

OFFICE OF THE INDEPENDENT BUDGET ANALYST REPORT

Date Issued: November 29, 2006

IBA Report Number: 06-59

City Council Agenda Date: December 6, 2006

Item Number: 602

Item: Financial Training for the City Council

OVERVIEW

On September 6, 2006, the City Council voted to accept in principle the Kroll Remediation Plan. One element of the motion adopted that day was approval of a Councilmember financial training program formulated by the IBA, City Attorney and City financial staff. In a memorandum dated September 15, 2006 (Attachment 1), the Council President requested the IBA to research training for elected officials and develop a recommendation for financial training for the City Council. In response to the Council President's request, this report presents a recommended financial training program for City Council consideration.

REQUESTED ACTION

1. Approve the recommended training program and direct the IBA to coordinate the implementation of the training with support from the Office of the City Attorney and the Chief Financial Officer.
2. Direct the City Attorney to prepare the appropriate resolution or ordinance, as appropriate, in accordance with Charter Section 40.

Fiscal Impact: The IBA estimates that the total cost, to implement all aspects of the comprehensive financial training program discussed in this report, will not exceed \$15,000 a year. We recommend authorizing the expenditure of up to \$15,000 for City Council financial training from Fund 100, Department 029, City Council Administration.

FINANCIAL TRAINING FOR ELECTED OFFICIALS

The IBA contacted the largest cities in the State and major government finance organizations in an effort to understand what financial training programs, if any, exist for elected officials. It was a bit surprising to learn that the cities in the State that we contacted (including Los Angeles, San Francisco, Oakland, and San Jose) do not have formal financial training programs for their elected officials. Most of these cities indicated that their elected officials typically learn about government finance on the job. Upon election, some elected officials may request or receive a broad overview of their city's financial functions. Otherwise, elected officials tend to learn about government finance in preparing for actions items (e.g., the annual budget adoption process) or policy adoption (e.g., adoption of an investment policy). Some elected officials consult with their city's professional financial staff on fiscal matters or participate on financial council committees.

There are several financial professional associations (Government Finance Officers Association, League of California Cities, California Debt and Investment Advisory Commission, etc.) that offer relevant financial training. These associations typically design subject specific training programs for government finance practitioners and occasionally more generalized training for elected officials. Financial training programs on various topics are typically held in different cities, last for two to three days and cost anywhere from \$125 to \$1,000 per person. None of the above referenced associations offer customized training for elected officials of a particular municipality, but some indicated a willingness to consider offering such a program if there was sufficient interest on the part of elected officials. Timing, cost and forum logistics can be challenging considerations in planning financial training for the City Council with professional associations.

RECOMMENDED FINANCIAL TRAINING PROGRAM

The legislative branch of local government (City Council) is routinely asked to review, approve or adopt financial documents on behalf of their jurisdictions. Understandably, elected officials often do not possess the necessary training or background to enable them to thoughtfully review these documents. Due to the inherent complexities of the financial documents they are asked to review, it can be difficult for elected officials to know what questions to ask management staff in fulfilling their responsibilities or how to identify potential problems or areas of concern. Adopting a systematic approach to providing financial training for current and future elected officials is a progressive way of assisting them in approaching and fulfilling their significant responsibilities.

In developing a recommendation, the IBA was not able to draw from other established and effective training programs for elected officials, as we could not find any in our peer cities. Lacking a successful model, the IBA sought to design a multi-faceted approach to relevant financial training that was both cost effective and convenient for our elected officials. We consulted with the Office of the City Attorney and the Chief Financial Officer (CFO) in developing this training recommendation. The IBA recommends a financial training program that would be comprised of the following components:

- Systematic Financial Training
- Expert Consultant Presentations to the City Council
- Modified Format for Financial City Council Presentations
- Useful Informational Resources and Contacts

Systematic Financial Training

The IBA recommends that the City primarily utilize its own trained financial staff to provide annual training for the City Council. Although there are many important topics in the realm of government finance, we suggest that training provided by the City's financial staff focus on four important subject areas. The four areas that we would recommend for systematic training, and associated rationale, are listed below:

1) Debt Issuance and Administration - the City has roughly \$2.17 billion of outstanding general fund and enterprise fund debt that needs to be annually administered (and this figure does not include the City's outstanding agency debt).

2) Financial Disclosure – The Kroll Remediation Plan and the November 14th SEC Order speak to the critical importance of training staff and elected officials regarding the City's disclosure obligations. The Kroll Remediation Plan recommends that training be conducted no less frequently than every two years.

3) Financial Statement Overview – The City Council has been asked to convene a public hearing to review the City's draft financial statements before they are sent to the City's outside auditor. Additionally, a general understanding of the City's financial statements can significantly assist the Council in understanding the City's financial condition and complying with our financial disclosure obligations.

4) Current and Multi-Year Budget Planning – Annual budget development and planning have never been more important for the City. Citing the critical importance of long-range budget planning, the Kroll Remediation Plan recommends that the Mayor and CFO annually submit a rolling five-year plan to the City Council for their review.

We would recommend that these trainings be offered twice a year and that each of the following four topics be covered no less often than once every two years (this frequency

recommendation mirrors that in the Kroll Remediation Plan for financial disclosure). We would suggest that financial training be either scheduled as a special session of the City Council or conducted as a meeting of the whole Council in lieu of certain Council Budget Committee meetings. Supportive written materials should be distributed to the City Council at least two weeks before the scheduled training.

The IBA recommends that the City Council request the City Attorney to develop an ordinance directing that the CFO and the City Attorney annually coordinate with the Council President in order to provide the above referenced financial training no less often than once every two years. All City Council members should be strongly encouraged to attend the financial trainings and the trainings should be videotaped for future reference. Alternatively, the City Council could consider self-imposing mandatory Councilmember financial training attendance requirements by directing the City Attorney to develop an ordinance that would codify the training requirement into the City's Municipal Code.

Expert Consultant Presentations to the City Council

In order to provide City Council members with relevant outside perspective, the IBA recommends that the City hire an expert consultant to make at least one presentation a year to the City Council on various financial topics of interest. We would suggest that this financial training be scheduled for a special session of the City Council. The selected financial expert would develop reference materials for advance distribution, make a customized presentation focused on best practices in municipal financial management, and allow plenty of time for City Council questions.

The expert consultant would be prepared to answer questions like the following: What are the appropriate roles and responsibilities of the City Council on various financial matters? Suggest questions that the City Council should ask before taking various financial actions? Describe the key pieces of information that the City Council should request in advance from staff before taking financial action and why? How can the City Council access outside expert resources when they have unresolved questions before taking a financial action?

The IBA could arrange for the annual expert consultant presentation in collaboration with the Council President and incorporate suggestions received from other members of the City Council, the City Attorney and the CFO. We expect that the cost for this training would not exceed \$10,000 a year.

Modified Format for Financial City Council Presentations

The City Council has the ability to request that the Mayor's staff present financial action items in a particular format. The Kroll Remediation Plan recommends that the City Council have sufficient time to review certain financial documents that can be lengthy

and complex. Additionally, the City Council should consider asking key consultants' (e.g., bond counsel and disclosure counsel) to make representations to them concerning the accuracy and integrity of certain financial documents (e.g., preliminary official statements and disclosure documents). The City Council can also request a prudent checklist be developed for evaluating financial items in advance or to guide them in asking appropriate questions at the Council meeting.

The IBA could work with the City Attorney and the CFO to develop a format that incorporates the above suggestions and return to the City Council within 90 days with a brief description of that format. The costs associated with these changes, if any, would be nominal.

Useful Informational Resources and Contacts

The final component of the recommended financial training program involves providing the City Council with useful informational resources and contacts that they can directly access when needed. For example, the Government Finance Officers Association (GFOA) publishes an excellent and extensive series of Elected Official Guides covering most of the important areas in municipal finance. These guides are published by a highly credible financial association, relatively inexpensive (the entire set of 21 guides costs \$165) and generally easy to understand. Our recommendation would be that at least one set of these guides be purchased for every City Council Office and for the Office of the IBA. The IBA further recommends that other cost-effective and relevant informational resources be procured for the City Council as needed. The total cost of this recommendation should not exceed \$5,000.

The IBA further recommends that each City Council Office be provided with a list of professional financial contacts. The contact list would be comprised of internal contacts (Audit Committee, CFO, City Attorney, Treasurer, etc.) and external contacts (financial professional associations, financial consultants, government finance commissions, etc.). The IBA could work with the hired expert consultant (referenced above) and consult with the Office of the City Attorney and the CFO to develop a credible and extensive contact list for City Council utilization. The costs associated with developing a useful contact list, if any, would be nominal.

IMPLEMENTATION AND COST

The IBA could take the lead in implementing all elements of this recommended program; however, we will need to work collaboratively with the CFO and the Office of the City Attorney to make it effective. We have preliminarily consulted with their offices in developing this report. In fact, the City Attorney's Office is prepared to provide Financial Disclosure training to the City Council in January 2007 if it can be scheduled.

The IBA estimates that the total cost, to implement all aspects of the comprehensive financial training program discussed in this report, will not exceed \$15,000 a year. The IBA suggests that, if implemented, the financial training program be periodically evaluated, modified to meet the evolving needs of the City Council and regularly budgeted for in the City Council's annual budget.

CONCLUSION

The IBA commends the City Council for seeking to implement a thoughtful financial training program. We have outlined a comprehensive training program that should provide current and future Councilmembers with multiple sources of relevant information on the important areas of government finance. If implemented, the City Council will have adopted a cost effective and systematic means of acquiring financial information. This program will further demonstrate the City Council's commitment to fiscal reform and "raise the bar" for elected official financial training programs. Most importantly, it is the IBA's belief that by receiving and acquiring easier access to useful financial information, Councilmembers will be better prepared to ask the necessary questions and take action on the numerous financial issues that come before them each year.

[SIGNED]

Jeff Kavar
Fiscal & Policy Analyst

[SIGNED]

APPROVED: Andrea Tevlin
Independent Budget Analyst

Attachment 1