



Audit, Finance, and Enterprise Committee Report

Date: November 6, 2017
To: Audit, Finance, and Enterprise Committee
Through: Michael Kennington, Chief Financial Officer
From: Candace Cannistraro, Management and Budget Director
Subject: Changes to City of Mesa Financial Policies

Purpose and Recommendation

The purpose of this report is to submit for review, consideration and referral to the City Council, proposed updates to the City Council approved financial policies and investment policy for the City of Mesa. The financial policies have been updated to reflect current City practices as well as to ensure alignment with best practices as articulated by the Government Finance Officers Association (GFOA).

Background

The City Council adopted a series of ten financial policies by Resolution #9263 on May 19, 2008, as recommended by City Management, and the Government Finance Officers Association (GFOA), which recommends that governments “formally adopt financial policies.” (GFOA Best Practice, Adopting Financial Policies, updated 2015)

These policies were developed to serve as guidelines for the City Council and City staff in decision-making processes related to the City’s financial operations and the development of financial forecasts, the annual budget, and capital improvement plans. Policies were developed and have been updated following GFOA Best Practices, a set of documents outlining recommendations for governments to consider in order to maintain financial stability and sustainability.

Policy updates have not been made in several years, and are now needed to address changes in financial operations, practices, and philosophy.

Overview of Proposed Policy Changes

The Government Finance Officers Association recommended in 2015 that government should adopt policies in such basic financial categories as:

- General Reserve Funds
- Reserves in Other Funds
- Debt
- Investment
- Accounting and Financial Reporting
- Risk Management and Internal Controls
- Long-Term Financial Planning
- Structurally Balanced Budget
- Capital
- Revenues
- Expenditures
- Operating Budget

Recommended changes to the City's financial policies result in all applicable GFOA recommended policy categories being included. Changes to policy categories include: a title change of Policy 2 from Fund Balances to Unrestricted Reserve Balances, a new Policy 3- Other Reserve Balances, and the deletion of the previous Policy 10- Amending and Updating Financial Policies.

Major changes to policy language are outlined below:

Policy 1- The Annual Budget

- Language added to describe the City's balanced budget
- Subsection 1.7 added to describe purpose and submission of department operational performance plans

Policy 2- Unrestricted Reserve Balances (*New Title*)

- Subsection 2.2 added to provide decision-making guidelines for setting anticipated reserve balance lower than 10%
- Subsection 2.3 added to provide guidelines for restoring acceptable reserve balance levels

Policy 3- Other Reserve Balances (*New Section*)

- Policy added to establish and govern usage of reserve balances for medical plans, legal liability, worker's compensation, pension stabilization, and others.
- Subsection 3.3 added to address PSPRS unfunded liability contribution.

Policy 4- Charges for Services

- Policy sectioned to acknowledge differences in charges for services for utility rates and fees and charges.
- Subsections 4.1-4.3 added to address utility rate review and adjustment
- Subsections 4.5-4.7 added to outline considerations in adjustments to fees and charges

Policy 5- Debt Issuance and Management

- Removed specific language governing debt repayment time
- Added language stipulating City compliance in filling Annual Continuing Disclosures

Policy 6- Capital Improvement Program (CIP) & Asset Replacement

- Added language describing City staff practices throughout planning process
- Removed specific language in subsection 6.3, which mandated revenue source matching for forecasted costs
- Removed subsection 6.5, which required enclosure of fiscal impact statements in capital project contract awards

Policy 7- Investments & Cash Equivalents

- Updated policy outline language to speak to City's focus on meeting primary objectives of safety, liquidity, and return
- Subsection 7.3 updated to address liquidity of City's investment portfolio and its ability to meet cash flow needs

Policy 8- Financial Reporting

- Subsection 8.5 added to provide managerial financial reports to the City Council on a quarterly basis
- Subsection 8.6 added to address efforts to achieve financial transparency

Policy 9- Long Range Planning and Forecasting

- Amended subsection 9.1 to accurately describe production of short and long term forecasts, remove description of medium range forecast, and redefine forecast time spans for short term forecasts to 2-3 years and the long range forecast to 4-10 years
- Removed previous subsections 9.3 and 9.4, which described forecasting models and outlined specific fiscal plans established through the forecast

Policy 10- Risk Management

- Added policy outline language stipulating that risk management is a responsibility of every City department
- Added subsection 10.2, outlining role of City Attorney's office in managing financial exposure risk arising from claims and lawsuits
- Added subsection 10.5, establishing that the Office of Management and Budget will conduct reviews of historical loss data in order to evaluate appropriate balance for Public Property and Liability Trust Fund balances

Coordinated With

The recommended changes to financial policies were coordinated with the City Manager's Office, Financial Services, and the City Attorney's Office