



MEMORANDUM

P.O. Box 4100 ♦ FRISCO, COLORADO 80443

TO: MAYOR AND TOWN COUNCIL
FROM: LESLIE EDWARDS, FINANCE DIRECTOR
DYLAN OLCHIN, FINANCE SENIOR MANAGER
RE: FINANCIAL POLICIES
DATE: JANUARY 24, 2023

Summary and Background: The Town has historically had an investment policy, adopted by resolution and reviewed annually. Additionally, the Town has documented other financial policies in the adopted budget, but not formally adopted by resolution. Cash handling procedures have also existed within Town departments, but also not formally adopted by Town Council.

The need for a comprehensive Financial Policies document has become more poignant in recent months, as related to the increase in grant funding available to the Town of Frisco. Many grant programs, particularly federal grants, require a formal documentation of a wide range of financial policies.

Analysis:

Comprehensive financial policies are central to a strategic, long-term approach to financial management. Some of the most powerful arguments in favor of adopting formal, written financial policies include their ability to help governments:

1. Institutionalize good financial management practices. Formal policies usually outlive their creators, and, thus, promote stability and continuity. They also prevent the need to re-invent responses to recurring issues.
2. Clarify and crystallize strategic intent for financial management. Financial policies define a shared understanding of how the organization will develop its financial practices and manage its resources to provide the best value to the community.
3. Define boundaries. Financial policies define limits on the actions staff may take. The policy framework provides the boundaries within which staff can innovate in order to realize the organization's strategic intent.
4. Support good bond ratings and thereby reduce the cost of borrowing.
5. Promote long-term and strategic thinking. The strategic intent articulated by many financial policies necessarily demands a long-term perspective from the organization.

6. Manage risks to financial condition. A key component of governance accountability is not to incur excessive risk in the pursuit of public goals. Financial policies identify important risks to financial condition.
7. Comply with established grant requirements. Grant awards often require documented financial policies to include details on cash management, annual financial audit, recordkeeping, internal controls, procurement, and conflicts of interest.
8. Prevent Loss. By documenting policies and procedures, expectations and internal controls are clarified. In doing so and enforcing the outlined best practices, the Town is better protected from theft, fraud, and misappropriation.

The policy presented is a result of researching Government Finance Officers' Association (GFOA) best practices and financial policies of other Colorado municipalities. From that research, Staff believes that the best pieces of several policies that align with the Town's current practices have been compiled into a comprehensive document that is presented with this memo for discussion with Town Council.

Some key components of the recommended financial policies are described below:

1. Cash Handling:

This policy speaks to best practices in terms of normal cash handling procedures, as well as steps that would need to be taken in the event of loss or mishandling of funds. The Town has always had sound cash management practices in place with regards to cash handling at our customer service locations. Good physical controls (locking cash drawers) as well as procedural controls (system controls and deposit reconciliations) have been established. This document formally records those controls. It is important to note that cash receipts do not comprise a large part of the Town's daily revenues, but still need to be handled in an appropriate and secure manner.

2. Grants:

An effective grants policy provides guidance to staff as it relates to associated processes and procedures in order to maximize the benefits and minimize the risks. Grants are an attractive form of funding for governments and frequently come with special requirements that the recipient must follow. Such requirements can apply to the general operations of the grant, specific compliance rules, monitoring of other parties that may receive resources from the grants, specific time frame, and specialized reporting requirements. There are negative consequences for failing to meet grant requirements and in addition, grant compliance directly affects the Town's current and future grant awards. A formal policy can help protect the Town's ability to continue to obtain grant funding, enhancing the ability to provide amenities to the Frisco community.

3. Investments:

An investment policy describes the parameters for investing government funds and identifies the investment objectives, preferences or tolerance for risk, constraints on the investment portfolio, and how the investment program will be managed and monitored. The policy itself serves as a communication tool for the staff, Town Council, the public, rating agencies, bondholders, brokers, financial advisors, and any other stakeholders on investment guidelines and priorities. An investment policy enhances the quality of decision making and demonstrates a commitment to the fiduciary care of public funds needed to protect the Town's assets.

Financial Impact: Implementing comprehensive financial policies is expected to protect Town assets and increase the overall financial health of the Town of Frisco. There is no cost associated with implementing the recommended policies.

Alignment with Strategic Plan: These policies have been prepared with the goal of providing quality core services, by protecting Town assets in a manner that aligns with Town priorities.

Environmental Sustainability: The attached revised Financial Policy that adds language requiring the Town to consider ESG factors on any future investment decisions. The language specifically requires: Investment of funds should be guided by the following environmental, social, and governance (ESG) investment goals. Investments should be made in compliance with these goals to the extent that such investments achieve substantially equivalent safety, liquidity, and return when compared to similar investments permitted by Colorado Revised Statutes and the Investment Policy. Investments are encouraged in companies that have a positive impact on the environment, human rights, and fair workplace practice and that support equality of rights, regardless of sex, race, religion, age, disability, or sexual orientation. Investments are discouraged in entities that receive a significant portion of their revenues from the manufacturer of tobacco products, firearms, or weapons not used in our national defense. It is important to note that safety, liquidity, and yield are still listed as our first considerations when making investment decisions. As such, our portfolio will continue to comprise very conservative investment vehicles. The revised policy will require the consideration of ESG factors only after we have met those first three standards. After reviewing our current portfolio, as well as our investment history, we have concluded that the new ESG considerations will likely have very little impact on our future investment decisions. Our investments already comply with current ESG guidance.

Staff Recommendation: Staff recommends that Town Council review the attached draft of a financial policies document and provide feedback during the January 24, 2023 worksession. Depending upon Town Council's direction during the work session, Staff will be prepared to make recommended changes and provide the policy document along with a resolution to formally adopt a comprehensive financial policy document at the February 14, 2023 Town Council meeting.

Reviews and Approvals: This report has been reviewed and approved by:

Tom Fisher, Town Manager
Diane McBride, Assistant Town Manager

Attachments:

Attachment 1 – Financial Policies