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UNIVERSITY OF GEORGIA

Georgia CITY-COUNTY MANAGEMENT ASSOCIATION

Budgeting for Long-Term Sustainability

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Learning Objectives

- Discuss planning for a long-term budget perspective
- Identify long-term budget costs
- Recall funding methods for long-term costs
- Discuss factors necessary for financial sustainability
- Recall why financial policies are important

Small Group Discussion

What long-term liabilities impact the operating budget process?

What budgetary methods can be used to address funding for these long-term liabilities?

How do we balance funding of long-term liabilities against annual operational needs?

Planning from a Long-Term Budget Perspective

Section: 1

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National Advisory Council of State and Local Budgeting (NACSLB)

A cross-sector group convened by the Government Finance Officers Association (GFOA)

Defines Budget Process:

- The Budget Process consists of activities that encompass the development, implementation, and evaluation of a plan for the provision of services and capital assets.
- Key Characteristics of the Budget Process:
  - **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 and
  - Provides incentives to government management and employees

Budget Refresher

General Fund

- Main operating fund of your Government

Operating Budget

- Annual adopted budget that includes funding for services delivered to citizens

Capital Expenditure

- The cost to acquire or construct a long-life asset (more than 2 years)

Capital Project Fund

- A governmental fund that is used to account for the costs of capital expenditures

Capital Improvement Plan

- A multi-year plan/budget that is developed to identify/fund capital expenditures

O.C.G.A. § 36-81-3

Balanced Budget

- Revenues + Appropriated Fund Balance = Appropriations
  - General Fund
  - Special Revenue Fund
  - Debt Service Fund

Capital Projects

- Project-length balanced budget

Option to adopt budgets for any remaining funds

Adopt by ordinance or resolution

Developing a Long-Term Perspective

Includes:

- Strategic Planning
- Long-Term Financial Planning

Strategic Planning

A Critical Component of Budgeting for Long-Term Sustainability

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Strategic Planning

What is a Strategic Plan?

A disciplined effort to produce fundamental decisions and actions that shape and guide what an organization is, what it does, and why it does it.

Strategic Plan

Long term PLAN that defines VISION for the FUTURE as well as identify goals and objectives for the organization

- Defines mission, vision and core values
- Plan of action for achieving desired results
- Provides a focus for development of CIP
- Clear picture of the priorities of the government in establishing goals and objectives

Strategic Planning

Steps in the process:

1. Strategy Input
   - ✓Goals and Objectives of Elected Body and Citizens
2. Strategy Development
   - ✓How to accomplish the Stated Goals
3. Strategy Deployment
   - ✓How to incorporate into Government operations
4. Strategy Execution
   - ✓Measuring and reporting

Strategy Input

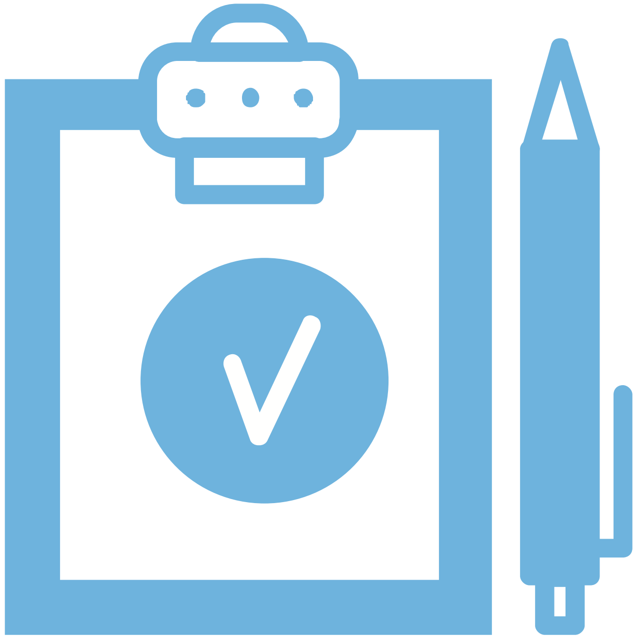
Who is in charge of developing a Strategic Plan?

Inputs to plan might include:

- Outreach to Citizens to determine their priorities (Who prioritizes?)
- Priorities of Key Community Organizations (Who are these?)
- Facilitated Workshops (Who is involved?)
- End Result → Mission/Vision/Values Statements; Priority Areas

Development, Deployment & Execution

- Evaluate End Results
- Prioritize Goals with Elected Body
- Develop Tasks to achieve Goals
  - Limited Resources
  - Multi-year Plan
  - Determine Roles
    - Within your Government
    - With other Stakeholders
- Measuring and Reporting



Long-Term Financial Planning

Long-Term Financial Planning

What is a long-term financial planning?

Long-term financial planning is the process of aligning financial capacity with long-term service objectives

*Financial planning uses forecasts to provide insight into future financial capacity so that strategies can be developed to achieve **long-term sustainability** in light of the government's service objectives and financial challenges.*

-Government Finance Officers Association (2008)

Long-Term Financial Plan

How long is long-term?

- Three years? Four years? Five years? Ten years?

Determine Frequency of Updates to Plan

What is included in the Plan:

- All appropriated funds?
- Millage Levy funds?
- Funds with User fees (enterprise funds)?

Visibility of Plan:

- Internal Use
- Government Use

Long-Term Financial Plan Content

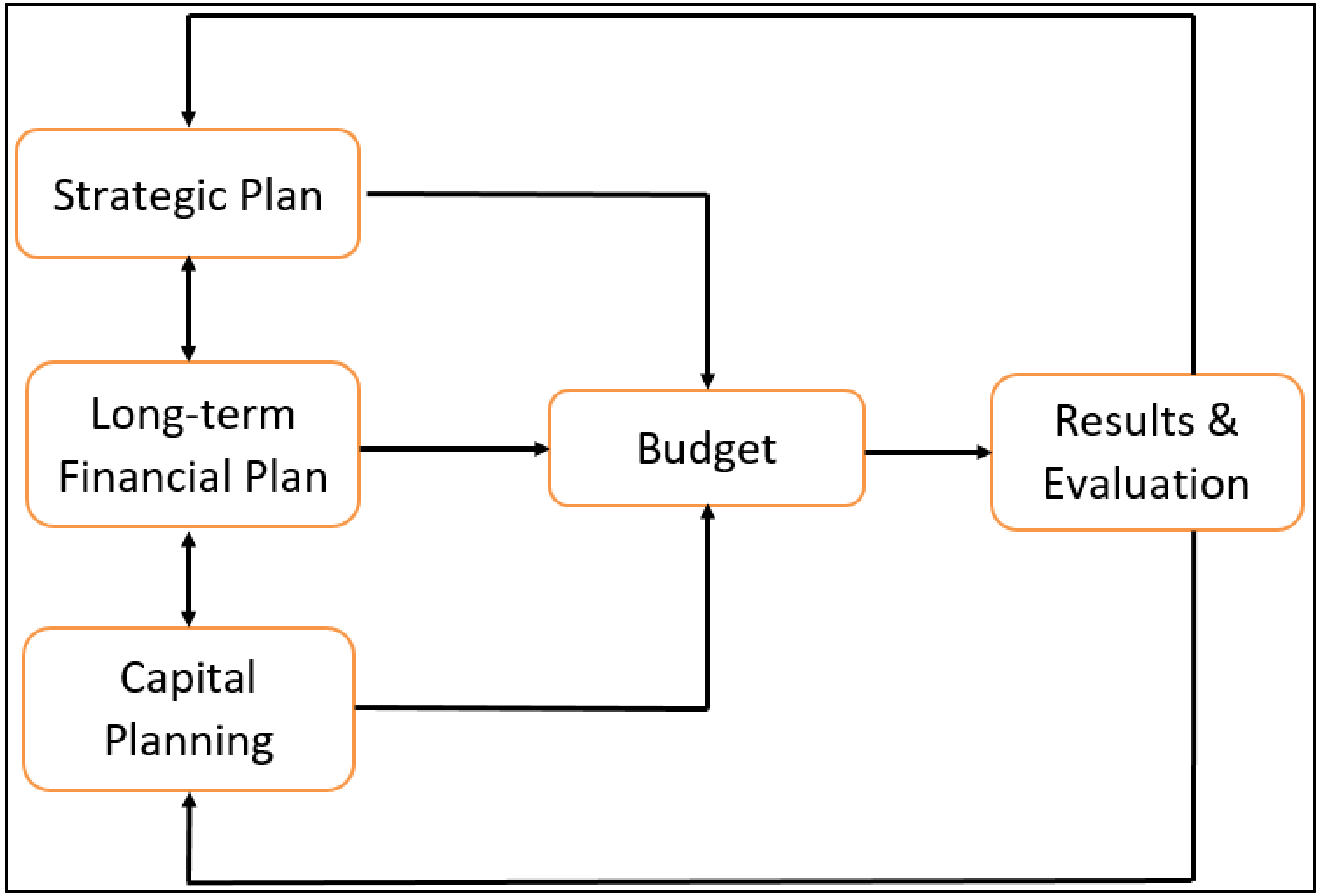
Content includes:	Analysis of financial environment
	Revenue and expenditure forecasts
	Debt position
	Affordability analysis
	Strategies for achieving and maintaining financial balance
	Plan monitoring mechanisms (e.g., financial indicators)

Long-Term Financial Plan Benefits

Why Worthwhile?

- Determine your financial condition
- Build a case for action
- Help develop mix of strategies
- Build citizen trust – accountability
- Comply with rating agencies

Key Links



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Long-Term Financial Planning Considerations

Assess long-term financial impacts of current service levels

- What are we doing now?
- What will we be doing in the future?
- Will costs change?

Assess ways to implement strategic objectives

- How can we accomplish these?
- Will the objectives require additional funding?
- Is organizational realignment required?
- Can we collaborate with other organizations to achieve the objectives?

More Long-Term Financial Planning Considerations

Assess revenue capacity

- What are our most significant revenue sources?
- Will these revenues change over the next five years?
  - Economic changes, volatility, new revenues
  - How will service needs impact revenue needs?

Assess capital expenditure needs

- How can we pay for needed equipment for current services?
- What replacement or growth needs will require capital outlay?

Assess costs of employee benefit programs

- Health care, pension, retiree health

Document assumptions used

Develop operating forecasts and multi-year capital plans

Long-Term Budget Costs

Section: 2

Identifying Long-Term Budget Costs

Long-term liabilities are financial obligations which are paid for over multiple budget periods

What are examples of your long-term budget costs?

Identifying Long-Term Budget Costs

Capital Renewal and Replacement

Capital Expenditures

Long-term Debt associated with Capital Expenditures

Contractual Obligations

Actuarially Determined Contributions for Employee Benefit Programs (Pensions and OPEB's)

What did I miss?

Capital Improvement Plan (CIP)

Infrastructure, technology, and major equipment are the physical foundation for providing services to constituents. The procurement, design, construction, maintenance, and operation of capital assets are a critical activity of governments and therefore require careful planning.

-GFOA

How do you define a capital improvement plan?

Capital Assets Defined

Assets with a life of at least one year and exceeding a dollar amount determined by governing body that are intended to continue to be held or used, such as land, buildings, machinery, furniture and other equipment.

Nonfinancial Assets:

- Land
- Buildings
- Machinery & Equipment
- Infrastructure

Capital Improvement Program

A CIP is:

- A long-term plan for capital expenditures
- Dollar amounts of projects included in plan may vary by government
- Time period covered by plan may vary by government
- Overall, CIP important to the future of the government

Why do we need a CIP?

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Why have a Capital Improvement Program?

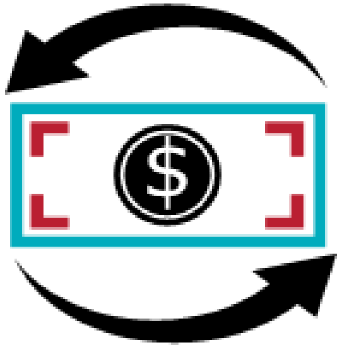
We can't afford to pay for all our capital improvement needs in one year!!

Most funding comes from our operating funds

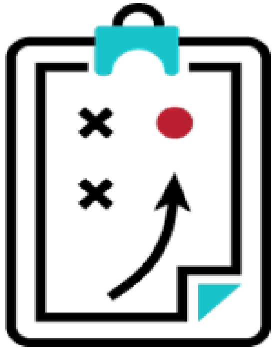
Plan, plan, plan!

- How to fund over time

Why develop a CIP?

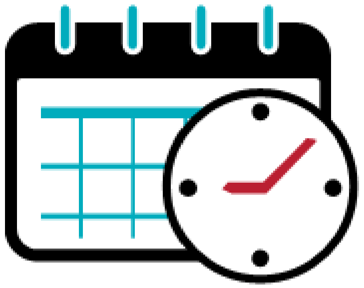


Plans for major expenditures on a regular basis



Prioritizes projects since funding is typically not available for all projects at one time

Why develop a CIP?



Requires planning by local governments beyond the current year to provide the desired benefit to the local government

Encourages interdepartmental collaboration regarding planned projects

What’s included in a CIP?

- Capital Assets
  - Require Improvement
  - Require Replacement
- Capital Projects
  - Infrastructure
    - Highways
    - Roads
    - Sidewalks
    - Streetlights
  - Other Examples
    - Land
    - Buildings
    - Equipment
    - Vehicles

Operating Budget v. CIP

Operating Budget	Capital Improvement Plan (CIP)
Annual budget	Five- to six-year plan
Adopted annually	Adjusted annually
Daily operations of the local government	Major expenditures of the local government
Includes revenues and expenditures for the fiscal year	Plan for identifying future spending needs
Funds service delivery	

Capital Improvement Plan (CIP)

CIP is not a budget, rather it is a plan

Process to identify all major expenditure needs, not necessarily to fund them

Capital budget is developed from CIP

After expenditures are identified, select which projects to include in the annual capital budget

CIP Process

Strategic plan, comprehensive plan and other policies

Input from different organizations within the local government

Public comment and rigorous evaluation

Impact of capital expenditures on the operating budget

Capital Replacement Schedule

- Brings attention to the need for maintenance of existing infrastructure
- Encourages regular replacement and maintenance of assets
- Commits regular funding to the replacement and maintenance of assets
- Forces a discussion of the best way to fund maintenance – operating or capital budgets?

Digging Deeper

- Handout
- GFOA Guidance
- Report out

Pension Plans

Evaluate the Type of Pension Plan

What is the Government's responsibility to pay benefits?

- All pension plans involve an employer promise to pay participants

What is the Government's liability for the benefits?

How should the Government fund the benefits?

How should the Government report the plan in its audited financial statements? (GASB 67 & 68)

Types of Pension Plans

Defined Contribution

Regular agreed-upon contributions to each employee's investment account

Payments by Government are made during employment of employee

Employee retains the risk that the account balances and income are sufficient to fund retirement

Defined Benefit

Employer promises future benefit payments at retirement based on a defined formula

Employer makes contributions for future benefit payments during employee's service

Employer responsible to accumulate enough funds to pay for the retiree benefits

Pension Risks

What type of pension plan results in more risk to the employee? The government?

Budgeting for Pensions

Defined Contribution Plans	Provide more budget certainty
	Employer makes regular contributions to employee investment accounts
	Contributions are often a percentage of employee's salary
	No responsibility to pay once employment is terminated

Budgeting for Pensions

What should be budgeted annually for a defined benefit pension plan?	
	Advance Funding is required to ensure funds are accumulated during an employee's active service life to pay future benefits.
	Are annual budgeted payments to the plan statutorily established?
	Should the annual budgeted payments be calculated by an Actuary?
	What percentage of the annual budgeted payments should be paid by active employees during their working career - employee contributions?

Role of Actuary

Evaluate information on Defined Benefit Plan

Calculate key information

- Total Pension Liability
  - Present Value of pension benefits attributed to prior service
- Fiduciary Net Position
  - Resources currently available to pay for the promised pension benefits
- Net Pension Liability
  - Difference between the first two
- Pension Funded Ratio
  - Fiduciary Net Position / Total Pension Liability
- Actuarially Determined Contribution (ADC)
  - Annual amount that should be budgeted for payment to the plan

Actuarially Determined Contribution

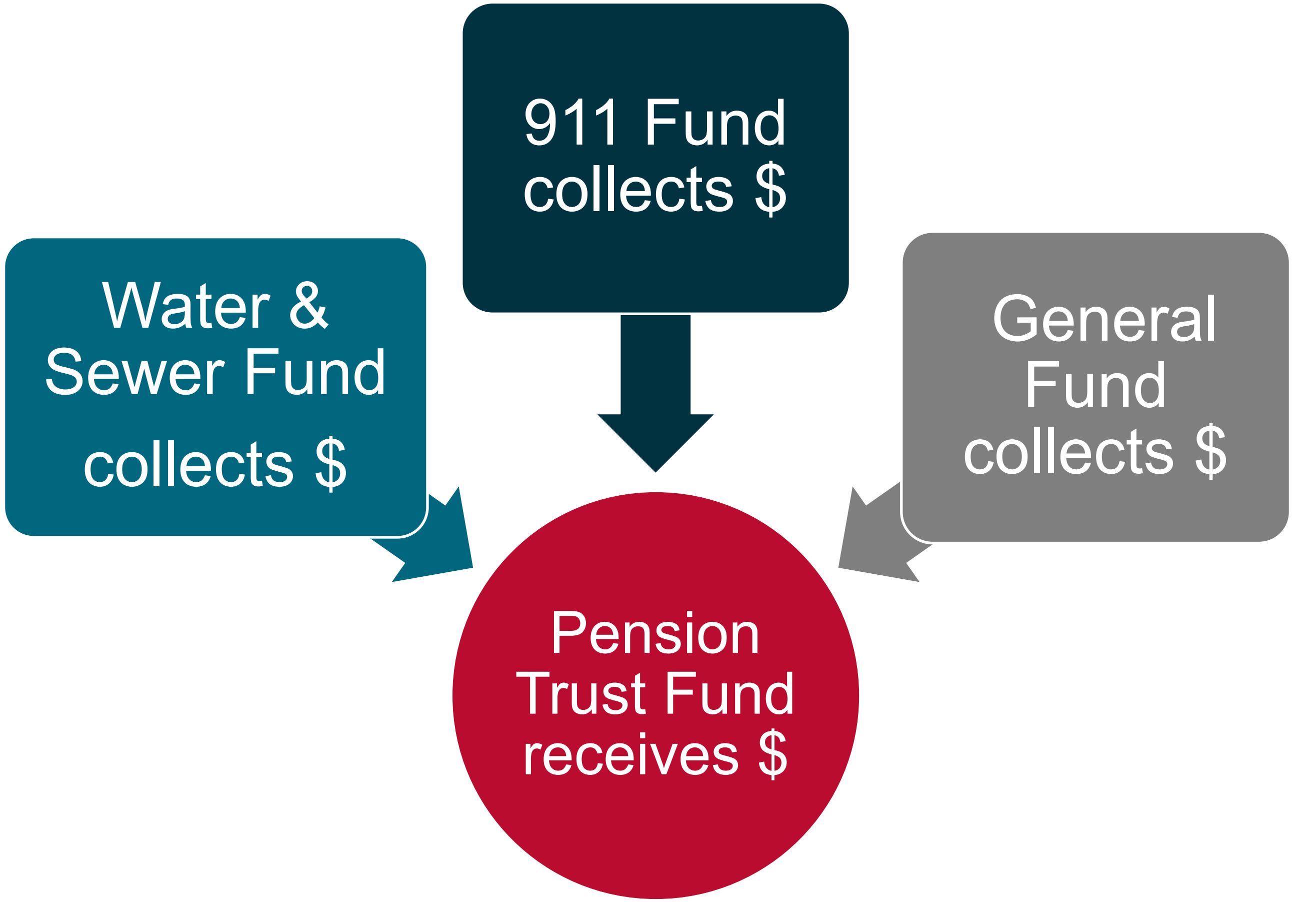
Actuarially Determined Contribution is the annual amount that should be contributed to the plan

- Policy issues of Employer vs. Employee cost share

Where are Pension Expenses budgeted?

- One department within each fund?
- A line item within each departmental budget?
  - Calculated as a % of salary
  - Calculated as a flat amount per employee
  - Contribution rates may differ – general vs. Law enforcement
  - Other ideas

Relationship of Fund Types



Pension Trust Fund

Accumulates assets

- Employer contributions and Employee / Retiree premiums

Invests assets as allowed by State law

- Investment income

Pay pension benefits

Pay plan expenses

Fiduciary Fund – assets do not belong to the local government

Annual adopted budget is not required under State law

Defined Benefit & Defined Contribution Plans

Refer to "Handout – Pensions in Financial Statements"

Other Post Employment Benefit (OPEB) Plans

OPEB would include benefits, other than pension, that an employee receives upon retirement

- Life Insurance
- Health Insurance
  - Retiree
  - Retiree spouse / minor dependents
  - Pre 65
  - Medicare eligible

What is the Government providing = Type of OPEB Plan

- Nothing
- Defined Contribution
- Defined Benefit

Funding OPEBs

PAYGO (Pay as You Go)

- Financing expenditures with funds that are currently available
- Each year's cost of retiree and dependent claims and related administration either paid by the county's insurer or to a third-party administrator

Advance Funding

- Placing resources into a trust to pay for the current cost of retiree health benefits and future benefits as they come due

Funding OPEBs

Pay-As-You-Go

PROS

In the short term, more affordable

CONS

Long term shifts burden of payment to future generations

Advance Funding

PROS

Funding cost of future obligations—like pensions

CONS

More expensive than pay-as-you-go

OPEB Trust Fund

Accumulates assets

- Employer and Employee contributions

Invest assets as allowed by State law

- Investment income

Pay other post employment benefits

Pay plan expenses

Fiduciary Fund – assets do not belong to the local government

Annual adopted budget is not required under State law

OPEB has Similarities to Pension Discussion

Type of plan provided

Premiums paid by Retirees for medical and other insurance

Statutory requirements

Actuarially Determined Contributions

How to budget for the ADCs or OPEB expenses

Reporting in Audit - GASB 74 & 75

- Total OPEB Liability
- Plan Fiduciary Net Position
- Net OPEB Liability
- Funded Ratio

OPEB Take Home Actions

Review notes to your audited financial statements to see what commitments your government has made to current and future retirees

Evaluate impact of those commitments on your financial sustainability

Consider moving from “pay-as-you-go” to advance funding for savings to shift burden back to current generation not future generations

OPEB

Refer to “Handout –
OPEB in Financial Statements”

Compensated Absences

Vacation Leave

Sick Leave

Compensatory Time

Compensated Absences

Benefits accrue as employees earn them	• Amount of benefits earned based on HR ordinances/policies or union contracts
Benefits are valued as of the financial statement date based on each employees:	• Time earned X rate of pay (plus FICA) • Liability reported on Entity-wide financial statements and enterprise fund financials
Typically funded when paid	• Retirement • Termination

Budgeting Options for Compensated Absences

No consideration

Include when estimating salary budgets

- Budget 110% of salaries

Establish a contingency

- Transfer funds to departments as issues arise
- Plan for potential retirements

Look at Policies

- Accrual rates
- Competitive benefits

Other Long-Term Budget Costs?

What long-term budget costs haven't we discussed yet?

Funding Long-Term Costs

Section: 3

Why Borrow Money?

Need for Facilities/Development

- Governments are responsible for a wide array of services that require capital facilities/improvements

Consequences of Delay

- Delay of services provided
- Inconvenience or endangerment of citizens

Spreading of Costs over Useful Life

- Most facilities have extended useful lives
- Citizens may enjoy facilities for 20 - 40 years
- Unfair burden to current taxpayers if required to pay
- Financing shares costs with future users of the facilities/services

Why Borrow Money?

Funds needed to cover operating shortfalls (cash flow)

Funds needed for capital projects

- Government office buildings
- Streets and roads
- Electric power-generating and transmission facilities
- Water treatment facilities
- Water and sewer infrastructure
- Affordable housing

Long-Term vs. Short-Term Debt

Short-Term Debt

- Needed for operating purposes
- Not used for capital project financing
- Will be repaid within one year
- Issued to cover operating shortfalls, in anticipation of receipt of specific type of revenues
- Generally referred to as anticipation notes

Long-Term vs. Short-Term Debt

Long-term debt - (think bonds/ capital)

- Will not be repaid within one year
- Issued to finance capital projects
- Limited by State Law (GO)
- How much debt can be issued?
- For how long can debt be issued?

Debt Financing

Advantages

- Current revenues used each year for repayment of debt service
- Matches use of facility with payments for the facility
- Permits capital improvements to be implemented as needed, rather than when adequate cash is available

Debt Financing

Disadvantages

- Reduces financial flexibility in budgeting
  - Annual debt service payments must be made
  - Repayment of debt from operating funds
  - Impact future tax rates (General Fund)
  - If a revenue bond, impacts future rate structures
- Limits future borrowing capacity

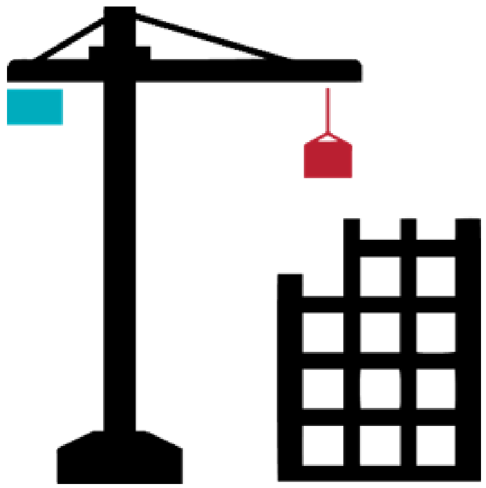
What is your government's philosophy on debt?

Typical Capital Financing Methods

- Bonds
  - General Obligation (GO) Bonds
  - Revenue Bonds
  - Special Assessment Bonds
  - Certificates of Participation (COPS)
- SPLOST or TSPLOST
- Low Interest Loans/Grants (GEFA & SRTA)
- Internal Service Funds

General Obligation (GO) Bonds

- Tool to raise funds for projects that will not provide direct sources of revenue
  - Roads and bridges, parks, equipment, administration building
- Typically used to fund projects that will serve the entire populace
  - Not a particular entity of specific population group



General Obligation (GO) Bonds - Advantages

Typically bonds are issued at a low interest rate since investment income from municipal bonds is not taxable

Low risk to investors since backed by taxing power (full faith and credit; unlimited tax pledge) of issuing government

Referendum approval is required prior to bond issuance - confirms popular support for project

20 to 30 year financing period

General Obligation (GO) Bonds - Disadvantages

Need for Referendum could delay project

Constraints of Georgia Law on legal debt limitation

- Legal Debt Limit applies to all GO Debt issued
- 10% of net assessed value is the debt limit

When paid from general tax revenues, taxpayers paying for project are not necessarily the ones benefitting from the project

- Economic development projects
- Tourism development projects

Revenue Bonds

Method of financing projects that have a specific revenue stream

- Water and Sewer projects
- Sanitation projects
- Often linked to an Enterprise Fund

Long maturity period – up to 40 years

Make up the majority of municipal bonds issued

Revenue Bonds

Characteristics:

- Revenue from project used to fund debt service payments
- Project serve those who receive and pay for the service
- Legally secured by a revenue pledge, not full faith and credit of issuer
- Not subject to voter approval
- Not included in debt limit calculations
- Interest rates may be higher than GO Bond rates

Cities and Counties need to balance advantages and disadvantages before deciding financing type

Revenue Bonds

Debt service reserve fund often established

- Bond documents would outline required funds to maintain
- Use DSRF to pay debt service if revenues are not sufficient

Feasibility Studies part of due diligence

- Determine Project viability - service needs, construction needs, future revenues and expenses
- Determine likelihood project revenue will cover debt service and operating maintenance requirements
- Relied upon when issuing bonds

Revenue Bonds

Coverage Requirements

- Issuer commits to maintain rates/charges at a certain level
- Higher coverage requirements may be required to projects with less dependable revenue streams

Additional Bonds Test

- Imposed before more bonds can be issued if secured by same revenues
- Revenues must be sufficient for current bonds plus new bonds

Special Assessment Bonds

Financing for Capital Improvements in a defined area of the community that receives the benefit of the project

Examples:

- Community Improvement Districts (CIDs)
- Tax Allocation Districts (TADs)

Can be risky if too few property owners or in a recessionary environment

Financed Purchases (Lease Arrangements)

Popular way to acquire equipment and facilities

Advantages

- No voter approval/referendum
- Easy, effective method of obtaining funding
- Non-appropriation clause
  - (Contract based on the availability of public funding)
- Beneficial on lower cost projects

Disadvantages

- Higher interest rates

Certificates of Participation (COPs)

Specialized form of lease-purchase agreement

Individual investors buy a share of the lease revenues, rather than an interest in the project or bonds

Each Certificate represents a proportional interest in the payments that are due under the lease

SPLOST and TSPLOST

Cities and County come together to develop a Capital Project Plan

Voters are asked to approve the Capital Project Plan

Imposes additional sales tax on a defined community

- Special Purpose Local Option Sales Tax
- Transportation Special Purpose Local Option Sales Tax

Taxes are collected by the State and returned to the County for distribution

County distributes taxes to municipalities under the referendum formula and intergovernmental agreements

Cities and County use funds to pay for pre-defined set of capital projects

Legal Limitations – State Code & Constitution

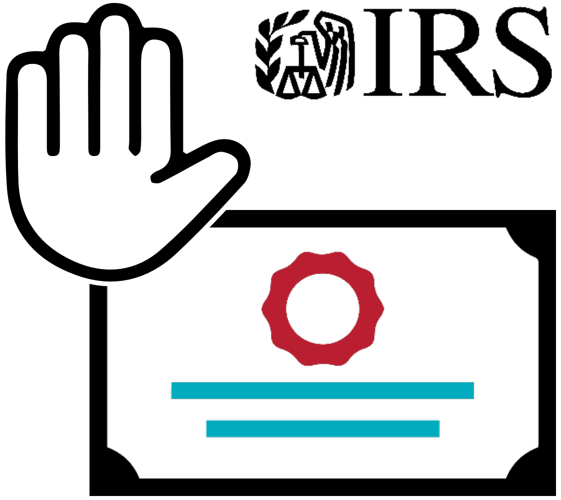
GO Bonds	Constitution IX-V-VI
Revenue Bonds	O.C.G.A. § 36-82-60 to 85
SPLOST	O.C.G.A. § 48-8-110 -123
TSPLOST	O.C.G.A. § 48-8-244

Internal Revenue Service

Restricts expenditures and requirements for spending the bond proceeds

Restricts “transfer [of] benefits of tax-exempt financing to nongovernmental persons”

Improvement “will be used by the governmental entity for its own purposes and the bond-financed property will be owned by the governmental unit.”



Low Interest Loans/Grants

Revolving Loan Programs

- Georgia Environmental Finance Authority (GEFA)
  - Water and Sewer Financing
  - Solid Waste Loans
- https://gefa.georgia.gov/financial/loan-programs

GEORGIA ENVIRONMENTAL FINANCE AUTHORITY

Low Interest Loans/Grants

Revolving Loan Programs/Grants

- State Road & Tollway Authority
    - Georgia Transportation Infrastructure Bank
- https://www.srta.ga.gov/gtib/#1515448272758-a57ca929-8da6

GTIB | Georgia Transportation Infrastructure Bank

The Georgia Transportation Infrastructure Bank (GTIB) is a grant and low-interest loan program administered by the State Road and Tollway Authority (SRTA). Since inception, GTIB has provided over $216 million in loans and grants to highly competitive transportation projects that have enhanced mobility and driven economic development in local communities throughout Georgia.

Financial Sustainability

Section: 4

What is Financial Sustainability?

Maintaining	Maintaining existing service levels
Withstanding	Withstanding local and regional economic disruptions
Meeting	Meeting the demands of natural growth or decline and change without short-term borrowing

Budgeting for Sustainability

Know where you want to go (plan)

- Strategic Plan
- Long-Term Financial Plan/Forecasts

Know where you are

Develop and implement strategies and policies to reach goals

How do you get there?

Factors Necessary for Financial Sustainability

Capital Improvement Plan

Funding Long-Term Costs

Structurally Balanced Budget

Understand Legal Requirements around services

- What is discretionary vs. non-discretionary

Short-Term Budget Fixes vs. Correcting Structural Imbalances

Section: 5

Short-Term Budget Fixes

Budget choices either strengthen or weaken your long-term fiscal sustainability

During times of fiscal stress governments look for short-term budget fixes - nearly universal

Most are reasonable and sensible – some not so much!

What are some examples of short-term budget fixes?

Problems with Short-Term Fixes

Are these fixes used only during major economic downturns or are they perennial?

- If the latter, actions could result in greater inefficiencies over time

Using perennial budget fixes is a sign of structural imbalance

Structural Imbalance

What is Structural Imbalance?

- Not a disease – it can be cured!
- When a government is unable to provide desired services with current resources while still meeting all short- and long-term obligations

Two Choices:

- Increase revenues
- Adjust services/decrease costs

Beyond the Gimmicks

If there is structural imbalance or you want there to be more stability in the budget process, look at long-term solutions

- Requires more analysis
- More risk
- Means to achieve long-term fiscal sustainability

Financial Policies should be adopted and adhered to

- Financial Polices should reflect "baseline" financial principles of the local government

Discretionary vs. Non-Discretionary

Not a political issue but a legal one

What can be reduced (discretionary)?

Difference between ***Should*** and ***Must***

If non-discretionary, becomes a budget priority

Discretionary vs. Non-Discretionary

To understand whether a budget item is discretionary or not, ask the following questions?

1. Are you legally required to perform the service?
2. If so, is there a minimum service level that must be performed?
3. Did you obligate (promise) to provide or pay for something?
4. What did staff say?

Small Group Discussion

1. What are your discretionary vs non-discretionary expenses?
2. What discretionary expenses do you TREAT like non-discretionary?

Make sure everyone has a chance to share

Pick a spokesperson to share highlights with bigger group

Balancing Volatility

Evaluate Revenue Volatility

Evaluate recurring expenditures

Match more stable revenue sources to recurring expenditures

Match less stable/economically swayed revenues to one-time expenditures

Seek Long-Term Efficiencies

Several Different Options

- Personnel costs
- Reorganization
- Intergovernmental agreements and functional consolidation
- Change service levels/load shedding

Reducing Personnel Costs

Major Cost in most cities

- Salaries and benefits represents 60 - 70% of the budget

Evaluate Benefits

- Health Care, OPEB, Retirement

Impact on Desired Service Levels

Understand Local Labor Markets

- Analysis, consider pros and cons of change

Many options still provide quality benefits

Changing Retirement Plans is not a quick fix – long term liabilities remain

Reorganization

Would changing the structure result in greater efficiencies? In improved service quality?

Cost savings from reduced personnel

- Consider impact of initial cost reductions

Requires thorough analysis – don't make quick decisions!

Can have additional up front costs

- Unemployment costs
- Training of retained personnel
- Overtime

Multiple years to complete

Intergovernmental Agreements & Functional Consolidation

Contract with another local government or joint service provision

Lower cost through efficiencies

- Economies of scale, existing infrastructure, greater expertise, lower personnel costs

Requires thorough analysis – short term and long term

Many types of agreements

- Flexibility in provision and payment

Many different challenges too

Can be difficult to go back - safeguard physical assets on front-end

Service Levels

What can be gained elsewhere by reducing services here?

Do citizens want a service reduction?

Consider the fiscal, economic, quality of life and POLITICAL consequences

Recognition of current environment

- Population and Demand
- Resources to pay for services

Most efficient personnel / staffing levels should be determined

Based on priorities and community goals

Common Themes

Evaluation / Due Diligence

Multi-year period for changes/return

Usually involves loss of personnel or move to contracted services

Link with Strategic Plan and long-term goals

Requires high level of communications

Impact on employees and organization

Group Activity

Part 1: Independently read assigned article, make notes of several "take-home" points.

Part 2: Discuss in small groups. Develop a short 3-4 minute presentation on your article that gives a brief summary and at least 3 points to highlight.

Part 3: Present to the larger group

Assignments:

- Group 1: Monitoring Financial Decisions
- Group 2: Strategic Asset Management
- Group 3: Linking Transparency to Sustainability
- Group 4: Maximizing the Influence of Your Forecast

Financial Policies

Section: 6

Tale of Two Cities

City A

Council is calling a meeting to discuss the following issues:

A temporary borrowing is required due to lack of available cash to meet obligations in the next two months

The independent auditors report multiple findings related to financial reporting and compliance

There appears to be fraudulent activity in one department

Tale of Two Cities

City B

Council has a regularly scheduled meeting to discuss the following:

Favorable audit results

Strong quarterly financial statement

Upcoming debt issuance for capital projects

- City has historically had excellent bond ratings

Recognition of the Purchasing Department for their administrative efforts related to purchasing cards

Which city do you want to be?

What are Financial Policies

Financial policies are guidelines or a plan of action for decisions as they relate to financial matters

Provide acceptable courses of action for staff and elected officials

Establish consistent guidelines for financial activities

Set a foundation for financial planning and decision making

Provide historical basis for future direction by encouraging stability and continuity

Minimize risk and safeguards assets

Policy vs. Procedure

Policy	Procedure
Guiding principle put in place to give employees direction Set by governing body Reflects the mission statement of the government Identifies what staff is authorized to do	Set of actions that staff performs Step by step instructions to tell employees what and when to do it Spells out how staff is going to accomplish it

Effective Policy Characteristics

Written

Clear, Specific – mean what they say

Current and relevant

Centrally available

Comprehensive

- Who, what, when, where

Steps to Policy Development

1. Determine need for policy
2. Obtain and review sample policies and best practice literature
3. Create a draft policy
4. Legal and departmental review - municipal advisor's review
5. Public input, if needed
6. Approval by Governing Authority/Body
7. Distribute policy
8. Train employees and stakeholders

Role of Elected Officials

Establish Policies that concentrate on Long-Term Financial Sustainability

Formal approval of Financial Policies

Some Policies with a Long-Term Focus

Fund Balance	Capital Asset Management	Debt Management
Pension Funding Policy	OPEB Funding Policy	Long-term Financial Planning Policy

Fund Balance Policy

Fund Balance

Key policy: have one for minimum fund balances

Important for cash flow, unanticipated expenditures, or downturn in revenues (minor)

Unassigned fund balance

Amount needed depends on types of expenditures, volatility of the revenues, culture of community

Fund Balance Policy

Fund Balance

- Consider policy establishing a stabilization fund
- Part of General Fund balance
- Would be a committed source (type of unrestricted)
- For economic downturns, natural disasters (major)
- Policy lists specific criteria when fund can be used

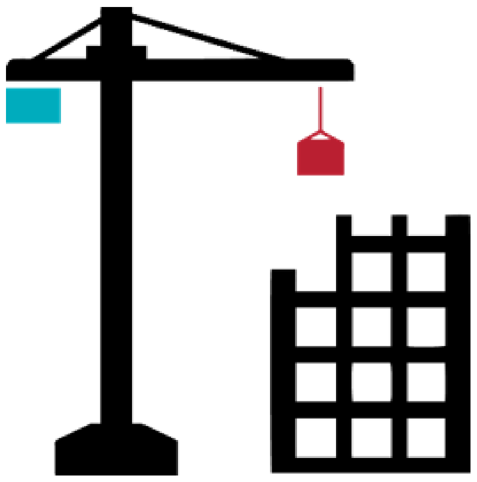
Capital Asset Management Policies

Capital Improvement Planning

Capital Budgeting

Capital Project Management

Capital Asset Maintenance



Capital Improvement Planning Policy

Define capital expenditure, capital outlay, capitalization thresholds and time horizon for planning

Describe how projects are submitted for consideration

Outline how projects will be selected / rated

Determine funding source strategies for projects

Evaluate how to develop operating cost projections

Determine how old capital projects will be disposed

When to close out "Open" projects

Capital Budgeting Policy

Balanced CIP budget

- Expenditures in the CIP should equal available resources
- Describe how Recommended Projects are reviewed
- Outline funding strategies
- Assess how much is being allocated to capital from operations
- Determine how debt financing could be utilized

Define type of budget for Council adoption

- Annual Budget vs. Project-length budget
- First year of CIP should be the Annual Budget

Capital Project Management Policy

Assigns internal responsibilities for Project Management

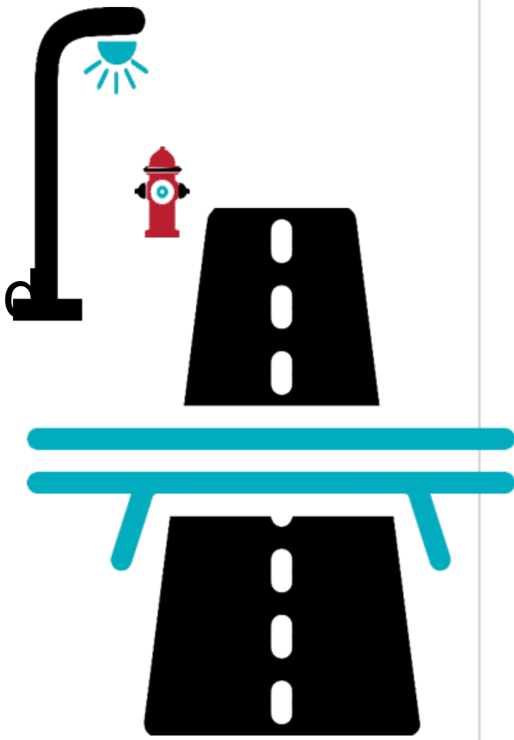
- Budget adherence
- Construction / Project timeline schedule
- Authorize payments to vendors
- Compliance with laws and regulations
- Periodic reporting to Council or Management
- Financial analysis

Capital Asset Maintenance

Inventory and periodic measurement of physical condition

Set target condition standards for assets

Determine when and how infrastructure condition is assessed



Develop funding policies

- Asset reserves established when a new project is approved
- Renewal and replacement reserves
- Funded through CIP
- Other examples?

Debt Management Policy

Identify when debt financing should be considered

Identify when debt financing should NOT be considered

Identify Legal Borrowing Limits

Identify Internal Borrowing Limits such as debt service expenditures vs. total operating budget

Identify debt repayment sources

Identify preferred types of financing

Identify preferred methods to market bonds (Negotiated vs. Completive Sale)

Identify responsibilities for Continuing Disclosure

Pension & OPEB Funding Policy

Defined Benefit Pension Plans and OPEB Plans

Describe how often Actuarial Valuations will occur

Not less than every two (2) years is recommended

Describe how Valuations will be used to fund the Plan

- Budgeting for the Actuarially Determined Contribution recommended

Document impacts of State law on Plan investment and assumption choices

Pension & OPEB Funding Policy

Outline Actuarial Methods and Policies used in the Valuation

- Actuarial Cost Method - allocates the total present value of future benefits over an employee's working career (normal cost/service cost)
- Asset Smoothing Method - how investment income/losses are "smoothed" over a defined time period to reduce volatility
- Amortization Policy - length of time and structure used in determining contributions needed for plan changes/assumption changes

Policy Statements on how future benefit enhancements would be considered

Long-Term Financial Planning Policy

Define Expectations of the planning process

Define frequency and time horizon

- Example: annual financial plan that projects revenues and expense over a five-year period

Define what funds are part of the Plan

- General Fund only? Enterprise Funds?

How will the Strategic Plan be integrated into the Long-Term Financial Plan?

Define how assumptions will be decided upon

Long-Term Financial Planning Policy

Define how results will be evaluated

- What if you get bad news?
  - Deficits, imbalances
- How will results be communicated to Elected Officials / Management?

Identify if long-term balance is a goal

- Methods to create long-term balance / structural balance

Sample Policies

http://www.gfoa.org/financialpolicies

Professional judgment required

Policies must be followed once adopted

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STRATEGIC PLANNING

COMMUNITY BRANDING

SCHOOL LEADERSHIP

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