

City Council
Work Study Session
Agenda

Litchfield Park Branch Library
Community Room
101 W. Wigwam Blvd.
Litchfield Park, AZ 85340

Wednesday, September 17, 2025

6:00 PM

Members of the Litchfield Park City Council will attend either in person, by telephone, or video conference call.
Physical access to the meeting room will be available 30 minutes prior to the meeting.

I. Call to Order

- A. The agenda and packet are available at: www.litchfieldpark.gov
- B. A video recording of the meeting can be seen here the next business day.

II. Pledge of Allegiance

III. Business

A. Fund Balance and Debt Policies

INFORMATION ONLY

Presenter: *Paige Peterson, Asst. City Mgr./Director of Finance*

Discussion and possible direction related to current and future Fund Balance and Debt Policies.

IV. Adjournment

Thomas L. Schoaf, Mayor

Affidavit of Posting

I, Terri Roth, MMC, City Clerk. do hereby certify that I caused to be posted a true and correct copy of this agenda for the City Council meeting of Wednesday, September 17, 2025, in the following place in the City of Litchfield Park:

- 1. City Hall, outside bulletin board
- 2. City Website

Terri Roth, MMC, City Clerk

Persons with special accessibility needs should contact City Hall, (623) 935-5033, at least 48 hours prior to the meeting.



**CITY COUNCIL
COMMUNICATION**

Business Item III.A
Fund Balance and Debt Policies

To: Mayor Thomas L. Schoaf and Members of the City Council
From: Paige Peterson, Asst. City Mgr / Director of Finance
Through: Matthew Williams, City Manager
Meeting Date: 9/17/2025
Presenter: Paige Peterson, Asst. City Mgr / Director of Finance

RECOMMENDED MOTION:

N/A

BACKGROUND/DISCUSSION:

This is a continued discussion from the recent Council Retreat held on August 18, 2025. Possible direction to Staff would be to amend current policies.

STAFF RECOMMENDATION:

Staff defers to Council

FINANCIAL IMPACT:

N/A

ATTACHMENTS:

1. City of Litchfield Park Budget Policy FY2026 Draft
2. City of Litchfield Park Debt Policy Draft

Budget Policy

First Adopted by City Council: 12/18/2019

Last update by City Council: ~~TBD~~12/18/2019

Background

The City's budget policy ~~intends to~~ establishes guidelines for the City's fiscal planning and management. The policies support the continued financial strength and stability of the City of Litchfield Park. The City strives to build a financially resilient government through financial policies and long-term financial planning. The City's overall financial goals are:

- To provide quality services to City residents in an efficient and cost effective manner
- To maintain an adequate financial base including revenue sources to sustain an acceptable level of services and preserving the quality of life in the City of Litchfield Park
- To prepare for and withstand local and regional economic cycles, changes in service requirements for our community, and State funding priorities.
- To maintain a high standard of financial management and reporting as set by the Government Finance Officers association, the Governmental Accounting Standards Board, and other professional standards.

Laws and Standards

The City's fiscal year is set by State law and runs from July 1st to June 30th of each year. The City's budget must comply with the expenditure limitation ~~which is~~ set by the Arizona Constitution ~~and is based which establishes a base equal to~~ ~~on~~ local revenues for the fiscal year 1979-1980. As provided in State Law, City voters approved a permanent adjustment of the expenditure base by two million dollars (\$2,000,000.00) in 2004. Adjustments to the base are calculated annually by the Economic Estimates Commission based on inflation and population growth.

The following laws and standards apply to budget formation and reporting:

- Generally Accepted Accounting Principles (GAAP)
- Government Finance Officers Association's (GFOA) best practices
- Constitution of the State of Arizona
- Arizona Revised Statutes (ARS)
- City of Litchfield Park Code
- City of Litchfield Park Charter

Balanced Budget, Revenue and Expenditure Policies

The annual budget will be prepared ~~with~~according to the following policies:

1. The City will establish a balanced operating budget:
 - a. Ongoing operating costs should be supported by ongoing revenue sources.
 - b. Ongoing expenses will not be tied to one-time revenues or reserves without a plan for restoring structural balance. This may occur on an infrequent and temporary basis during period of significant revenue shortfalls.
2. The total adopted expenditure budget, operating and capital will be fundable with available and forecasted resources. Resources include both revenue and fund balance.
3. Construction sales tax is considered one-time revenue to be used only for capital and one-time projects; deviation of this requires Council approval.
4. Fund balance should be used only for one-time expenditures such as capital equipment, capital improvements, and debt payoff.
5. Changes in employee compensation will be evaluated and budgeted as necessary, including cost of living increases and merit based pay, to ensure that the City retains and attracts outstanding personnel.
6. Along with the budget, the City Council approves full-time equivalents (FTE) and position roster by department budgeted within each fund. Changes to the roster such as new positions and number of FTEs in each department must be approved by City Council.
7. Contingency budget may only be used with approval by City Council. If contingency is approved ~~and used to fund~~for ongoing costs, in future years ~~these costs~~they must be included in the operating budget, not funded by contingency.
8. All departments ~~directors~~ are responsible for ensuring that ~~department~~ expenditures do not exceed ~~department~~their approved budget.

Cost Recovery Policies

- ~~9.1.~~ Rates, fees and charges will be evaluated periodically for appropriate recovery rates based on the purpose of the fee or charge.
- ~~10.2.~~ _____ Recreation Services and Special Events collect program revenues and are supported to varying levels by the City's general fund revenues.
 - a. Recreation Services: It is recognized that public recreation facilities and programs will be subsidized to some extent as this is a community service function of the City.
 - i. The target cost recovery for Recreation Services is 50% of total expenditures.
 - ii. The recreation fees for services will be reevaluated annually; the City Manager has the discretion to offer a City resident differential for programs.
 - ~~ii.~~ ~~The City resident differential in the fee for programs is 20%.~~

- b. Special Events: The target cost recovery for special events is 90% of total expenditures, including City personnel costs.

Fund Balance Objectives and Policies

Budgetary fund balance is the difference between assets and liabilities in a governmental fund. It is a measure of financial resources accumulated from prior years available at a given time and should be considered in the context of long-term forecasting and strategic planning.

It is essential that the City maintains adequate levels of fund balance to mitigate current and future risks such as revenue shortfalls and unanticipated expenditures.

The City Charter, Section 5. City Minimum Reserve Policy states that,

The Council shall adopt a Fund Balance Policy that includes a targeted annual minimum unassigned fund balance of 25% of operating expenditures. The policy shall also include a provision to temporarily lower the unassigned fund balance should an emergency measure be enacted in this Charter.

In order to comply with the City Charter, the targeted minimum unassigned fund balance will be included in the annual budget process and included in the formal budget adoption each year. The targeted minimum unassigned fund of 25% is considered the bare minimum and the City will seek to have a higher fund balance that includes:

~~The City has formally adopted fund balance policies for the following governmental funds:~~

~~11.1. _____~~ The General Fund will have a ~~three~~five-part reserve as follows:

- a. The City will maintain a **minimum fund balance** in the amount of 15% of budgeted General Fund expenditures and operating transfers out for the current fiscal year. The minimum balance is not intended to be spent, but it is to ensure the City has adequate resources to meet its operating needs.
- b. The City will maintain a **budget stabilization fund balance** in the minimum amount of 35% of budgeted General Fund expenditures and operating transfers out for the current fiscal year.
- c. The City may build up reserves set aside for special projects that are temporary in nature.~~These are temporary in nature and at the time of the last policy update include the following:~~
 - i. ~~For example, the City will accumulate **debt payoff fund balance** in the amount of \$2,960,000 to be able to exercise the prepayment option of the Series 2015 Revenue bonds by July 1, 2020. The final decision for prepayment will be subject to Council approval.~~
- d. The City will maintain a debt service fund balance that includes one year of debt service payments. This will allow the City to pay the debt service payments in full for one year in

the event of an economic downturn. One year of debt service payments is sufficient and will allow City staff adequate time to respond to an economic downturn and make necessary adjustments to the operating budget to ensure the debt service payments are fully funded.

e. The City will authorize the Director of Finance to maintain a fund balance that she or he believes could be sales tax that was remitted to the City in error. As the area that encompasses the Litchfield Park zip code continues to grow, but is not within the city limits, the likelihood of the city receiving sales tax in error continues to increase. Surrounding cities and business owners have four years to file an interjurisdictional transfer or amended return. The Director of Finance will update Council on this issue as necessary (without disclosing confidential taxpayer information).

12.2. The Highway User Revenue Fund, does not need to maintain a minimum fund balance. The funds are restricted by state constitution to be used “solely for highway and street purposes including costs of rights of way acquisitions and expenses related thereto, construction, reconstruction, maintenance, repair, roadside development” (Article IX, Section 14). The City will attempt to use the State distributed funds annually.

13.3. Street Light Improvement Districts (SLIDs). SLIDs have a maximum levy of \$1.20 per \$100 of assessed valuation in accordance with A.R.S 46-616. To the extent that the levy limit has not been exceeded, taxes will be levied at a rate that will approach an individual fund balance reserve of 5% of its budgeted annual expenses. This is to cover fluctuations in revenue collections so the SLID funds can be self-sustaining.

Capital Budget Policies

14.1. A long-range capital improvement plan should be prepared and updated each year. The capital plan should be deliverable and fundable. The plan is aligned with the long-term financial forecast which will outline available funds while maintaining compliance with fund balance policies.

15.2. The capital plan will be presented to City Council for review and input during the budget workshops. Each department must, when planning capital projects, estimate the impact on the city’s operating budget.

16.3. Financing of capital expenditures from available funds, known as pay-as-you-go funding, is the least costly and most beneficial method to cover capital expenditures. Necessary capital expenditures which are unable to be funded from available resources may be considered for debt financing.

Fiscal Planning

~~17.1.~~_____ The City will create a long-term financial plan by establishing assumptions for revenues, expenditures, and changes to fund balance over at least a five-year horizon.

Debt Management

1. Long-term debt will not be issued to finance ongoing operations.

~~18.2.~~_____ The City Charter states that, “The Council, in accordance with state law, may incur debt, including general obligation bonds, revenue bonds, leases, and all other debt types. To control fixed costs and to ensure the City has the ability to meet debt and all other operating costs, the Council by way of ordinance, shall adopt a debt limitation policy.”

Budget Preparation and Roles

~~19.1.~~_____ The Finance Department and City Manager will establish a budget schedule specifying key milestones within the budget preparation period. All departments will submit their budget requests to the Finance department in accordance with the schedule. Following the department submittals, each department meets with the City Manager who reviews the budget to be sure that planned activities are in line with Council goals and objectives. Then Finance staff develops budget documents to be reviewed by the City Council in a budget work session.

~~20.2.~~_____ In this public budget workshop meeting, the Council reviews the City Manager’s budget proposal and asks staff questions to ensure to their satisfaction that it will carry out their goals as intended. Feedback and direction from the Council is integrated into the proposed budget which is tentatively adopted. Per State Law, a public notice is issued advising City residents of the budget proposal and a public hearing date for two consecutive weeks. A public hearing is held to allow public input and discuss the final budget.

Budget Adoption

~~21.1.~~_____ The budget is prepared and adopted in accordance with requirements of the Arizona Revised Statutes.

~~22.2.~~_____ The budget is legally enacted by action during a special meeting of the City Council which sets the legal restrictions on expenditures by department in each fund.

~~23.3.~~_____ Although legal limits on expenditures are established at the department level, effective administrative control over expenditures is enabled by establishment of a detailed line-item budget which is managed by City Staff.

24.4. _____ All appropriations and encumbrances unexpended at year-end lapse, and are not available in the following year. Included in the budget adoption is approval for the re-appropriation of all encumbered balances.

Budget Amendments

25.1. _____ When circumstances warrant it, the City Council may transfer any unencumbered appropriation balance between departments and funds.

26.2. _____ Use of appropriated contingency funds requires approval of the City Council.

27.3. _____ The City Manager may approve department heads' request to use available budget in personnel classifications for other purposes within their department and department heads can manage their remaining line-item budgets by transferring between line-items as necessary.

Budget Monitoring

28.1. _____ Following the adoption of the budget, incoming revenues are monitored regularly and compared to budget projections.

29.2. _____ Department expenditures are tracked against what has been budgeted.

30.3. _____ City Council is provided a financial report on a regular basis.

City of Litchfield Park – Debt Management Policy

The City will seek to maintain and strive to improve its current bond rating to minimize borrowing costs and preserve access to credit.

Debt financing should not exceed the useful life of the asset or improvement.

A cash flow analysis of the impact of any potential new debt combined with the current debt will accompany every future debt proposal. The analysis must demonstrate that the city can maintain services at existing levels to not negatively impact residents; shall include possible economic downturns and how the city can respond to them; shall include the debt fund balance policy which requires the city to maintain one year of debt payments including the potential new debt payment; shall include the minimum fund balance policy; and shall include the budget stabilization fund balance policy.

Pledged revenue bonds have traditionally been the mechanism for the city's debt financing. At the time of any new pledged revenue bond issuance, the debt payments for all debts cannot be greater than 16% of the total operating revenues.

General Obligation debt, which is supported by a property tax, must be authorized by the voters. This mechanism has never been used in the history of the city.