

AUDIT & FINANCE COMMITTEE MINUTES

September 13, 2007

The Audit & Finance Committee of the City of Mesa met in the lower level meeting room of the Council Chambers, 57 East 1st Street, on September 13, 2007 at 10:15 a.m.

COMMITTEE PRESENT

Claudia Walters, Chairman
Rex Griswold
Tom Rawles
Christopher Brady, Ex-Officio

COUNCIL PRESENT

None

STAFF PRESENT

Debbie Spinner
Bryan Raines

1. Items from citizens present.

There were no items from citizens present.

2. Hear a presentation, discuss and provide direction on the audit of Police Records Fee Collection Process.

City Auditor Gary Ray advised that departments and division route their responses to audits conducted by his office through the City Manager.

Chairman Walters noted that there was concurrence among the Committeemembers to accept the audit (a copy is available for review in the City Clerk's Office) without further discussion.

It was moved by Committeemember Griswold, seconded by Committeemember Rawles, that the "Police Records – Fee Collection Process" audit, completed on June 25, 2007 for the period of February through March 2007, be accepted.

Carried unanimously.

3. Hear a presentation, discuss and provide direction on the audit of Residential and Commercial Building Permit and Impact Fees.

Mr. Ray advised that the report (a copy is available for review in the City Clerk's Office) addresses staff's follow-up review of a previous audit in order to determine if the recommendations and procedures have been implemented.

Committeemember Griswold expressed support for the conclusion reached by Audit and Building Safety Division staff members that impact fees are not applicable when a single-residence, detached dwelling replaces a manufactured home.

Chairman Walters noted that changes have been implemented with regard to the methodology utilized to “round up” Commercial fees.

Building Safety Director Terry Williams confirmed that the Council approved changes to simplify the Schedule of Fees and Charges and that the Administrative Code now identifies the methodology for rounding valuations.

Chairman Walters commented that reports to the Council generally provide averages and that aberrations in a process are seldom identified. She asked if an audit could address the aberrations.

Mr. Williams stated that although this audit specifically addressed fee calculations, management monitors other data on a monthly basis in order to identify anomalies. He reported that as a result of identifying an unacceptable number of fee calculation errors, staff has made a concentrated effort to correct the situation.

In response to a question from Chairman Walters, Mr. Ray advised that the calculation process has been improved, but he added that the possibility exists that employees could calculate square footage or other items differently.

Mr. Williams stated that approximately 75 percent of the Administrative Code was simplified in 2006 and 2007, and he reported that modifications to change and simplify the remaining 25 percent of the Code would be presented for Council consideration in approximately one month. He noted that calculations remain complicated when addressing a shell and tenant type of building, and that staff is addressing the issue.

Responding to a question from Committeemember Griswold, Mr. Williams advised that in the event the turnaround time on a permit is delayed, a one percent credit is offered for a one to two-day delay, a two percent credit for three to five days, and a three percent credit for a delay greater than five days. He reported that only two credits were issued in the past eight months.

In response to a question from Chairman Walters, Mr. Williams advised that the timing of the permit is tracked by the system and that the Permit Technician identifies any refund due when logging out the permit.

It was moved by Committeemember Rawles, seconded by Committeemember Griswold, that the “Residential Building Permit and Impact Fees Audit Follow-up” and the “Commercial Building Permit and Impact Fees Audit Follow-up” reports dated June 7, 2007, be accepted.

Carried unanimously.

4. Hear a presentation, discuss and provide direction to staff regarding 2007/2008 insurance renewals.

City Attorney Debbie Spinner introduced Risk Management Claims Analyst Barry Hegrenes. She advised that staff is seeking direction regarding the variables as they prepare to seek bids on the annual renewal of the City’s insurance policies, including excess liability, property, aviation, and boiler and machinery coverage.

Committeemember Rawles expressed support for the recommendations included in the Committee Report (a copy of the report is available for review in the City Clerk's Office).

Ms. Spinner stated that staff received information on other cities after many of the report's recommendations were formulated. She reported other Valley cities have excess liability coverage in the range of \$30 million to \$50 million, and she noted that Mesa could request bids for the higher amounts. Ms. Spinner advised that Phoenix has excess coverage in the amount of \$150 million in order to address the additional liability of the bus system. She added that Phoenix has increased both their Self-Insured Retention (SIR) levels and the amount of their excess coverage, which is a reflection of the more affordable cost of insurance in today's market,

Committeemember Griswold requested that staff provide information regarding instances in which the City has collected on the boiler and machinery insurance coverage.

Ms. Spinner stated that she was unaware of any claim filed by the City under this policy.

Mr. Hegrenes advised that the coverage is designed to address a catastrophic breakdown of machinery.

Ms. Spinner added that in the event that the failure of a piece of machinery results in damage to other equipment or the facility, the damages are covered under this policy. She noted that the City's broker recommends continuing the coverage, the cost of which is less than \$12,000 per year.

It was moved by Committeemember Rawles, seconded by Committeemember Griswold, to recommend to the Council that staff's recommendations for 2007/2008 insurance policy renewals, with the addition of a request for excess liability bids in the amounts of \$40 million and \$50 million, be approved.

Carried unanimously.

5. Hear a presentation, discuss and provide direction to staff regarding the formal adoption of financial policies.

Chairman Walters noted that although the bond rating agencies have made positive comments regarding the City's fiscal direction and the long-range forecasting program that has been implemented, the agencies continue to recommend that the City adopt written financial policies.

Deputy City Manager Bryan Raines advised that City currently operates under many of the guidelines outlined in the proposed Financial Policy (see Attachment 1). He added that many of the guidelines are included in various documents, such as the City's Comprehensive Annual Financial Report (CAFR) or the budget plan, but the guidelines have not been compiled into a single financial policy. Mr. Raines stated that the proposal incorporates the City's standard operating procedures, recommendations of Standard and Poor's, industry standards and the policies of other cities, and he anticipates that the document would mature and change over time.

Mr. Raines noted that Policy 10 provides for periodic reviews and updates to the Financial Policies in addition to reports to the Council regarding compliance with the adopted policies. He

noted that Controller Kathy Pace and Budget Director Chuck Odom assisted in the preparation of the policies and that both are present to answer any questions.

Chairman Walters complimented staff for the excellent proposal.

In response to a question from Committeemember Rawles regarding Policy 1.12, which addresses replacement funding for fleet vehicles, Mr. Raines advised that Council action to defer the replacement of a vehicle would be noted as an exception to the forecast. He added that the action would not require an amendment to the Financial Policy.

Mr. Brady reported that staff struggled with the language of the proposed policies. He explained that the policies, which can be revised, are designed to create a discipline.

Committeemember Rawles noted that the written policy also assures bond-rating agencies of the City's commitment to the objectives. He suggested that a preface to the policy document could state that the policies are aspirations "with teeth." Councilmember Rawles stated that although he has concerns with the wording of 2.1, which states "Mesa's adopted Annual Budget will be developed so as to maintain a...fund balance of 8% - 10% per fiscal year," he is comfortable with the process of noting exceptions. He added that he has similar concerns regarding the wording of item 4.1. Councilmember Rawles advised that although he supports imposing a secondary property tax on General Obligation bonds, he questioned the advisability of including that requirement in a policy. He stated the opinion that the City's financial pressures resulted from a failure in the past to impose the secondary property tax on General Obligation bonds. Councilmember Rawles added that although he hoped future Councils would levy the secondary property tax, he does not believe that the current Council should impose that requirement.

Mr. Brady noted that language regarding a secondary property tax provides some assurance regarding the City's finances to the bond rating agencies, and he added that future Councils would have an opportunity to change the policy.

Discussion ensued relative to the fact that the bond rating agencies understand that this Council is unable to impose requirements on future Councils; and that the language of item 4.1 should be changed to reflect that the "Council will ensure..." rather than "Mesa will ensure..."

Chairman Walters noted that the present Council would call the 2008 Bond Election.

In response to a question from Chairman Walters, Ms. Spinner advised that the Council could adopt a policy by motion or by resolution and that her recommendation would be to adopt the Financial Policies by resolution.

Chairman Walters suggested that the resolution include an explanation that deviations from the policy would be identified during budget discussions and noted in the annual report or the annual review.

Mr. Brady suggested that the policies could be presented as guidelines adopted by a Council Committee. He noted that the bond rating agencies prefer stricter policies upon which they can rely, and he added that a balance should be considered to ensure the preservation of local autonomy.

Chairman Walters noted that the next Council could include five new members who are unfamiliar with the budget and the processes. She stated the opinion that the policies provide new Councilmembers with parameters regarding these issues, and she suggested that the policies could also be called guidelines.

Responding to a question from Chairman Walters, Mr. Odom advised that presently the unrestricted fund balance for the General Fund is ten percent and that the unrestricted balance for the Enterprise Fund is slightly higher.

Additional discussion ensued relative to the fact that the lack of a property tax initiated the requirement for an unrestricted fund; that the implementation of a secondary property tax could reduce the unrestricted fund balance requirement; that the recommended range of the fund balance is eight to ten percent; that staff would continue to review the fund balances in the future; that the indexing of fees was recently adopted by the Council; and that status reports on fees, charges and revenues would be provided to the Council twice a year.

Mr. Odom added that significant issues are brought forward to the Council in the status reports.

Chairman Walters requested that the language in item 4.8, which addresses the refunding of bonds, be reworded in a more understandable format.

In response to comments from Chairman Walters regarding the Capital Improvement Plan (CIP) in Policy 5, Mr. Brady advised that the process has been revised to include only those projects that have an identified funding source.

Mr. Odom advised that several layers of financial restrictions are placed on the CIP, including debt issuance, available operating and maintenance funds, available capital needs, and current staffing levels, to ensure that the project can be accomplished.

Mr. Raines noted that Policy 5.4 reflects a desire to adjust the CIP to the forecast and the adopted budget.

Chairman Walters noted that Policy 6.1 should reflect the fact that the Council authorizes the investment of money through the "delegation of authority."

Responding to concerns expressed by Chairman Walters that Policy 9.3 could be restrictive, Ms. Spinner concurred that the specific areas of insurance should not be listed.

Chairman Walters requested that the revised policy, incorporating the items discussed at this meeting, be available at the next Committee meeting, after which the policy could be moved forward for Council consideration.

Chairman Walters thanked staff for the presentations.

6. Hear a presentation, discuss and provide direction to staff regarding the City's Investment Policy.

This item was removed from the agenda.

7 Adjournment.

Without objection, the Audit and Finance Committee meeting adjourned at 11:00 a.m.

I hereby certify that the foregoing minutes are a true and correct copy of the minutes of the Audit & Finance Committee meeting of the City of Mesa, Arizona, held on the 13th day of September 2007. I further certify that the meeting was duly called and held and that a quorum was present.

LINDA CROCKER, CITY CLERK

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Attachment (1)