

Mayor and Council Communication

DATE: 09/15/20

M&C FILE NUMBER: M&C 20-0645

LOG NAME: 13ADOPTFMPSFY2021

SUBJECT

(ALL) Adopt Updated Financial Management Policy Statements for Fiscal Year 2021 (Continued from a Previous Meeting)

RECOMMENDATION:

It is recommended that the City Council adopt the attached updated Financial Management Policy Statements for Fiscal Year 2021.

DISCUSSION:

The purpose of this Mayor and Council Communication (M&C) is to adopt updated Financial Management Policy Statements (FMPS) for Fiscal Year (FY) 2021, effective October 1, 2020. The FMPS provide the foundation for strong fiscal management by providing guidance on consistent practices ensuring both short-term and long-term financial success for the City of Fort Worth.

The FMPS were initially adopted by the Mayor and City Council on January 15, 1994, and have been subject to annual review and revision since that time. Adoption of the FMPS comes under the auspices of the City's Charter, which outlines the need to adopt policies to administer and safeguard the City's financial resources.

The FMPS contain sections which provide policy-level guidance on such topics as revenues, expenditures, reserves, debt management, inter-fund loans, investments, grants, capital assets, accounting, auditing, financial reporting and internal controls. Each topic comprises its own section of the overall policy document and is reviewed and recommended for update from time to time. The adoption of the revised policies is intended to replace/supersede all previously adopted financial policies.

The updates to the FMPS for FY2021 are primarily general in nature: clarifying previously established responsibilities, methodologies, definitions and processes; consolidating separate policies for ease of reference and consistency; and other minor changes ensuring best practices per the most current guidance from the Office of Management and Budget (OMB), the Governmental Accounting Standards Board (GASB), and Generally Accepted Accounting Principles (GAAP).

The proposed changes to the FMPS for Fiscal Year 2021 include the following:

Capital Assets Policy

Section V: General Information

1. Updated Purchased Assets to expand on what is included and excluded.
2. Updated Capital Assets to include statement assets should be recorded at original cost instead of historic cost to align with the City Financial Report.
3. Updated Constructed Assets to include another sentence about new changes to Community Facility Agreement projects.
4. Updated Donated Assets to include additional information regarding thresholds and to reference the current Donations Policy.

Section VI: Responsibility/Authority

1. City-wide Department Responsibility
 - Updated item C - to reference "Capital Assets Coordinator" as the Department Designee.
 - Added two bullet points under item C:
 - Identify all constructed assets in use, and provide the Capital Assets Team documentation within six months or before the current fiscal year ends, whichever comes first for capitalization (Refer to Section XIV); and
 - Attend the required AM100 training provided by the City of Fort Worth.
2. FMS Responsibility
 - Updated item A to change "The Capital Asset Supervisor and Assistant Finance Director" to "The Capital Asset Team, Financial Services Manager, and Assistant Finance Director".
 - Updated item B to change "Capital Asset Designee" to "Capital Assets Coordinator".
 - Updated item D to change "Department Designee" to "Capital Assets Coordinator" and added the word "financial" into the paragraph.
 - Updated item E to change "training" to "support".

Section VII: Asset Classification

1. Updated item A to remove "cost of surveys" from the list.

2. Removed two bullet points from item:

- Appraisal fees; and
- Cost of real estate surveys.

3. Added permanent easement to land category where it was originally listed under Intangible Assets.

4. Added a paragraph to item A to include a list of excluded items: "Excluded costs may include payroll charges, advertising, process services, appraisal fees, and surveys, as they typically are not able to be accurately and timely associated with the land purchase at closing".

5. Updated item D to include additional information regarding the capitalization threshold.

6. Updated item F to change "licensed" to "customized". Eliminate easement as part of example of intangible asset (Permanent easement is listed under Land).

7. Updated item G to include the abbreviation of Construction Work in Progress.

Section VIII: Capitalization

1. Updated item A-4 to clarify Betterments and Improvement capitalization thresholds for building improvements, infrastructure improvements, and machinery and equipment improvements.

2. Updated item A-7 to clarify intangibles "with the exception of works of art and historical treasures, which are capitalized regardless of life or cost".

3. Updated item B to include a reference to the donation policy and added additional language regarding land appraisals: "With regard to donated land, an appraisal must be no older than five (5) years in order to be used to determine a value for the land. If an appraisal is greater than five (5) years old or an appraisal does not exist, then appropriate effort must be made to determine a reasonable per acre value of the land in question".

Section X: Depreciation

1. Updated the Useful Life guideline bullets for two items:

- Buildings: 20 - 40 years to 20 - 50 years; and
- Vehicles: 4 - 8 years to 4 - 15 years.

Section XII: Impairment

1. Added "A capital asset generally should be considered impaired if both (a) the decline in service utility of the capital asset is large in magnitude and (b) the event or change in circumstance is outside the normal life cycle of the capital asset".

2. Updated to change "Department Designee" to "Capital Assets Coordinator".

3. Changed the sentence from "All impairment decisions should be communicated to the FMS Capital Assets Team by the department designee, and must be reviewed and properly approved by the Department" to "All impairment should be analyzed and estimated by the Department Capital Assets Coordinator, and submit to the FMS Department Assistant Director or Director for final review and approval".

Added Section XIV: Placed in Service Assets

Deleted Section XV: Monthly Review

Section XVI: Physical Inventory

1. Updated to change "Department Designee" to "Capital Assets Coordinator".

Grants Policy

Section IV: Glossary

1. Minor wording changes for improved clarity plus additional details to assist M&C writers, based on updated M&C requirements.

Section V.A: Grant Identification, Application, Acceptance

1. Items 1-3: Minor wording changes for improved clarity.
2. Items 4-5: Additional details based on updated M&C requirements.
3. Items 6-10: Minor wording changes for improved clarity.

Section V.B: Grant Set-Up

1. Item 1: Addition of Capital Assets attendance at Grant Kick-off Meetings for capital grants.
2. Items 2-4: Addition of Combo Codes to the grant set-up process.
3. Item 5: Reflect changes in Task Group/Task Profile set-up process.

Section V.C: Grant Management

1. Item 4: Remove verbiage no longer applicable due to evolved federal compliance.
2. Item 6: Added section to specify process for reporting cooperation between departments and FMS Grant Accounting as well as submission process to comply with Correction Action Plan from 2020 TxDOT audit.
3. Item 9: Minor wording changes for improved clarity.

4. Item 11: Minor wording changes for improved clarity.
5. Item 12: Added section to prohibit purchase of gift cards or other cash equivalents and reinforce City procedures about distribution of funds and/or assets.
6. Item 13: Minor wording changes for improved clarity.

Section V.D: Grant Accounting

1. Items 4-5: Clarify process for determining responsibilities.
2. Item 9: Fix typo and add Cash Held by Others to list of balance sheet accounts to review.
3. Item 10: Minor wording changes for improved clarity.
4. Item 11: Additional clarification of circumstances necessitating FMS journal entries without departmental approval.

Section V.E: Grant Closeout

1. Items 4-6: Minor wording changes for improved clarity.
2. Item 8: Removed section which essentially duplicated Item 5.

Governmental Funds Reserve Policy

1. Capital Project Funds Reserve Policy is removed as it is a life to date funding program. The reserve policy applies to operating funds only.
2. General Fund, Special Revenue Funds, and Debt Service Funds Reserve Policy are combined into one policy.
3. Sections removed from the policy that are no longer applicable: Glossary, Pooled Cash, Metrics, Records, Process Flow Map, Forms, and Appendices

Section 1: Authority

1. This section is combined to include General Fund, Special Revenue Funds, and General Debt Service Funds.

Section 2: Purpose

1. Added a sentence regarding GFOA's best practice and minor verbiage modifications for clarity.

Section 3: Applicability and Scope

1. This section is combined to include General Fund, all Special Revenue Funds, and the General Debt Service Funds.

Section 4: Related Documents and References

1. This section is combined to include General Fund, all Special Revenue Funds, and the General Debt Service Funds.

Section 5: Policy

1. This section is combined to include General Fund, all Special Revenue Funds, and the Debt Service Funds.
 - General Fund – Removed verbiage of all minimum goals of fund balances and maintain an Unassigned Fund Balance in the General Fund equivalent to two months of the next fiscal year budgeted operating expenditures. Minor wording modifications for improved clarity.
 - Special Revenue Funds - Removed verbiage of all minimum goals of fund balances and maintain a combined Restricted and Assigned Fund Balances in Special Revenue Funds equivalent to two months of the next fiscal year budgeted operating expenditures. Minor wording modifications for improved clarity.
 - General Debt Service Fund - Removed verbiage of all minimum goals of fund balances and maintain a level of Restricted, Committed, and Assigned Fund Balances in each governmental Debt Service Fund equivalent to three months of the highest projected debt service over the succeeding debt service schedule. Minor wording modifications for improved clarity.

Section 6: Monitoring Performance

1. This section is combined to include General Fund, all Special Revenue Funds, and the General Debt Service Funds.
 - Funding the Reserve: Modified and inserted sources of replenishing fund balance.

Sections 7 - 10

1. These sections are combined to include the General Fund, all Special Revenue Funds, and the General Debt Service Funds.
2. Minor wording modifications for improved clarity.

Section 10: Basis

1. Adding basis used for calculating the reserve level for Governmental Funds Reserve.

Proprietary Fund Reserve Policy

1. Enterprise and Internal Service Funds are combined into Proprietary Funds Reserve to improve simplicity.

2. Sections that are removed from the policy that are no longer applicable: Glossary, Pooled Cash, Metrics, Records, Process Flow Map, Forms, and Appendices.

Section 1: Authority

1. This section is combined to include Enterprise and Internal Service Funds.

Section 2: Purpose

1. Adding a sentence regarding GFOA's best practice and minor verbiage modifications for clarity.

Section 3: Applicability and Scope

1. This section combines the scope to include Enterprise and Internal Service Funds.

Section 4: Related Documents and References

1. This section is combined to include Enterprise and Internal Service Funds

Section 5: Policy

1. This section is combined to include Enterprise and Internal Service Funds
 - Enterprise Funds – Updated reserve level verbiage to equivalent of three months of the next fiscal year budgeted operating expenses, excluding intrafund transfers out to funds within the same reporting group. Update verbiage policy for day's cash on hand to match rating agency methodology.
 - Internal Service Funds – Insurance Funds: Updated reserve level verbiage to equivalent of ten percent of the next fiscal year budgeted operating expenses, excluding intrafund transfers out to funds within the same reporting group.

Section 6: Monitoring Performance

1. This section is combined to include Enterprise and Internal Service Funds.
2. Funding the Reserve: Modified and inserted sources of replenishing fund balance.

Sections 7 to 10

1. This section is combined to include Enterprise and Internal Service Funds
2. Minor wording changes for improved clarity

Section 10: Basis

1. Added Generally Accepted Accounting Principles (GAAP) Full Accrual basis used for calculating the reserve level for Proprietary Funds Reserve.

A red line of entire FMPS, which includes mark up in each revised policy statement, accompanies this M&C along with a clean copy of the entire document, including the proposed changes.

A Form 1295 is not required because: This M&C does not request approval of a contract with a business entity.

FISCAL INFORMATION / CERTIFICATION:

The Director of Finance certifies approval of this recommendation has no material effect on City Funds.

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