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?

• Government Finance Officers Association (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
• 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 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