work Session

Council Meeting Date: May 4, 2021

Contact Person: Jodi Tas, MNGMNT ANALYST - SR

Submitting Department: Mayor and Council

District: Citywide

Staff Recommendations: None

Consent: No

Regular: No

Public Hearing: No

Report/Discussion: No

Agenda Wording:

Presentation and discussion pertaining to White Tanks Conservancy initiatives.

Motion:

N/A

Background:

The City of Surprise has been an active member of the White Tanks Conservancy since its inception several years ago. The Conservancy was formed to bring together conservationists, developers and cities to balance environmental concerns with impending development. It was established with the help of a diverse coalition of key stakeholders and partners, and supported by a team of volunteers.

Objective Analysis:

This presentation serves as an annual update from a community partner.

Policy Compliant:

N/A

Financial Impact:

N/A

Budget Impact:

N/A

FTE Impact:

N/A

ATTACHMENTS:

1. city of Surprise presentation summary
-

PRESENTATION SUMMARY

CITY OF SURPRISE

MAY 4, 2021

INTRODUCTION

- **Overview of the mission of the White Tank Mountain Conservancy**
- **Importance of Connection**
- **Five Phase Projections**
 - a. **Phase 1 – Completed**
 - b. **Phase 2 – Programming (Desert Defenders & Invasive Species Eradication, Youth to the Mountains, volunteer stewardship) IN PROGRESS**
 - c. **Phase 3 – The West Valley Regional Connectivity Initiative IN PROGRESS**
 - d. **Phase 4 – Land Acquisition & Corridor Plan PLANNING STAGE**
 - e. **Phase 5 – Maintenance of corridors TO BE DETERMINED**

SUPPORT

- **Community**
- **Corporate Entities**
- **Municipalities**
 - a. **City legacy**
 - b. **Long term importance of regional planning of open space**
 - c. **Working with Parks & Rec Departments for community outreach, education & programming**

WHY IT IS CRITICAL TO ACT NOW

- **Booming growth in west valley**
- **Conservation easier and cheaper than remediation**
- **Growing importance to residents of open space to health & wellness**



CITY OF SURPRISE Regular City Council Work Session

Council Meeting Date: May 4, 2021

Contact Person: Andrea Davis, DIRECTOR -
FINANCE

Submitting Department: Finance

District: Internal

Staff Recommendations: None

Consent: No

Regular: Yes

Public Hearing: No

Report/Discussion: No

Agenda Wording:

Presentation and discussion pertaining to annual updates to the City's financial policies.

Motion:

None; discussion only.

Background:

Comprehensive financial policies are an important element of solid financial structure and long-term financial planning. These policies, which are reviewed and updated annually, cover the areas of Operating Management, Capital Management, Debt Management, Minimum Fund Balance, and Financial Reporting. On December 15, 2020, staff brought forward a mid-year amendment to the Comprehensive Financial Management Policies, therefore, no significant changes are recommended at this time.

Since FY2020, the Public Safety Pension Retirement System (PSPRS) Funding Policy has been adopted independently by resolution. In an effort to consolidate the City's finance policies, staff recommends incorporating the PSPRS Funding Policy into the Comprehensive Financial Management Policies. Qualifying City of Surprise Police and Fire-Medical employees participate in this pension plan and each participating agency has an individual trust fund reflecting their assets and liabilities. The City has two trust funds, one for Police employees and one for Fire-Medical employees. Each fund has its own funded ratio, contribution rate, and annual actuarial evaluation. In accordance with A.R.S. § 38-863.01, the City is required to adopt an annual pension funding policy to communicate how the City will maintain stability and meet the funding requirements. The policy must be published on the City's website and it must include formal acceptance of the City's assets and liabilities. According to the actuarial valuations dated June 30, 2020, the City of Surprise PSPRS funds have \$107,236,993 in assets, \$153,692,312 in accrued liability, \$46,455,319 in unfunded actuarial accrued liability, and a funded ratio of 69.8%.

Objective Analysis:

The City's financial policies provide the road map for financial operations and demonstrate the City's commitment to sound financial management practices.

Policy Compliant:

This item is compliant with City and Council policies and will meet the requirements set forth by A.R.S. 38-863.01.

Financial Impact:

None at this time; however, topics covered in this presentation could lead to future actions which may have a fiscal impact.

Budget Impact:

None at this time; however, topics covered in this presentation could lead to future actions which may have a budgetary impact.

FTE Impact:

This item does not impact the overall full-time equivalent count.

ATTACHMENTS:

1. 21.04.15 FY2022 Financial Policies redline
 2. FY2022 Policy Updates 05042021
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CITY OF SURPRISE, ARIZONA
COMPREHENSIVE FINANCIAL MANAGEMENT POLICIES
EFFECTIVE JULY 1, ~~2020~~2021

Introduction

The City Council's Strategic Plan Framework, goals, and objectives provide the foundation for the comprehensive financial management policies. The City's comprehensive financial policies provide the roadmap to achieve financial resiliency and demonstrate the City's commitment to sound financial management practices. As defined by the Government Finance Officers Association (GFOA), the City Council strives to build a financially resilient government through financial policies and long-term financial planning. The GFOA has identified eight characteristics of a financially resilient government:

1. Diversity: Avoid reliance on a single solution.
2. Redundancy: Avoid having only one path of rescue.
3. Decentralization: Centralized systems look strong, but failure is catastrophic.
4. Transparency: Make it easier to figure out where a problem may lie. Share plans and listen when people point out flaws.
5. Collaboration: Working together to become stronger.
6. Fail Gracefully: Failure happens. Make sure failure won't make things worse.
7. Flexibility: Be ready to change when plans aren't working. Don't expect stability.
8. Foresight: Think and prepare.

Financial policies contribute to increased public confidence and trust as well as provide clear direction to City staff concerning the diligence and stewardship with which public monies are to be managed. Adopted financial policies show our citizens, the credit rating industry, and prospective investors (bond buyers) the City's commitment to financial resiliency. These policies are presented in the following five areas:

1. Operating Management
2. Capital Management
3. Debt Management
4. Minimum Fund Balance
5. Financial Reporting

Operating Management Policies

1. All departments will participate in the responsibility of meeting policy goals and ensuring long-term financial resiliency.
 2. The budget shall be considered balanced if revenues plus use of fund balance are equal to or exceed total expenses, by fund. The budget process is intended to weigh all competing requests for City resources, within expected fiscal constraints.
 3. The City Budget is adopted by department within each fund and by project in the capital funds.
 4. The full-time equivalent (FTE) count and number of full-time positions are adopted by department within each fund.
 5. Budget amendments will be done in accordance with the Budget Amendment Policies and Procedures.
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6. Long-range financial plans will be prepared to guide the City and ensure the delivery of needed services due to changes in the economy, service demands, and capital improvements.
7. Regional considerations and intergovernmental relationships will be evaluated to fund both operating services and capital projects.
8. The City Council will consider citizen input and review the operating and capital budget recommendations from an outcome and goals perspective.
9. A diversified revenue system will be developed to protect City services.
10. The City Council will set the amount to be received from primary property taxes annually. The amount is limited to one-hundred and two percent (102%) of the prior fiscal year's maximum allowable levy plus new construction and reimbursement for the prior calendar year's tort liability payments.
11. The City currently imposes an additional one and one-half percent (1.5%) transaction privilege tax on construction dedicated to the construction of new roadways and to refurbishing existing transportation corridors. The revenue is recorded in the Transportation Improvement Fund and will be used to fund transportation projects in the Capital Improvement Plan.
12. The City currently imposes a four and fifty-two hundredths percent (4.52%) transaction privilege tax on transient lodging. The four and fifty-two hundredths percent (4.52%) tax rate is then split, with three and fifty-two hundredths percent (3.52%) recorded in the Tourism Fund to be used for promoting tourism and one percent (1.0%) recorded in the General Fund. The three and fifty-two hundredths percent (3.52%) recorded in the Tourism Fund has been committed by City Council to be used for promoting tourism. Of the amount recorded in the Tourism Fund, the Tourism Fund Subcommittee has designated that seventy-five percent (75%) is spent for sports tourism facility development and improvement and twenty-five percent (25%) on marketing, studies, and special events.
13. Water, Wastewater, Stormwater, and Solid Waste user fees and charges will be examined annually to ensure they recover all direct and indirect costs of service and will be approved by the City Council.
14. All user fees (excluding water, wastewater, stormwater, and solid waste) will be examined periodically to determine the direct and indirect cost of service recovery rate. The acceptable recovery rate and any associated changes to user fees and charges will be approved by the City Council.
15. Grant funding will be considered to leverage City funds and requires City Council approval prior to acceptance.
16. Cash balances identified for investments will be maintained in accordance with state law and the adopted investment policy to ensure that proper controls and safeguards are maintained. City funds will be managed with an emphasis on safety of principal, liquidity, and yield, in that order.
17. Employee compensation and benefits will be administered in accordance with the policy given by the City Council. Healthcare costs will be shared between the City and employees and this allocation will be evaluated annually.
18. The Healthcare Self-Insurance Trust Fund was created under the authority of Arizona Revised Statute § 11-981. The Board of Trustees is charged to administer the trust fund and "make recommendations to the City Council regarding trust fund programs, including amount of appropriations to assure stability and security of the trust fund."

19. An actuarial evaluation will be performed annually to determine the Incurred but Not Reported (IBNR) claim liability. This amount is required by accounting practices and represents the cost of unpaid claims (claims run-out), assuming the City stops being self-insured.
20. The City will optimize the efficiency and effectiveness of its services to reduce costs and improve service quality.
21. The City will maintain a methodology for allocating the City's indirect costs to service departments. A consultant may be hired to update the plan periodically.
22. All cash transfers between funds must be approved by City Council. Transfers to record capital assets within operating and capital funds are not presented to the City Council as these are administrative in nature.
23. All initial inter-fund loans must be approved by City Council.
24. All use of budgetary contingency accounts must be approved in accordance with the Budget Amendment Policies and Procedures prior to being expended.

Capital Management Policies

25. The City shall use an integrated approach to capital planning and financing in preparing a five-year Capital Improvement Plan. Only the first year of the plan will be adopted by the City Council.
 26. The Capital Improvement Plan will include funding to support repair and replacement of capital equipment and infrastructure. A high priority should be placed on those items where deferring maintenance will result in greater cost to restore or replace. Proposed capital projects will be prioritized based on the City Council's goals and objectives, the General Plan, and master plans.
 27. Future operating, maintenance, and replacement costs associated with new capital improvements will be included as a schedule within the annual budget document. Capital projects will include a fiscal impact statement disclosing the expected operating impact of the project and when such cost is expected to occur.
 28. All revenues from the two and two-tenths percent (2.2%) transaction privilege tax on construction will be retained in the General Capital Fund.
 29. A sustainable and consistent revenue source should be identified so that a portion of this source may be dedicated to asset replacement funding. The amount dedicated to asset replacement will be incrementally increased each year until an adequate amount has been established as determined during the annual budget process.
 30. Separate asset replacement funds will be established in the areas including, but not limited to, Information Technology/Communications, Fleet, Facilities, Roads, and Community Services. The budget of each asset replacement fund will be managed by the appropriate department in order to meet the needs of their asset replacement program. As part of the annual budget process, asset replacement funding will be allocated across these funds and any unspent amount will carryover year to year.
 31. The City currently imposes an additional one and one-half percent (1.5%) transaction privilege tax on construction dedicated to the construction of new roadways and to refurbishing existing transportation corridors. The revenue is recorded in the Transportation Improvement Fund and will be used to fund transportation projects in the Capital Improvement Plan.
 32. As permitted by state law, the City shall maintain a financial structure to ensure future development pays for itself and is not a burden on existing residents (i.e. "growth pays for growth"). Elements of this financial structure
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include impact fees, development agreements, Improvement Districts (IDs) and Community Facility Districts (CFDs).

33. Impact fees for infrastructure attributable to new development will be reviewed at least every other year to ensure that fees recover all direct and indirect development-related expenses, as permitted by state law, and will be approved by the City Council.
34. Any capital assets dedicated or donated to the City such as infrastructure, land, right-of-ways, easements, etc. must be approved by the City Council which must include a valuation of the assets.

Debt Management Policies

35. The City shall periodically report measurable steps taken in striving towards achieving and maintaining the highest possible bond ratings. This will minimize borrowing costs, optimize access to credit, and demonstrate excellent financial stewardship on behalf of our residents.
36. An analysis showing how a new debt issue combined with current outstanding debt impacts the City's debt capacity and conformance with City debt policies will accompany every proposal.
37. General Obligation debt, which is supported by property tax revenues, will be utilized as authorized by voters. Other types of voter-approved debt (e.g. water and wastewater) may also be utilized when they are supported by dedicated revenue sources (e.g. fees and user charges).
38. Municipal Property Corporation, trust agreements, and contractual debt, all of which are non-voter approved, will be utilized only when approved by City Council.
39. Improvement District (ID) and Community Facility District (CFD) bonds shall be permitted only when there is a general City benefit as defined and approved by the City Council.
40. Utility rates will be established to ensure the ratio of net revenues to debt service meets bond indenture requirements.
41. The Arizona Constitution provides that the general obligation bonded indebtedness for a city may not exceed twenty percent (20%) of the net secondary assessed valuation of the taxable property of the city for projects for purposes of water, wastewater, artificial light, open space preserves, parks and recreational facilities, public safety, law enforcement, fire and emergency services facilities, streets, and transportation facilities. Outstanding general obligation bonded indebtedness for all other purposes may not exceed six percent (6%) of the City's net secondary assessed valuation.
42. The City will follow appropriate procedures with regard to obligations under continuing disclosure undertakings as identified by the Securities and Exchange Commission under the Securities Exchange Act of 1934.
43. The City will follow appropriate procedures with regard to tax exempt obligations as identified by the Internal Revenue Code of 1986.

Minimum Fund Balance Policies

44. Minimum fund balances are not intended to be spent. The purpose of the minimum fund balance is to ensure the City has adequate resources to meet its needs. If the necessity arises to draw down a fund balance below the minimum requirements that have been set, a plan to replenish the minimum fund balance will be presented to the City Council for approval.

45. Minimum fund balance requirements will be evaluated annually for long-term adequacy and use requirements.

46. The City has formally adopted a minimum fund balance policy for the following governmental funds:

- a. The General Fund will maintain a reserve equal to at least two months of budgeted personnel, supplies, and services for the General Fund, Ground Ambulance Fund, and Highway User Revenue Fund. This amount will be allocated across a three-part reserve as follows:
 - i. Ten percent (10%) will be dedicated to an Emergency Reserve for unexpected, large-scale expenses resulting from events where immediate, remedial action must be taken to protect the health and safety of residents, all unassigned fund balance has been exhausted, and no amount previously appropriated by the City Council is otherwise available. Any use of the Emergency Reserve must be approved by the City Manager or designee. When this occurs, the City Manager shall provide a summary report to the City Council as soon as practical on the usage of these funds and have City Council approve any necessary budget amendments. At that time, the City Manager will also present a plan to restore the Emergency Reserve within the next fiscal year following the fiscal year in which the event occurred.
 - ii. Sixty percent (60%) will be dedicated to an Operating Reserve for unexpected events such as failure of the state to remit revenues to the City, loss of state shared revenues, or other impairment of a significant funding source for the remainder of the fiscal year. The Operating Reserve may also be used for unexpected mandates or other events that cause the City to incur unplanned expenses. The Operating Reserve allows for the continuance of critical City services due to these unanticipated events and is done so after all unassigned fund balance has been exhausted and no amount previously appropriated by the City Council is otherwise available. Any use of the Operating Reserve, and associated budget amendments, must be approved by the City Council and include a repayment plan that projects to restore the Operating Reserve within two fiscal years following the fiscal year in which the event occurred.
 - iii. Thirty percent (30%) will be dedicated to a Stabilization Reserve to provide funding to offset reductions in revenues resulting from fluctuations in the economic cycle that cannot be otherwise absorbed by the operating budget. The reserve funds will provide time for the City to restructure its operations in a deliberate manner to ensure continuance of critical City activities and is used after all unassigned fund balance has been exhausted and no amount previously appropriated by the City Council is otherwise available. Any use of the Budget Stabilization Reserve, and associated budget amendments, must be approved by the City Council and include a repayment plan, based on a multi-year financial projection, that plans to restore the Budget Stabilization Reserve within the three fiscal years following the fiscal year in which the event occurred.
 - b. General Capital Fund of \$1.0M
 - c. Transportation Improvement Fund of \$0.5M
 - d. Street Light Improvement Districts (SLIDs). SLIDs have a maximum levy limit of \$1.20 per \$100 of assessed valuation in accordance with A.R.S. § 48-616. To the extent that the levy limit has not been exceeded, taxes will be levied at a rate that will approach an individual ending fund balance reserve of five percent (5%) of its budgeted annual expenses.
 - e. Tourism Fund of \$5,000.
 - f. The Spring Training Ticket Surcharge Fund will have a minimum fund balance of \$600,000. Any excess fund balance remaining as of June 30 shall be remitted to the General Fund.
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- g. The Water Fund will have a four-part reserve as follows:
 - i. The City will maintain an Operating Reserve equal to the average of budgeted personnel, supplies, and services expenses over a three-month period for that year's Council Adopted Budget for the Water Fund.
 - ii. The City will maintain an Asset Reserve equal to two percent (2%) of tangible capital assets of the system as of June 30 from the previous fiscal year.
 - iii. The City will maintain a Rate Stabilization Reserve equal to five percent (5%) of the total charges for services revenue. Monies may be withdrawn from this reserve to supplement operating revenue shortfalls caused by various economic factors which may cause either reduced revenues or an unforeseen increase in expenses. Any use of the Rate Stabilization Reserve, and associated budget amendments, must be approved by the City Council and include a repayment plan, based on a multi-year financial projection, that plans to restore the Rate Stabilization Reserve within the four fiscal years following the fiscal year in which the event occurred.
 - iv. The City will maintain a Resource Portfolio Reserve equal to fifteen percent (15%) of the total cost of delivery and capital charges for Municipal and Industrial plus the Phoenix Active Management Area (AMA) Underground Storage charges multiplied by the total amount of the City's Central Arizona Project (CAP) allocation.
 - h. The Wastewater Fund will have a three-part reserve as follows:
 - i. The City will maintain an Operating Reserve equal to the average of budgeted personnel, supplies, and services expenses over a three-month period for that year's Council Adopted Budget for the Wastewater Fund.
 - ii. The City will maintain an Asset Reserve equal to two percent (2%) of tangible capital assets of the system as of June 30 from the previous fiscal year.
 - iii. The City will maintain a Rate Stabilization Reserve equal to five percent (5%) of the total charges for services revenue. Monies may be withdrawn from this reserve to supplement operating revenue shortfalls caused by various economic factors which may cause either reduced revenues or an unforeseen increase in expenses. Any use of the Rate Stabilization Reserve, and associated budget amendments, must be approved by the City Council and include a repayment plan, based on a multi-year financial projection, that plans to restore the Rate Stabilization Reserve within the four fiscal years following the fiscal year in which the event occurred.
 - i. The Stormwater Fund will have a three-part reserve as follows:
 - i. The City will maintain an amount equal to the average budgeted personnel, supplies, and services expenses over a two-month period for that year's Council Adopted Budget for the Stormwater Fund.
 - ii. The City will maintain an amount equal to two percent (2%) of tangible capital assets of the system as of June 30 from the previous fiscal year for repair and replacement.
 - iii. The City will maintain a Rate Stabilization Reserve equal to five percent (5%) of the total revenues collected through charges for services. Monies may be withdrawn from this reserve to supplement operating revenue shortfalls caused by various economic factors which may
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cause either reduced revenues or an unforeseen increase in expenses. Any use of the Rate Stabilization Reserve, and associated budget amendments, must be approved by the City Council and include a repayment plan, based on a multi-year financial projection, that plans to restore the Rate Stabilization Reserve within the four fiscal years following the fiscal year in which the event occurred.

- j. The Solid Waste Fund will have a four-part reserve as follows:
 - i. The City will maintain an Operating Reserve equal to the average of budgeted personnel, supplies, and services expenses over a three-month period for that year's Council Adopted Budget for the Solid Waste Fund.
 - ii. The City will maintain an Asset Reserve equal to two percent (2%) of tangible capital assets of the system as of June 30 from the previous fiscal year.
 - iii. The City will maintain a Rate Stabilization Reserve equal to five percent (5%) of the total charges for services revenue. Monies may be withdrawn from this reserve to supplement operating revenue shortfalls caused by various economic factors which may cause either reduced revenues or an unforeseen increase in expenses. Any use of the Rate Stabilization Reserve, and associated budget amendments, must be approved by the City Council and include a repayment plan, based on a multi-year financial projection, that plans to restore the Rate Stabilization Reserve within the four fiscal years following the fiscal year in which the event occurred.
 - iv. As the Solid Waste Utility has excess revenues, the City will maintain a phased Contingency Reserve equal to one-half percent (0.5%) beginning in FY2022 and increased to one percent (1%) for each subsequent year through FY2024.
- k. The Risk Management Fund will maintain an amount that, together with purchased insurance policies, will adequately indemnify the City. The appropriate funding level will be set at three times the maximum annual loss of \$250,000 which is equal to \$750,000, which will be approved by the City Council.
- l. The Healthcare Self-Insurance Trust Fund ("Trust Fund") will maintain an amount at a level which, together with purchased insurance policies (individual and aggregate stop loss), will adequately indemnify the City. The City has established an Adverse Times Reserve. The purpose of this reserve is to address cash flow needs caused by periods in which claim payments exceed projections. The target amount of this reserve is at least twenty-five percent (25%) of expected annual claims. If, at any time prior to the end of the fiscal year, the Trust Fund's target reserve is met and fully funded for the entire fiscal year based on the original budget projections approved by the City Council, the Finance Director shall document such funding and, after consulting with the City Manager, may conduct an evaluation of the claims incurred by the Trust Fund year to date, and if fiscally and financially prudent based on the claims incurred, Transfer from the City's various operating funds only that portion of the Employer premium necessary to cover actual claims incurred, such that the Trust Fund revenues are equal to the Trust Fund expenses, and the Trust Fund account experiences a zero change in net position. At all times the City will continue to transfer and deposit into the Trust Fund 100% of the monthly employee premiums collected.
- m. The Workers' Compensation Self-Insurance Trust Fund will maintain an amount which, together with the purchased excess insurance policy will adequately indemnify the City. The City has established an Adverse Times Reserve of \$3,000,000. The purpose of this reserve is to maintain the regulatory required reserve and industry standard reserve

Financial Reporting Policies

47. The City's Finance Director will develop standard operating procedures to ensure the City's accounting and financial reporting systems are maintained in conformance with all state and federal laws, Generally Accepted Accounting Principles (GAAP) and the standards of the Governmental Accounting Standards Board (GASB).
48. An annual audit will be performed by an independent public accounting firm. The City will prepare a Comprehensive Annual Financial Report (CAFR) with the objective of receiving an unmodified ("clean") audit opinion. The independent auditor will present and discuss audit findings regarding internal controls and operational issues to the Audit Committee at a public meeting.

CAFR Fund Balance Reporting

1. The hierarchy from least spendable to most spendable fund balance for governmental funds of the City shall be: non-spendable, restricted, committed, assigned and unassigned. When funds are available from multiple classifications, it is the City's policy to utilize the most restrictive funding first.
 2. Non-spendable fund balances are determined solely by their form.
 3. Restricted fund balances are determined solely by the constraints placed on the use of the resources.
 4. Committed fund balance represents amounts that have been constrained to a specific use by the formal action of the City's highest level of decision-making authority, the City Council. A majority vote of the City Council is necessary to establish, modify, or rescind a fund balance commitment.
 5. The City has elected the following commitments of fund balance to be standardized from year to year.
 - a. A commitment for repair and replacement of general government vehicles and other rolling stock will be maintained based upon lifecycle replacement plans prepared annually. This commitment shall be maintained in the Vehicle Replacement Fund.
 - b. A commitment of a one and one-half percent (1.5%) construction sales tax to be used solely for the purposes of paying costs related to new roadways and to refurbish existing transportation corridors, to be maintained in the Transportation Improvement Fund (Ordinance No. 05-13).
 - c. In addition to the two and fifty-two hundredths percent (2.52%) transient lodging tax restricted by state statute, a commitment of an additional 1.0% transient lodging tax for a total of three and fifty-two hundredths percent (3.52%) will be used to promote tourism and be maintained in the Tourism Fund (Ordinance No. 2010-04).
 6. In order to be reported as committed fund balance in the CAFR the City Council must approve the commitments prior to June 30th. However, the amount of the commitment may be determined after June 30th.
 7. Amounts that have been constrained by the City's intent to be used for a specific purpose and are neither restricted nor committed are reported as assigned fund balance. The City Council has designated the authority to assign amounts to be used for specific purposes to the Chief Financial Officer (CFO).
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49. The City's CAFR will be submitted annually to the Government Finance Officers Association (GFOA) Certificate of Achievement for Excellence in Financial Reporting program.
50. The City's Budget will be submitted to the Government Finance Officers Association (GFOA) Distinguished Budget Presentation program.
51. A financial report will be presented to the City Council no less than quarterly.

Public Safety Pension Funding

52. The City Council formally accepts the assets, liabilities, and current funding ratio of the City's PSPRS trust funds from the June 30, 2020 actuarial valuation, which are detailed below.

<u>Trust Fund</u>	<u>Assets</u>	<u>Accrued Liability</u>	<u>Unfunded Actuarial Accrued Liability</u>	<u>Funded Ratio</u>
Police	\$51,303,046	\$82,022,723	\$30,719,677	62.5%
Fire-Medical	\$55,933,947	\$71,669,589	\$15,735,642	78.0%
<u>City of Surprise Totals</u>	<u>\$107,236,993</u>	<u>\$153,692,312</u>	<u>\$46,455,319</u>	<u>69.8%</u>

53. The City Council's PSPRS funding ratio goal is 100% (fully funded) by June 30, 2036. To achieve this goal, the City will do the following:
- Pay the Annual Required Contribution (ARC) payment from operating funds. The estimated combined ARC for FY2022 is \$7,459,695.
 - Fund the fiscal year annual pension cost at the beginning of each fiscal year with the budgeted contribution amounts as estimated based on actuarial reports. The budgeted contribution amount will be based on the highest potential cost assuming that each qualifying position participating in PSPRS is fully staffed. If, during the course of the year, the required contribution amount exceeds the original budgeted amount, the City will contribute the additional funds on a per pay period basis to meet its funding obligations.
 - Establish a Public Safety Pension Reserve dedicated for the PSPRS unfunded liability. During year-end close, or at such other time as economically feasible as determined by the Finance Director and City Manager, and approved by Council, the amount of budget in excess of actual expenditures for the police and fire departments - personnel, supplies and service categories (operating expenses), within the General Fund, will be transferred into the Public Safety Pension Reserve.
 - The City's Finance Department will provide an annual update on the financial position of the PSPRS trust funds to City Council.
 - During the annual budget process or at such other time as economically feasible as determined by the Finance Director and approved by Council, Council will review the feasibility of making additional payments to the Public Safety Pension Reserve.



Financial Policy Updates

City Council Work Session

May 4, 2021

Policy Updates

- Provide road map for financial operations
- Demonstrate commitment to sound financial practices
 - Comprehensive Financial Management
 - Public Safety Personnel Retirement System (PSPRS)

Comprehensive Financial Management Policies

- Based on City Council's strategic plan, goals, and objectives
- Provides financial structure and long-term financial planning
- Includes policy direction related to:
 - Operating Management
 - Capital Management
 - Debt Management
 - Minimum Fund Balance
 - Financial Reporting

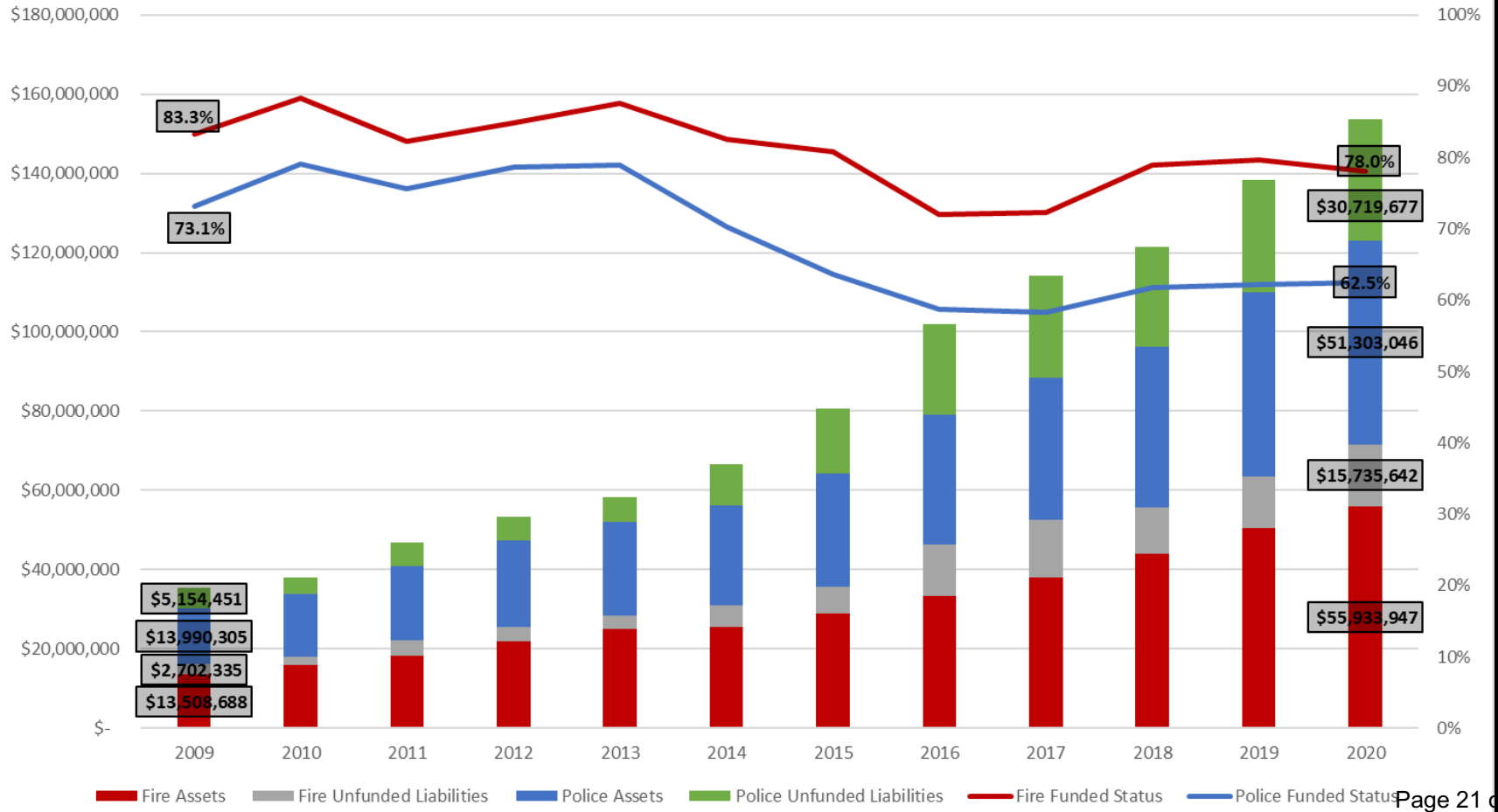
FY2022 Recommended Policy Changes

- Incorporate PSPRS Pension Funding Policy into the Comprehensive Financial Management Policies
 - Consolidation of the City's finance policies
 - Continue to meet statutory requirements

PSPRS Pension Funding Policy

- Publish on City's website
- Adopt annually based on actuarial report
- Must address four funding objectives
 - Objective 1: Formal acceptance of assets and liabilities
 - Objective 2: When the City's funded ratio target will be met
 - Objective 3: Stability of the City's contributions
 - Objective 4: How and when funding requirements will be met

City of Surprise Combined Police & Fire Assets & Liabilities



PSPRS Pension Funding Policy

- Actuarial Report
 - Computes liabilities likely to be paid on behalf of currently retired and active members
 - Compares assets with liabilities to assess the funded condition
 - Computes the City's contribution rates

FY2022 Contribution Rates	Tier 1	Tier 2	Tier 3	
			Defined Benefit	Defined Contribution
Police	34.72%	34.72%	9.94%	9.88%
Fire-Medical	26.39%	26.39%	9.94%	9.88%

FY2022 Recommendation

- Objective1: Formal acceptance of assets and liabilities

Trust Fund	Assets	Accrued Liability	Unfunded Actuarial Accrued Liability	Funded Ratio
Police	\$51,303,046	\$82,022,723	\$30,719,677	62.5%
Fire-Medical	\$55,933,947	\$71,669,589	\$15,735,642	78.0%
City of Surprise Totals	\$107,236,993	\$153,692,312	\$46,455,319	69.8%

As of June 30, 2020

FY2022 Recommendation

- Objective 2: When the City's funded ratio target will be met
 - No change; Funding ratio goal is to be 100% fully funded by June 30, 2036
- Objective 3: Stability of the City's contributions
 - No change; Pay required contribution with city funds
 - FY2022 estimate is \$7,459,695
 - Establish a public safety pension reserve

FY2022 Recommendation

- Objective 4: How and when funding requirements will be met
 - No change
 - Pay budgeted contribution at the beginning of fiscal year
 - Budget contribution amount based on highest potential cost assuming each qualifying position is fully staffed
 - If required contribution amount exceeds budgeted amount, contribute additional funds on a per pay period basis
 - Establish public safety pension reserve



SURPRISE
ARIZONA

**QUESTIONS OR
COMMENTS?**

Thank You