



AUDIT, FINANCE & ENTERPRISE COMMITTEE

December 14, 2020

The Audit, Finance & Enterprise Committee of the City of Mesa met via a virtual format streamed into the lower-level meeting room of the Council Chambers, 57 East 1st Street, on December 14, 2020, at 9:00 a.m.

COMMITTEE PRESENT	COMMITTEE ABSENT	STAFF PRESENT
Jennifer Duff, Chairperson* Mark Freeman* David Luna*	None	Christopher Brady Kelly Gregan Mike Kennington Dee Ann Mickelsen

(*Committeemembers participated in the meeting through the use of video conference equipment.)

Chairperson Duff conducted a roll call.

1. Items from citizens present:

There were no items from citizens present.

2-a. Hear a presentation, discuss, and provide a recommendation on the City's Comprehensive Annual Financial Report (CAFR) for Fiscal Year Ended June 30, 2020.

Finance Director Irma Ashworth displayed a PowerPoint presentation to provide an overview of the Fiscal Year 2020 (FY) Comprehensive Annual Financial Report (CAFR). **(See Attachment 1)**

Ms. Ashworth stated the CAFR is in the final stages of completion and that there are no modifications left to make. (See Page 2 of Attachment 1)

Ms. Ashworth presented the City's financial highlights showing the total revenue increase of \$39,500,000. She noted the graph depicts the Governmental and Business-type activities which is the General Fund, Special Revenue funds, Capital Project funds, and the Enterprise Fund for FY 18, FY 19, and FY 20. She mentioned in the Governmental activities there was a \$77,800,000 increase with a portion from the sales tax revenues and the funds received from the United States (U.S.) Treasury for Mesa CARES. She reported \$90,000,000 was received and as of June 30, 2020 only \$42,000,000 has been expended. She mentioned there was a small decrease in the Enterprise Fund when compared to prior years as a result of previous years land sales. (See Page 3 of Attachment 1)

In response to a question from Committeemember Luna, Ms. Ashworth explained all CARES Act money will be spent by the end of the year, but the report will only show spending activity through June 30, 2020. She noted the Finance Department will provide a separate presentation on CARES money at the discretion of the committee.

In response to a question from City Manager Christopher Brady, Ms. Ashworth stated a report of expended CARES dollars is sent to the U.S. Treasury quarterly. She mentioned as of September there has been \$80,000,000 expended.

Ms. Ashworth provided a snapshot of the revenues for the Government Activities. She reported increases for sales tax, state shared revenues, urban revenues, and highway users. She continued by stating there was a transfer that increased the Governmental Activities fund from leftover money in the Enterprise Fund from the Pinal County land sale to be used for other projects. She mentioned the increase in Program Revenues between FY 19/20 were from the CARES funding provided by the US Treasury. (See Page 4 of Attachment 1)

Mr. Brady commented Council recently identified the leftover funds from the Pinal County land sale to pay down the total debt cost for the Arizona State University (ASU) building.

Ms. Ashworth explained the City's total assets increased to \$4,600,000,000. She shared the majority of the assets are from the Capital Assets and the next largest is Cash and Investments. She stated the biggest component in the Other Assets category would be the Investment and Joint ventures. (See Page 5 of Attachment 1)

Ms. Ashworth provided an overview of Cash and Investments. She reported as of June 30, 2020 the City had \$843,162,000 with \$529,545,000 of long-term investments being managed by third party investment managers. She pointed out \$117,784,000 is with Cash with Trustee and Fiscal Agents which represents the funds already provided to trustees to make the July 1 debt service payment. (See Page 6 of Attachment 1)

Ms. Ashworth presented the City's total liability of \$3,900,000,000 as of June 30, 2020. She stated the biggest increases are the Pension and Other Post Employment Benefit (OPEB) liabilities and Long-Term Obligations. (See Page 7 of Attachment 1)

In response to a question from Chairperson Duff, Ms. Ashworth explained the increases are from the changes in actuarial assumptions. She stated there is an actuary who reviews the pension plans every two years and if there are changes in the trends of medical expenses or how long people are living the amount in liabilities will increase.

In response to a question from Committeemember Luna, Mr. Brady explained after 2009 the PSPRS new hires for the City were no longer in the same pension plan. He added that liability continues to grow because of the cost of living, healthcare and how much longer people are living.

Committeemember Freeman requested a break down of the actuarial study.

Ms. Ashworth presented a breakdown comparing the decreases in costs between 2019 and 2020 for Long-Term Obligations. (See Page 8 of Attachment 1)

Ms. Ashworth commented the City did not issue bonds in Spring 2020 but instead paid down debts.

Mr. Brady indicated bonds were sold in November 2020 and the City will be selling more in the Spring of 2021.

In response to a question from Mr. Brady, Ms. Ashworth explained there were no bonds issued in 2019 and anticipated two bond issuances in 2020. She reported on December 10, 2020 the City received money for the first issuance and added the amount was comparable to what would have been issued in the Spring.

In response to a question from Committeemember Freeman, Mr. Brady indicated the excise sales tax will be included in the issuance closed on December 10, 2020.

In response to a question from Committeemember Freeman, Deputy City Manager/Chief Financial Officer Michael Kennington reported the amount of proceeds raised for the excise tax obligation was \$43,000,000 and the interest rate was less than 2.5%.

Ms. Ashworth displayed a breakdown on Pension and OPEB Liability showing slight increases between 2019 and 2020. She noted the biggest contributor to both the pension and OPEB liabilities was in the City's Plan. (See Page 9 of Attachment 1)

In response to a question from Chairperson Duff, Ms. Ashworth stated when issuing bonds there is a specific amount that the City anticipates receiving as long as the market is favoring those bonds.

Mr. Kennington added there is a stated rate when issuing bonds and that the bond rates change daily.

In response to a question from Chairperson Duff, Ms. Ashworth explained there is a debt covenant ratio to comply with on a modified basis which is issued with the bonds themselves. She shared the CAFR ratio will be less because it takes into account depreciation and other expenses that are not a part of the debt convenance bonds.

Mr. Kennington mentioned the coverage ratios are important to the rating agencies because they compare to what the investors are expecting at different ratios of bond ratings.

In response to a question from Committeemember Freeman, Mr. Kennington stated that for General Obligation bonds there is a statutory limit of 26% of the assessed value of the City. He noted Utility Revenue bonds do not have the same type of limitations because of infrastructure needs and the variation of utilities between cities.

Committeemember Freeman suggested adding a slide to future presentations informing Councilmembers of how the City's debt is being structured and where the City is on the percentage scale.

In response to multiple questions from Chairperson Duff, Mr. Brady explained TOPAZ is a regional public safety communications cooperative that coordinates the infrastructure to support

public safety communication in the region. He added Mesa pays for a larger portion of the communication system while other neighboring East Valley cities pay the remainder of the cost.

It was the consensus of the Committeemembers that the FY 2020 CAFR be sent to Council for discussion and consideration in January 2021.

Chairperson Duff thanked Ms. Ashworth for the presentation.

3. Adjournment.

Without objection, the Audit, Finance & Enterprise Committee meeting adjourned at 9:32 a.m.

I hereby certify that the foregoing minutes are a true and correct copy of the minutes of the Audit, Finance & Enterprise Committee meeting of the City of Mesa, Arizona, held on the 14th day of December 2020. I further certify that the meeting was duly called and held and that a quorum was present.

DEE ANN MICKELSEN, CITY CLERK

jg (Attachments – 1)

OVERVIEW OF FISCAL YEAR 2020 COMPREHENSIVE ANNUAL FINANCIAL REPORT

December 14, 2020

Irma Ashworth
Finance Director





CITY OF MESA, AZ
**COMPREHENSIVE ANNUAL
FINANCIAL REPORT**



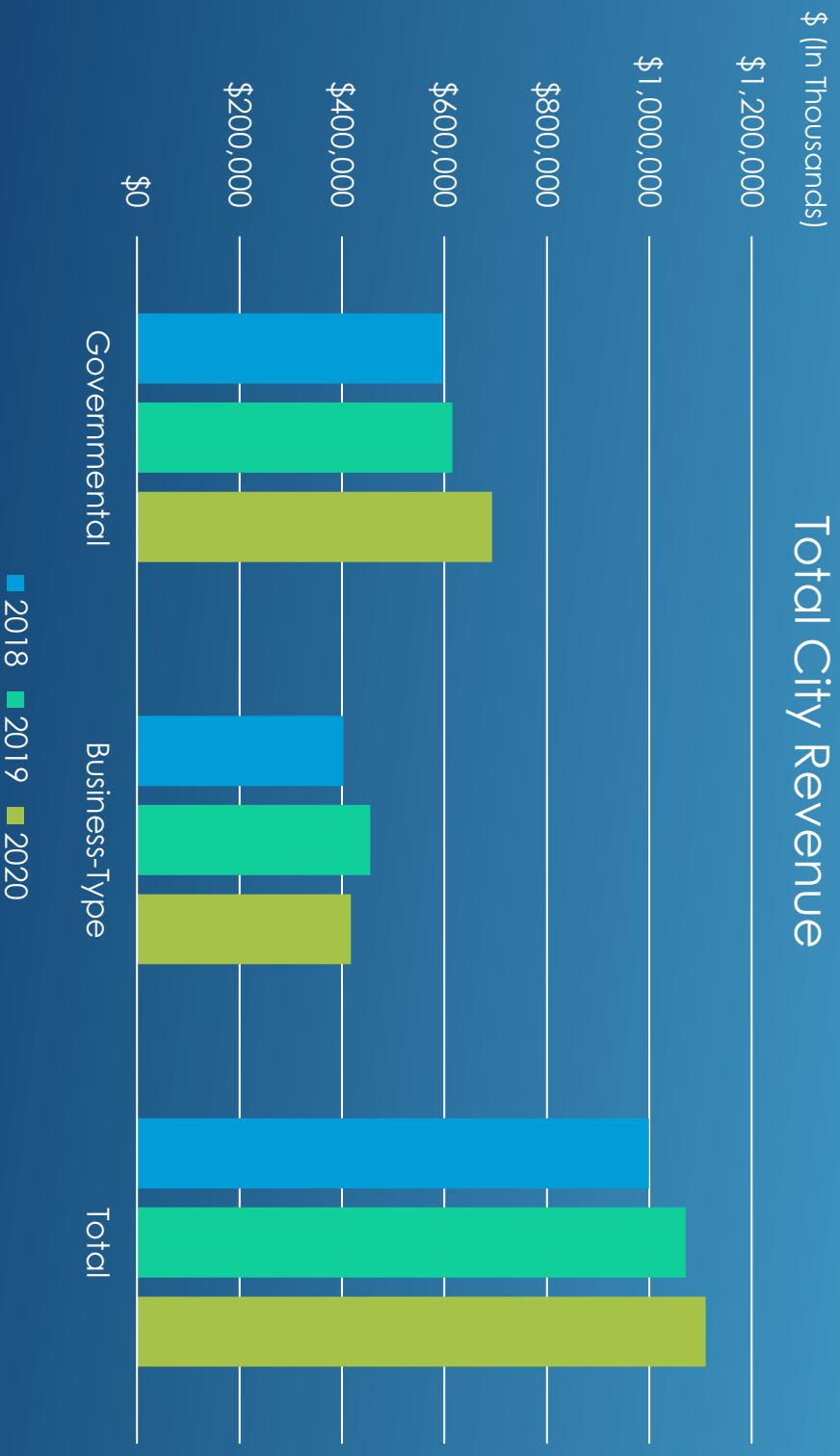
FOR THE FISCAL YEAR ENDED | JUNE 30, 2020

- ▶ Unmodified report issued
- ▶ No Material findings
- ▶ Follows Generally Accepted Accounting Principles (GAAP)
- ▶ Complies with Governmental Accounting Standards Board (GASB)

COMPREHENSIVE ANNUAL FINANCIAL REPORT

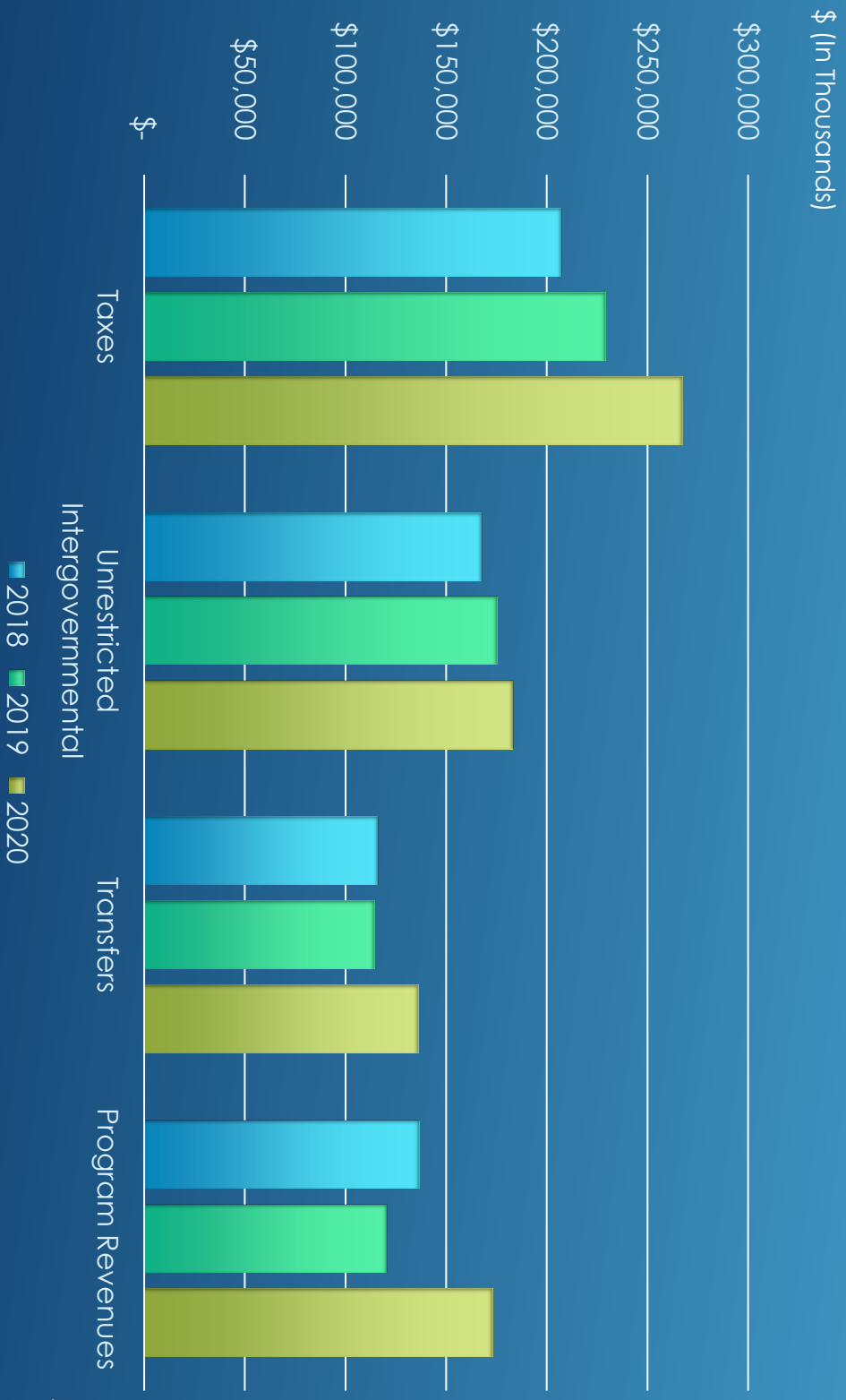
FINANCIAL HIGHLIGHTS

FY 2020 City Revenue's increased by \$339.5 million



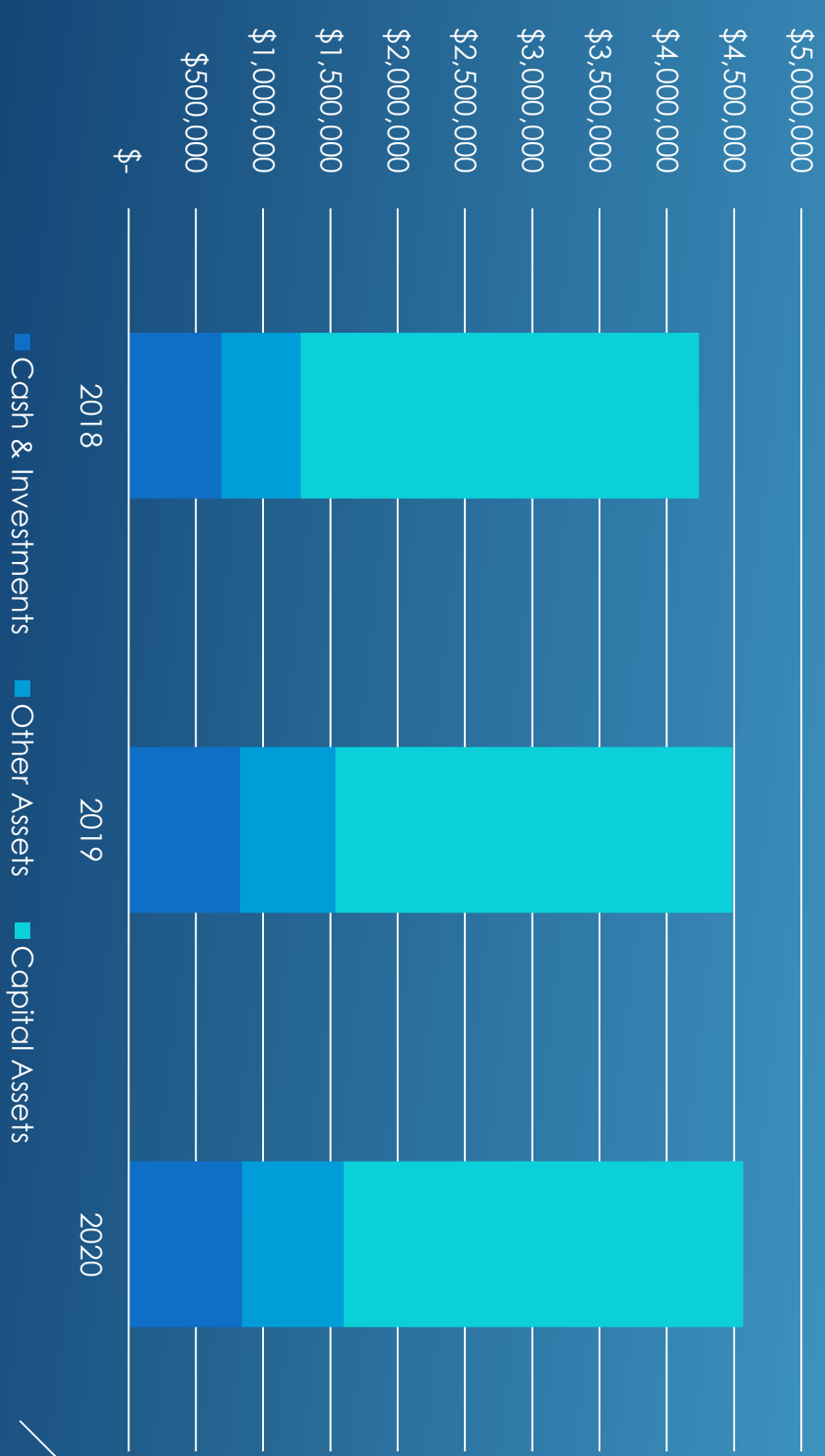
GOVERNMENTAL ACTIVITIES – REVENUES

FISCAL YEARS 2018, 2019 AND 2020



TOTAL ASSETS INCREASED TO \$4.6 BILLION

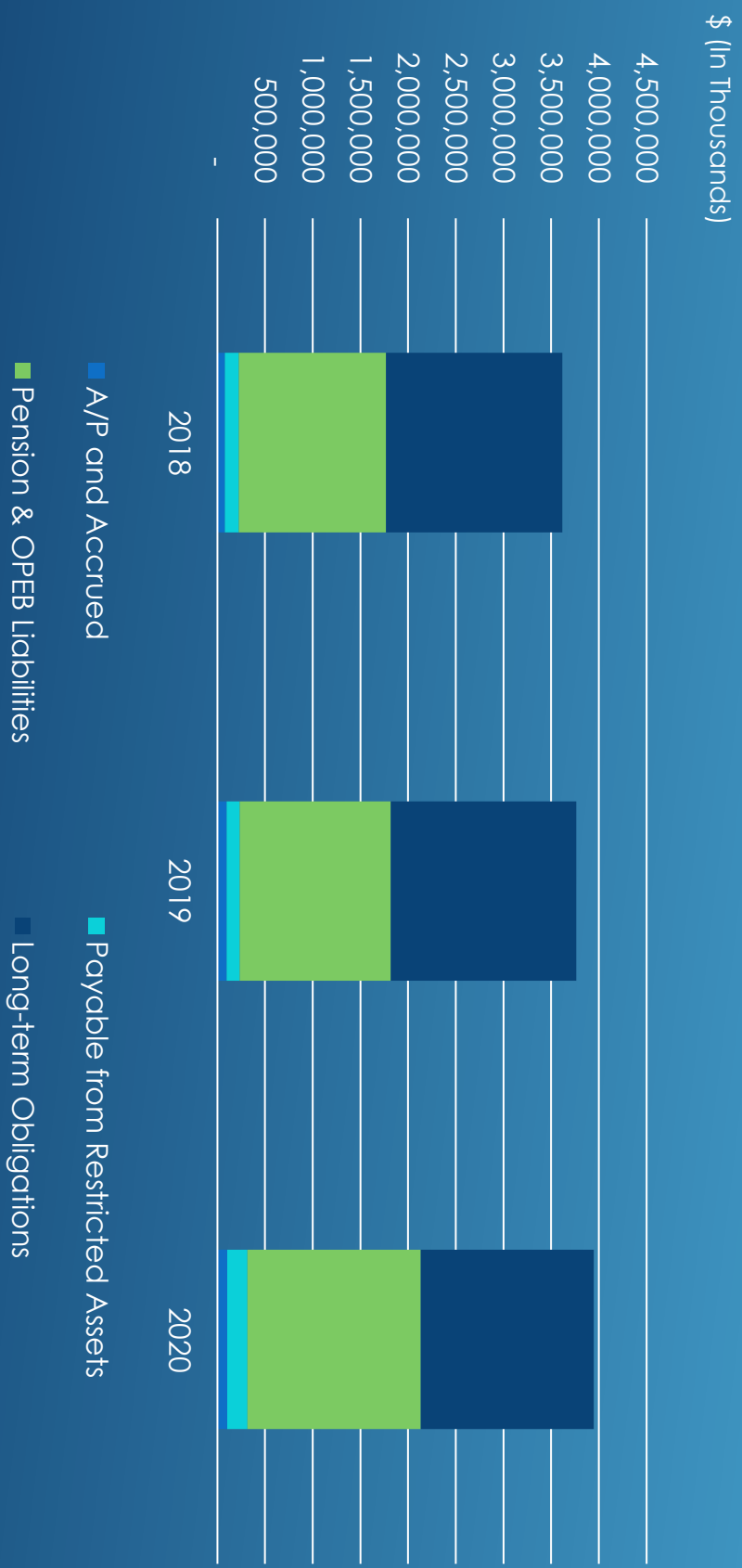
\$(in Thousands)



CASH AND INVESTMENTS

Cash	\$ 27,234,000
Investment in Local Govt. Investment Pool	132,772,000
Investment in Insured Cash Sweep Accounts	15,827,000
Cash with Trustee and Fiscal Agents	117,784,000
Cash with Custodian	20,000,000
Long-Term Investments	<u>529,545,000</u>
Total Pooled Cash and Investments	<u>\$ 843,162,000</u>

TOTAL LIABILITIES \$3.9 BILLION



LONG-TERM OBLIGATIONS

Issue Type	June 30, 2019	June 30, 2020
General Obligation Bonds	\$370,670,000	\$ 334,760,000
Highway User Revenue Bonds	67,905,000	58,750,000
Utility Revenue Bonds	1,279,020,000	1,242,670,000
Excise Tax Obligations	<u>49,025,000</u>	<u>-0-</u>
Total	<u>\$1,766,429,000</u>	<u>\$1,636,180,000</u>

PENSION AND OPEB UNFUNDED LIABILITY

Plan	June 30, 2019	June 30, 2020
ASRS Pension	\$ 227,232,800	\$ 235,852,534
PSPRS - Fire Pension	203,637,607	231,179,861
PSPRS - Police Pension	396,877,345	441,183,384
PSPRS - Police OPEB	9,562,512	10,040,985
City OPEB Plan	746,815,618	897,375,371

Questions ?

Irma Ashworth

Finance Director

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