



City of Arts & Innovation

Finance Committee Memorandum

TO: FINANCE COMMITTEE MEMBERS **DATE: OCTOBER 11, 2017**

FROM: FINANCE DEPARTMENT **WARDS: ALL**

SUBJECT: STATUS UPDATE TO THE CITY'S FISCAL POLICIES AND REVIEW OF A PROPOSED SELF-INSURANCE TRUST FUND RESERVE POLICY - DIRECT SUBMITTAL

ISSUE:

Receive an update on the status of developing critical fiscal policies, and review and provide comments on the proposed Self-Insurance Trust Funds Reserve Policy.

RECOMMENDATION:

That the Finance Committee:

1. Receive an update on the status of developing critical Fiscal Policies for the City, including an overview of the policy development and review process; and
2. Review, provide comments on and forward to the City Council for approval the attached draft Self-Insurance Trust Funds Reserve Policy.

BACKGROUND:

Fiscal policies establish framework for managing the City's financial resources and safeguarding the City's assets in compliance with relevant regulatory mandates, industry standards, and best practices.

Under the direction of the City Manager, the Internal Audit Division and Finance Department are responsible for collaborating with subject matter experts to develop, implement, and manage the City's fiscal policies as well as related administrative guidelines that provide direction on how to implement the fiscal policies. The City's comprehensive fiscal policies are developed in conformance with relevant local, state and federal laws, Generally Accepted Accounting Principles (GAAP), standards of the Governmental Accounting Standards Board (GASB), and recommendations from the Government Finance Officers Association (GFOA).

The City Council previously adopted several fiscal policies, including the General Fund Reserve Policy (September 6, 2016), Water Fund Reserve Policy (July 6, 2016), Electric Fund Reserve Policy (July 6, 2016), Sewer Fund Reserve Policy (November 15, 2016), Debt Management Policy (January 10, 2017), and Investment Management Policy (December 15, 2015).

DISCUSSION:**Recommended Fiscal Policies**

Thoughtful and well-articulated fiscal policies help maintain and enhance city's fiscal stability and financial management, which can lead to improvement in bond ratings, lower cost of capital, provide assurance that tax payers dollars are spent effectively and efficiently, and develop strategies for dealing with unexpected financial challenges with minimal impacts to the tax payers or service recipients.

The City relies heavily on recommendations from the Government Finance Officers Association (GFOA) – a recognized nationwide leader in government finance – to develop its fiscal policies. The chart below lists the most critical fiscal policies recommended by the GFOA. Along with GFOA's recommendations, information on existing City fiscal policies is provided, along with the tentative timeline to establish additional policies.

<i>Recommended GFOA Fiscal Policy Category</i>	<i>Recommended GFOA Fiscal Policy Name or Existing City Fiscal Policy Name</i>	<i>If City Fiscal Policy <u>Exists</u>, Date of City Council Adoption</i>	<i>For Proposed <u>New Policies</u>, Tentative Timeline for Finance Committee Presentation</i>
Reserve Policy	General Fund Reserve Policy	9/6/2016	
	Electric Fund Reserve Policy	7/6/2016	
	Water Fund Reserve Policy	7/6/2016	
	Sewer Fund Reserve Policy	11/15/2016	
	Liability (Self-Insurance Trust) Funds Reserve Policy		10/11/2017
Debt Policy	Debt Management Policy (Including analyzing, issuing, and refunding bonds)	1/1/2017	
Treasury, Cash, and Investment Management	Investment Policy	12/15/2015	
	Investment Pools Policy	12/15/2015	
	Policy on Investment of Bond Proceeds (Included in Debt Management and Cash Management Policies)	1/10/2017	
	Cash Management Policy	1/10/2017	
Balanced Budget	Balanced Budget Policy		December 2017
Long-Term Financial Planning	Long-Term Financial Planning Policy		December 2017
Capital	Policy on Multi-Year Capital Planning, including Incorporating a Capital Project Budget in the Budget Process		January 2018
	Policy on Prioritization of Capital Improvement Projects		January 2018

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Revenues	Policy on Establishing Government Charges and Fees		February 2018
	Policy on Revenue Diversification, Use of One-Time Revenues, and Use of Unpredictable Revenues		February 2018
Grants	Grant Management/Administration Policy	November 2017	

Draft Policy on Liability (Self-Insurance Trust) Funds Reserve

The Self-Insurance Trust Funds reserve policy was developed to establish and maintain a prudent level of cash reserves to address anticipated payouts on claims, lawsuits and settlements. The Self-Insurance Trust Funds consist of the Worker's Compensation and General Liability funds.

Currently, the Self-Insurance Trust Funds are 32% funded. This is a low funding level that will be somewhat corrected with the infusion of Measure Z dollars, previously approved by the City Council. With this Measure Z contribution in Fiscal Years 2017-18 and 2018-19, the funding status will increase to 47%, absent major payouts or settlements.

Clearly, further measures will be needed to keep these funds in a stable financial position. These needs compete directly with the goal of keeping General Fund balanced in future years, given the upcoming CalPERS cost increases. Staff will discuss these competing challenges with the City Council and the public during the FY 2018-2020 budget development process, starting in January 2018.

A survey of other cities has revealed generally higher funding levels of the liability funds. Generally, a 100% funding level is desirable. In San Diego, a formal policy exists to maintain a 50% funding level.

At this time, given the City's fiscal realities, it is simply not realistic to achieve a funding status above 47%. Therefore, the attached policy establishes a **40% minimum funding level of the total combined current claims liability outstanding for the Self-Insurance Trust Funds effective June 30, 2018, increasing that minimum level to 50% effective June 30, 2020.**

Reserve levels will be monitored during the fiscal year and reported in the quarterly financial reports as prepared by the Finance Department. Reserve target levels will be analyzed annually and an over/under reserve determination shall be made in conjunction with the year-end financial results by the Chief Financial Officer/City Treasurer. Appropriate adjustments will be made during the budgetary process to increase or decrease the reserve levels as needed.

FISCAL IMPACT:

There is no immediate fiscal impact associated with this report. However, maintaining minimum reserves established in the attached draft Self-Insurance Trust Funds reserve policy will require constant monitoring of the funds' revenues, expenses and liabilities, and potential increases to departmental contributions in future years.

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Certified as to
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Approved by: Marianna Marysheva, Assistant City Manager Approved
as to form: Gary G. Geuss, City Attorney

Attachments:

1. Self-Insurance Trust Funds Fiscal Policy
2. Presentation