

Financial Polices Update

Budget and Fiscal Affairs Chairman's Report
Council Member Stephen Costello

Financial Polices Background

- ▶ Current policies were written in 1974, updated in 1989 and 2003
- ▶ Proposed draft is best practices
 - ▶ Government Finance Officers Association (GFOA) publication *Financial Polices* by Shayne C. Kavanagh, 2012
 - ▶ Other cities' policies: Dallas, San Antonio, Austin, Los Angeles, Chicago, Boston, and Portland, Oregon

GFOA reasons for Financial Policies

- ▶ Institutionalize good financial management
- ▶ Clarify intent for financial management
- ▶ Define boundaries
- ▶ Support good bond ratings
- ▶ Promote long term strategic thinking
- ▶ Manage risks to financial condition
- ▶ Comply with established best practices

General Fund Reserve Policies

- ▶ Fund Balance will be a minimum of 8% of expenditures less debt
- ▶ Excess funds are available upon appropriation by City Council for non-recurring expenses
- ▶ Fund Balance can be spent only on one-time expenditures, disaster relief, or for providing temporary resources in an economic downturn
- ▶ Rainy Day Fund will be renamed the Budget Stabilization Fund and will be increased to an amount not less than the greater of 1% of expenditures less debt or \$20 million

Enterprise and Special Funds Reserves

- ▶ Reserve levels will be set for all enterprise and special funds
- ▶ Currently, many funds have no official reserve policy
- ▶ Departments managing each enterprise or special fund will present to City Council reserve level justification

Health Benefit Fund Reserve Policies

- ▶ Establishes a reserve covering costs associated with unexpected claims and provides a cushion for smoothing catastrophic payments. The amount of the Surplus/Contingency Reserve shall be maintained at the value of two months of claims paid.

Operating Budget Policies – Revenues and Expenditures

- ▶ The City shall adopt a one year balanced budget and following year plan for a structurally balanced budget annually
- ▶ A new fiscal year to begin October 1 and end September 30 will be studied and findings will be presented to City Council
- ▶ Any excess revenue collected throughout the year over the budget will go to the fund balance, unless appropriated by City Council via ordinance

Operating Budget Policies – Revenues and Expenditures Cont.

- ▶ Non-recurring revenues can be used to fund recurring expenditures with the vote of Mayor and City Council
- ▶ A comprehensive analysis of City fees and rates shall be made at least every five years and presented to City Council
- ▶ A City employee total compensation study should be performed at least every five years and presented to City Council
- ▶ City operating budget shall include annual operating maintenance funds for facilities, fleet, equipment, and technology

Operating Budget Policies – Revenues and Expenditures Cont.

- ▶ All retirement and employee benefit systems will be financed in a manner to fully systematically fund all liabilities
- ▶ RCAs must include a fiscal note identifying the estimated costs and a reference to the line item in the budget where funding is designated
- ▶ The budget and annual budget shall include statements indicating whether the budget is in compliance with each adopted financial policy

Financial Policies – 2013-14

OVERVIEW OF FINANCIAL POLICIES

In June 1989, the City Council developed financial policies to ensure that the City's financial resources are managed in a prudent manner. These policies are reviewed annually for compliance. Changes and additions to these policies are approved by Council from time to time.

There is one change to the financial policies from the previous year which was approved on January 17, 2013. Council amended Austin Water Utility Financial Policy #8 eliminating the requirement for voter-approved revenue bonds and providing for enhanced reviews (Board and Commission and citizens) of growth related capital improvement projects located in the Drinking Water Protection Zone.

The City of Austin is in compliance with 95 of the 99 financial policies, as approved. Unless otherwise noted, the FY 2013-14 Budget has been used to determine the current status of the financial policies.

For example, the City:

- Prepared a 5-year financial forecast for fiscal years 2013-14 through 2017-18;
- Maintained reserves in the General Fund and General Obligation Debt Service Fund at designated levels; and,
- Managed the City's investment portfolio in alignment with the policies governing capital preservation, liquidity, asset security, portfolio diversification and return on investment.

The City is not currently in compliance with:

- General Obligation Debt Service Policy #7: In FY12, the City conducted a bond election with 4 years of authorized unissued bonds remaining;
- Austin Energy Policy #11: Austin Energy does not have operating cash equivalent to 45 days of budgeted operations and maintenance expense, less fuel, as recommended by the policy;
- Austin Energy Policy #16: Austin Energy's emergency reserve has been met. However, the contingency reserve was drawn down by \$24,750,000 in FY 2012 and replenishment will not begin until FY 2015, which is past the two year time-frame set in the policy; and,
- Austin Water Utility Policy #11: The calculated quick ratio (Current Assets less inventory divided by Current Liabilities) is 1.37 as of September 30, 2012, instead of the minimum 1.50 prescribed in the policy.

Financial Policies – 2013-14

| Policy | General Topics | Current Status |
|--|----------------|----------------|
| Accounting, Auditing, and Financial Planning | | |
| 1. The City will establish accounting practices that conform to generally accepted accounting principles as set forth by the authoritative standard-setting body for units of local government. | | In compliance. |
| 2. An annual audit will be performed by an independent certified public accounting firm and an official comprehensive annual financial report (CAFR) shall be issued no later than 6 months following fiscal year-end. | | In compliance. |
| 3. The independent certified public accounting firm shall present to the Audit and Finance Committee the results of the annual audit no later than 60 days from the issuance of the City's CAFR. | | In compliance. |
| 4. A 5-year financial forecast shall be prepared annually projecting revenues and expenditures for all operating funds. This forecast shall be used as a planning tool in developing the following year's operating budget. | | In compliance. |
| 5. The City Auditor's Office shall be responsible for conducting financial and performance audits as set forth in the annual work plan. This work plan will be submitted to the Audit and Finance Committee of the Council for approval. The City Manager shall be responsible for establishing a process to ensure timely resolution of audit recommendations. | | In compliance. |
| 6. The City shall provide its share of contributions to the City's three retirement systems in accordance with the State statutes establishing each system. | | In compliance. |
| 7. At the direction of the City Council and City Manager, City operations will be performed at the most economical cost while maintaining desired service levels. As one alternative to meet this goal, the City will initiate a competitive process that will allow for periodic analysis of proposals from City departments and from the private sector for purposes of evaluating the cost of performing selected municipal services. All such proposals will be evaluated through an orderly process that will include verification and appropriate classification of all costs. | | In compliance. |
| 8. Investments shall be made in conformance with the City's investment policy, with the primary objectives of: | | In compliance. |
| · Preservation of capital and protection of principal. | | |
| · Maintenance of sufficient liquidity to meet operating needs. | | |
| · Security of City funds and investments. | | |
| · Diversification of investments to avoid unreasonable or avoidable risks. | | |
| · Maximization of return on the portfolio. | | |

Capital Asset Management Policies

- ▶ Capital projects may not be included in the CIP without identified funding
- ▶ A five-year operating budget impact projection for all projects shall be reported in the CIP
- ▶ City shall prioritize asset renewal or replacement of existing facilities over new projects
- ▶ For each new facility 2% of the replacement value shall be included in the following years' CIP for maintenance

Long-term Financial Planning Policies

- ▶ The City shall annually develop and maintain a five-year financial and operational Strategic Plan
- ▶ A five-year General Fund financial forecast shall be presented to City Council annually in advance of the proposed budget.

Debt Policies

- ▶ The City desires to at least maintain the current credit ratings on each type of City credit as of April 1, 2014
- ▶ The City will phase in a goal of annual General Fund transfers for debt service not exceeding 10% of the total General Fund revenues
- ▶ Debt financing shall be limited to capital expenditures for assets or asset improvements costing more than \$50,000 and having a useful life of more than three years
- ▶ Request for Information (RFI) shall be conducted by the Finance Working Group when selecting underwriters and legal counsel in order to promote fairness, objectivity and transparency

CoH Credit Ratings as of April 1, 2014

| | S&P | Moody's | Fitch |
|------------------------------------|------------|------------|------------|
| Payable from Property Taxes | AA+ | Aa2 | AA |
| Combined Utility System | | | |
| Junior Lien | AA+ | Aa1 | AA+ |
| First Lien | AA | Aa2 | AA |
| Airport System | | | |
| First Lien | AA- | Aa3 | NR |
| Second Lien | A | A2 | A+ |
| Hotel Occupancy Tax | A- | A2 | NR |

Accounting, Auditing and Financial Reporting Policies

- ▶ Financial statements will be prepared in accordance with Generally Accepted Accounting Principles (GAAP)
- ▶ Component units of the city must follow all City accounting, audit, and financial reporting policies
- ▶ Local tax dollars will not make up for losses of grants without first City Council approval

Internal Control Policies

- ▶ City's internal control structure will be based on the Committee of Sponsoring Organizations of the Treadway Commission on Fraudulent Financial Reporting (COSO) framework and comprises of the following five elements:
 - ▶ Control Environment
 - ▶ Risk Assessment
 - ▶ Control Activities
 - ▶ Information and Communication
 - ▶ Monitoring

Local Economic Development Policies

- ▶ Developed from GFOA standards and the Texas Economic Development Act (Chapter 313 of the Texas Tax Code)
- ▶ Chief Development Officer and City Attorney will establish ways the City can recoup its investment in the event of a unsuccessful project
- ▶ The Chief Development Officer shall report annually to BFA detailing the progress of each active project
 - ▶ Number of jobs promised / actually created
 - ▶ Median wage of the new jobs each recipient created
 - ▶ Amount of the investment each recipient committed
 - ▶ Amount of the investment each recipient expended
 - ▶ Market value of the property of each recipient

Next steps and Council Consideration

- ▶ Feedback from Council
- ▶ Feedback from Departments
- ▶ Feedback from Mayor's office
- ▶ Feedback from Controller's office
- ▶ Incorporate feedback
- ▶ Come back to Council to pass an ordinance