

FINANCIAL POLICIES

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> Merriam-Webster Dictionary

- A definite course or method of action selected from among alternatives and in light of given conditions to guide and determine present and future decisions
- A high-level overall plan embracing the general goals and acceptable procedures especially of a governmental body



Policies to Consider



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Source: GFOA – Best Practice: Adoption of Financial Policies



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> Expenditures

- Debt Capacity, Issuance, and Management
- Reserve or Stabilization Accounts
- Operating/Capital Expenditure Accountability

> Financial Planning

- Balanced Budget
- Long-range Planning
- Asset Inventory

> Revenues

- Revenue Diversification
- Fees and Charges
- Use of One-time Revenues
- Use of Unpredictable Revenues

Benefits & Risks of Formal Policies



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Benefits

- > Establish policies to help frame resource allocation decisions
- > Measure results and aid in decision making
- > Aids in long-term financial planning
- > Facilitates knowledge transfer during succession planning



Risks

- > Have to abide by policies/inflexible
- > Time to develop, refine, and adopt policies
- > Create measurable statistics that are not favorable



Best Practices



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- > Policies adopted by governing body
- > Policies summarized in budget document and reviewed during budget process
- > Be transparent: use the web!
- > Be prepared: think of the future
 - Long-term financial planning
 - Employee retirement/turnover



Basics of a Debt Policy



GFOA Recommended



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- > Written and comprehensive
- > Reflects local, state, federal laws and regulations
- > Reviewed periodically
- > Articulates policy goals
- > Provides guidelines for the structure of debt issuance

GFOA Recommended (cont.)



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- > Demonstrates a commitment to long-term capital and financial planning
- > Sends strong and clear signal to rating agencies and capital markets
- > Approved by the governing body

Elements of a Debt Policy



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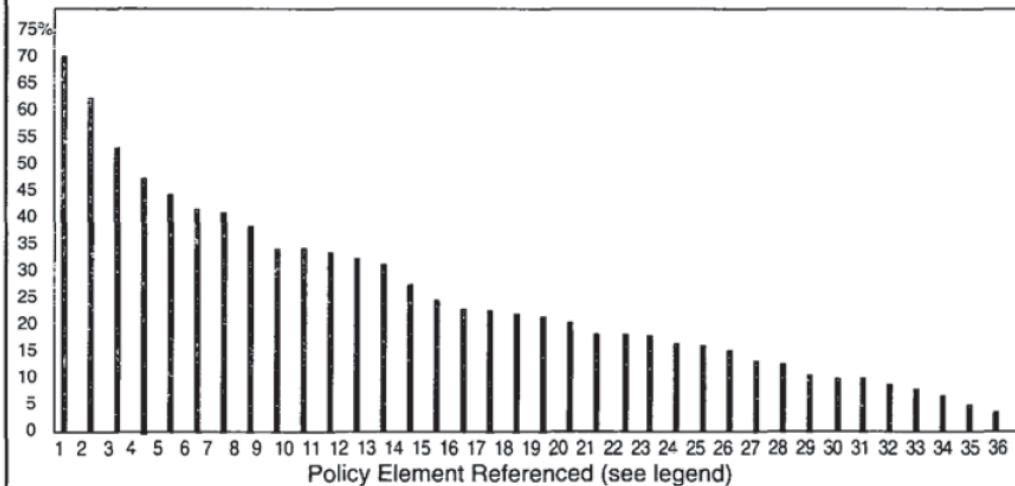
Debt Policy Elements



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- > From Government Finance Review, October 1997
- > 600 municipalities polled
- > Conducted by the City of Pittsburgh
- > Illustrates areas that governments see as critical to a policy beyond GFOA

**Exhibit 1
FREQUENCY OF ELEMENTS APPEARING IN DEBT POLICY STATEMENTS
(97 sample cities)**



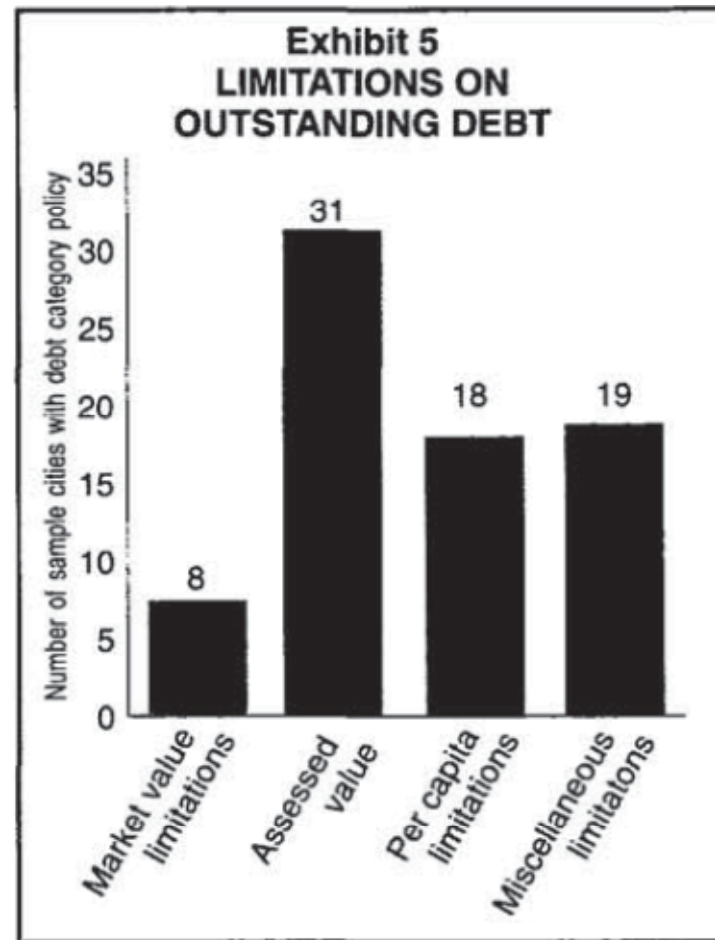
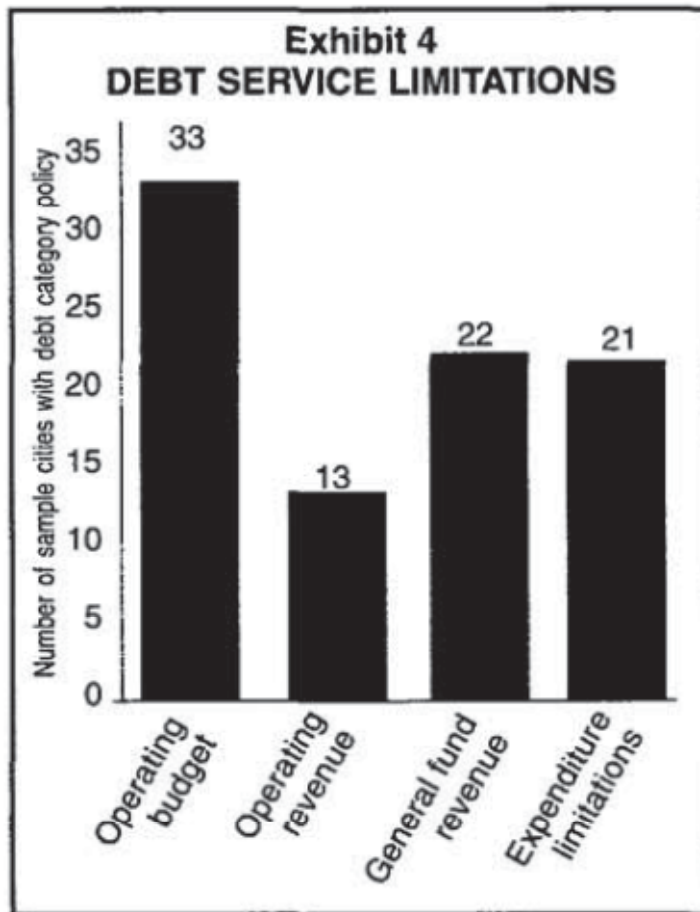
DEBT CATEGORIES

1 Purposes and uses of debt	14 Maturity guidelines	26 When not to issue debt
2 Types of debt	15 General fund revenue	27 Operating revenue
3 Capital expenditure	16 Expenditure limitations	28 Lease debt
4 Refunding bonds	17 Professional services	29 Capitalized interest guidelines
5 Disclosure	18 Short-term debt	30 Market value limitations
6 Statutory limitations	19 Sale process	31 Insurance/letters of credit/ other enhancements
7 Project life	20 Assessed value	32 Limited tax GO bonds
8 Rating agency relations	21 Analysis requirements	33 Inter-fund borrowing
9 Operating budget	22 Reserve capacity	34 Variable rate debt
10 Revenue and TIF bond	23 Per capita limitations	35 Debt service funds
11 Bond rating goals	24 Size of issuance	36 Derivative restrictions
12 Miscellaneous limitations	25 Intergovernmental coordination	
13 Repayment provisions		

Source: Government Finance Review - Debt Limitations



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Relationship and Integration into Capital Improvement Program



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- > Linkage between capital planning process and assessment of fiscal capacity
- > Linkage between financing strategies with useful lives and when debt is appropriate
- > Linkage between long-term capital improvement plan and long-term financial considerations and strategies
- > Linkage between CIP phases (full, multi-year, phased) and financing options

Other Items to Consider



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- > Sustainability initiatives
- > Use of EFTs
- > Continuing disclosure requirements
 - www.emma.msrb.org

Basics of a Fund Balance Policy



Appropriate Levels of Fund Balance



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- > “Cornerstone of flexibility”
- > Five categories
 - Nonspendable
 - Restricted
 - Committed
 - Assigned
 - Unassigned
- > Unrestricted is equated with the last three categories combined

Appropriate Levels of Fund Balance (cont.)



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- > *GFOA recommends: at a minimum and regardless of size of government, unrestricted fund balance in the general fund of no less than two months of regular general fund operating revenues or expenditures (whichever is more predictable).*
- > **HOWEVER** – this level should be based upon a government's own specific circumstances.

Appropriate Levels of Fund Balance (cont.)



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- > Factors include:
 - Predictability of revenues/volatility of expenditures
 - Exposure to significant one-time outlays
 - Potential reliance upon general fund by other funds
 - Liquidity
 - Commitments and assignments

CITY OF COLORADO SPRINGS



> Identified specific risk factors to the City

1. Revenue Volatility (sales tax reliance)
2. Infrastructure Risks (bridges and storm sewers)
3. Extreme Events (wildfires and floods)



- > Established two distinct reserves:
 1. Budgetary
 2. Emergency
- > Quantified each of these reserves
- > Included economic/pension payment/lawsuit uncertainty amounts
- > Resulting target was 25% of general fund revenues

Fund Balance Replenishment



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- > A written/governing body approved policy will justify procedures to replenish
- > May mitigate political influences that can stymie efforts
- > Specifying purposes
- > Be transparent

Fund Balance Replenishment (cont.)



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> Sources for replenishment

1. Non-recurring revenues
2. Budget surpluses
3. Excess resources in other funds
4. Year-end surpluses

> Timeline: Generally one to three years

Fund Balance Replenishment (cont.)



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- Budgetary reasons behind targets
- Recovering from extreme event
- Political continuity
- Financial planning time horizons
- Long-term forecasts and economic conditions
- Milestones for gradual replenishment
- External financing expectations

Basics of a Budget Policy

NACSLB Recommended Budget Practices



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Definition: The budget process consists of activities that encompass the development, implementation, and evaluation of a plan for the provision of services and capital assets.

Mission: To help decision makers make informed choices about the provisions of services and capital assets and to promote stakeholder participation in the process.

NACSLB Recommended Budget Practices



Candor. Insight. Results.

- > Incorporates a long-term perspective
- > Establishes linkages to broad organizational goals
- > Focuses budget decisions on results and outcomes
- > Involves and promotes effective communication with stakeholders
- > Provides incentives to government management and employees

Budgeting Steps



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1.

- Determine how much money is available

2.

- Prioritize results

3.

- Allocate resources among high priority results

4.

- Conduct analysis to determine what strategies, programs, and activities will best achieve desired results

Budgeting Steps (cont.)



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5.

- Budget available dollars to the most significant programs and activities

6.

- Set measures of annual progress, monitor, and close the feedback loop

7.

- Check what actually happened

8.

- Communicate performance results

Structurally Balanced Budget Policy



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- > Definition
- > Comparison to a “balanced budget”
- > Framework to create a structurally balanced budget policy
 - Identify key items related to structural balance
- > Adopt a formal policy calling for structural balance in the budget
- > True structural balance may not be possible at all times

RESOURCES



- > GFOA Website
 - www.gfoa.org
- > www.larimer.org/budget/budget_practices.pdf
- > <http://gfoa.org/downloads/GFOAColoradoSprings.pdf>
- > Auditors & financial advisors
- > Wisconsin Counties Association
- > League of Wisconsin Municipalities
- > Internet searches



Any questions?

Thank you!