

City of Mesa Financial Policies

Office of Management and Budget (OMB)

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Why **Adopt** Financial Policies?

Government Finance Officers Association (GFOA) Best Practice states governments “should formally adopt financial policies.” (GFOA, *Adopting Financial Policies*, 2015)

- ✓ **Institutionalize** good financial management policies
- ✓ **Prevent** need to re-invent responses to recurring issues
- ✓ **Define** shared understanding of how the City will develop financial practices and manage resources
- ✓ **Define** boundaries
- ✓ **Support** good bond ratings, reduce cost of borrowing
- ✓ **Promote** long-term and strategic thinking
- ✓ **Manage** risks to financial condition

Current Financial Policies

Adopted by City Council May 9, 2008

Ten policies

- 1) The Annual Budget
- 2) Fund Balances and Contingency Fund Targets
- 3) Fees and Charges
- 4) Debt Issuance and Management
- 5) Capital Improvement Program (CIP) and Asset Replacement
- 6) Investment and Cash Equivalents
- 7) Financial Reporting
- 8) Long Range Planning and Forecasting
- 9) Risk Management
- 10) Amending and Updating Financial Policies

Proposed Financial Policies

Ten policies

- 1) The Annual Budget
- 2) Unrestricted Reserve Balances
- 3) Other Reserve Balances
- 4) Charges for Services
- 5) Debt Issuance and Management
- 6) Capital Improvement Program (CIP) and Asset Replacement
- 7) Investment and Cash Equivalents
- 8) Financial Reporting
- 9) Long Range Planning and Forecasting
- 10) Risk Management

Why **Update** Financial Policies?

- GFOA Best Practice states: “Policies should be monitored, reviewed, and updated as needed in a **systematic way**.”
(GFOA, *Adopting Financial Policies*, 2015)
- Current policies need to be modified to accurately describe current business/financial practices

Policy 1 Overview - The Annual Budget

- Outlines the requirements of a balanced budget, and adherence to State requirements
- Establishes the fiscal year and outlines the monitoring and reporting of the financial status and the modification of the budget as needed
- Outlines the development of departmental operational performance plans and measures

Policy 2 Overview - Unrestricted Reserve Balances

- Identifies the General Governmental funds and the Enterprise Fund as unrestricted and sets the policy for the minimum reserve balance at 8-10% of the following year's anticipated expenditures
- Allows for the adoption of a reduced reserve balance if necessary, with a plan for restoration within three years

Policy 3 Overview - Other Reserve Balances

- New policy added to address reserve balances in other funds such as:
 - Employee and retiree medical plans/other benefits
 - Legal liability
 - Worker's compensation
 - Pension stabilization
- Reserve balances will be determined based on the uniqueness of the individual fund
- Addresses Council direction for 25 year amortization schedule of unfunded liability portion of the Public Safety Personnel Retirement System (PSPRS)

Policy 4 Overview - Charges for Services

- Addresses two distinct types of charges
 - Utility rates services such as: water, wastewater, solid waste and recycling, electric, natural gas
 - Fees and Charges for services such as: venues, events, museums, park activities, sports, permits, licenses, etc.
- Utility rates are reviewed annually to ensure the coverage of cost of service while maintaining a reasonable rate of return
- Non-utility fees and charges are reviewed annually and consider percentage cost recovery when appropriate

Policy 5 Overview - Debt Issuance and Management

- Sets the policy to repay General Obligation bond debt with a secondary property tax levy adopted on an annual basis
- Sets the policy not to issue long-term debt to finance current obligations as well as defines the length of the debt to be no greater than the useful life of the asset
- Outlines some of the legal requirements for issuance of bond debt and intention of the City to adhere to all requirements

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

- Outlines that it is a multi-year process that is coordinated with the annual budget and the multi-year forecast
- Calls for the assurance of adequate funding for both the capital portion and the operating portion of a project
- Outlines the planning process incorporation of:
 - Active communication
 - Impact on the operating budget
 - Environmental responsibility
 - Use of master plans when appropriate
 - Citizen engagement
 - Process transparency

Policy 7 Overview - Investments & Cash Equivalents

- Outlines the objectives of City investment as safety, liquidity, and return on investments
- Identifies the presence of separate investment policy and cites the City Charter and City code for authorization to invest City resources
- Establishes reporting frequency to City management monthly and City Council quarterly

Policy 8 Overview - Financial Reporting

- Outlines the need for accounting based financial reporting (Comprehensive Financial Annual Financial Report – CAFR)
- Outlines the need for budget basis financial reporting (Annual Executive Budget Plan)
- Establishes a focus on quarterly reporting of the major operating funds and financial transparency through on-line access to financial data

Policy 9 Overview - Long Range Planning and Forecasting

- Defines long range planning as the use of trends to forecast future revenues and expenditures over a multi-year period
 - Short range determined as 2-3 years
 - Long range determined as 4-8 years
- Calls for the ability to include both internal operational decisions as well as external changes in the economic climate
- Establishes the forecast as the basis for budget development and on-going financial decision making

Policy 10 Overview - Risk Management

- Every City department is responsible to protect against losses that would affect City assets and the ability to provide on-going services
- Loss is mitigated through training, safety, and risk financing
- Risk is managed through self-insurance, liability insurance and property insurance
- The City will identify and disclose any material issues in the City's Comprehensive Annual Financial Report (CAFR)

Thank you



Major Changes: Policy 1- The Annual Budget

- Language added in subsection 1.8 to describe City's aim of achieving a structurally balanced budget
- Subsection 1.7 added to describe submission process and purpose of department operational performance plans
- Updated subsection 1.6- City management/ City Council budget update occurrence from twice annually to quarterly
- Subsection 1.13 deleted- fleet vehicle funding too specific for policy

Major Changes: Policy 2- Unrestricted Reserve Balances

- Subsection 2.1 language changed from addressing Annual Budget to General Governmental and Enterprise Funds
- Subsection 2.2 added to provide decision-making guidelines for setting anticipated reserve balance lower than 8%
- Subsection 2.3 added to provide guidelines for restoring acceptable reserve balance levels

Major Changes: Policy 3- Other Reserve Balances

- New policy added to address reserve balances in other funds such as:
 - Employee and retiree medical plans/other benefits
 - Legal liability
 - Worker's compensation
 - Pension stabilization
- Subsection 3.3 added to address specific amortization schedule of Public Safety Personnel Retirement System (PSPRS) unfunded liability

Major Changes: Policy 4- Charges for Services

- Policy split into two categories:
 - Utility rates services such as: water, wastewater, solid waste and recycling, electric, natural gas
 - Fees and Charges for services such as: venues, events, museums, park activities, sports, permits, licenses, etc.
- Subsections 4.1 – 4.3 added to address utility rate review and adjustments, including maintaining reasonable rate of return
- Subsections 4.5 – 4.7 added to outline considerations in adjustments to fees and charges, including cost recovery consideration

Major Changes: Policy 5- Debt Issuance and Management

- Removed specific introductory language governing debt repayment time
- Added Subsection 5.7 language stipulating City compliance in filing Annual Continuing Disclosures

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

- Added introductory language describing City staff practices throughout planning process
- Subsection 6.3 language removed, which mandated revenue source matching for forecasted costs
- Subsection 6.5 removed, which required enclosure of fiscal impact statements in capital project contract awards
- Language added in subsections 6.2 and 6.4 to include asset replacement in the development of the CIP

Major Changes: Policy 7- Investments & Cash Equivalents

- Updated introductory language to address 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
- Subsection 7.5 updated to reflect current practice of providing investment performance information to City Council quarterly

Major Changes: Policy 8- Financial Reporting

- Subsection 8.5 added to describe current practice of providing managerial financial reports to the City Council on a quarterly basis
- Subsection 8.6 added to address efforts to achieve financial transparency

Major Changes: Policy 9- Long Range Planning and Forecasting

- Current Long Range Planning and Forecasting policy is numbered **Policy 8**. Proposed changes result in it being numbered **Policy 9**
- Subsection **9.1** updated 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
- Previous subsection **8.6** moved to proposed subsection **9.4**
- Previous subsections **8.4** and **8.5** removed, which described the use of statistical regression modeling and the role of forecasting in achieving the goals of various fiscal plans

Major Changes: Policy 10- Risk Management

- Current policy is numbered Policy 9. Proposed changes result in policy being numbered Policy 10
- Introductory language added that stipulates that risk management is a responsibility of every City department
- Previous subsection 9.1 removed, which described the City of Mesa's reliance on the City Attorney's office for risk management advice
- Subsection 10.2 added, which outlines the role of the City Attorney's office in managing financial exposure risk arising from claims and lawsuits
- Subsection 10.5 added, which establishes that the Office of Management and Budget will conduct reviews of historical loss data

Major Changes: Investment Policy

- Updated Policy to provide guidance and limitations:
 - Added sector limitations for non-government securities
 - Added corporate issuer limitations
 - no more than 5% of portfolio
 - Maximum maturity on investments will be 5 years
- Updated Performance Standards
 - Benchmarks shall be established and compared to portfolio performance
 - 1- 3 Year US Treasury Index
 - AZ LGIP Pool 7
 - S&P LGIP Index
 - 3 Month Treasury

Major Changes: Investment Policy

- Updated to meet Best Practices
 - Compared to local, GFOA and Financial Advisor Recommendations
- Added Standards of Care
 - Delegation of authority
 - Conflicts of interest.
- Added guidelines related to the use of financial institutions and broker/dealers
- Updated to reflect the State's pooled collateral program