

# Best Practices Financial Polices

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# Why are Financial Policies Good?

Serve as context for decision making

Strengthen governments – control and limit

Educate elected officials in good practices

Focus on Long-term Strategic Planning

Use Performance Measures to monitor

# Policies vs. Procedures

- If an item under consideration is a management decision it is not a policy
- Policies represent guidelines
- Procedures represent step-by step

# Formal vs. Informal

- Formal Policies
  - Outlive their creators
  - Educate the decision makers
  - Promote long-term strategic thinking
- Informal Policies
  - Vague in their application
  - Rely on past practices
  - Rely on one individual to interpret

# Accountability vs. Flexibility

## Actionable vs. Philosophical

- Actionable use Performance Measures
  - Specify action
  - Contain if/ then statements
- Philosophical more general
- Between uses Performance Measures to gauge compliance but do not prescribe a course of action

# Policies Should Be:

- Explicit
- Current
- Literal
- Centrally Available
- Brief
- Comprehensive

# Process to Create

- Define Problem
- Research Policy and Alternatives
- Create Draft Policy (with alternatives)
- Review by Relevant Departments
- Recommend to Executive Management
- Review and Approval by the Board

# Best Practices

- NACSLB Principles
  1. Establish broad goals to guide government decision making
  2. Develop approach to achieve goals
  3. Develop budget consistent with approaches to achieve goals
  4. Evaluate performance and make adjustments

# Best Practices

## # 2 – Develop Approach to Achieve Goals

4. Adopt Financial Policies

5. Develop Programmatic Operating and Capital Policy Plans

6. Develop Program Services that are consistent with policies and plans

7. Develop Management Strategies

# Best Practices

- Stabilization Funds - Fund Balance
- Operating Budget - Revenue and Expense
- Capital Improvement Program
- Debt Management

# Fund Balance Policy

- What is unreserved fund balance?
- Why have a policy?
  - Plan for contingencies
  - Rating Agencies like them
  - Avoid interest costs for ST liquidity
  - Invest able funds
  - Ensure liquidity

# Fund Balance

- How much should it be?
  - Predictability of revenues
  - Other funds resources availability
  - Liquidity
  - Designations for capital projects
  - Liabilities off the balance sheet
  - Relevant amount of cash
  - Fiscal control environment

# Operating Budget

- Linkage to the Financial Strategic Plan
- Who, What , When and How
  - Scope
  - Basis of Budgeting
  - Budget Calendar
  - Roles and Responsibilities
  - Control System
  - Define a Balanced Budget
  - Performance Measurements Integration

# Operating Budget

- Revenue
  - Cost Recovery Criteria
  - Diversification and stabilization
  - One-time revenue policy
  - Forecasts and a Revenue Manual
- Expenditures
  - Maintenance of Capital assets
  - Program Review/ Privatization

# Capital Improvement Program

- Scope – Time and Type of Project
- Selection Criteria - 3E's
- Should be 2 step approval system
- Should include funding sources
- Should include all future operating costs
- Process of converting the CIP to Operating Budget
- Evaluation of the project after completion

# Debt Management

- Why?
  1. Establish criteria so as to not exceed acceptable levels
  2. Transmit message to investors and rating agencies that community is committed
  3. Can provide consistency to policy development

# Debt Management

- Purpose
- Who is responsible
- Purpose and use of debt
- Project life
- Refunding policies
- Prohibited uses
- Limitations on total debt
  - Coverage ratio in enterprise funds
  - As percent of General Fund
- Short term vs. long term

# Debt Management

- Credit enhancements
- Repayment provisions - level or accelerated
- Investment of bond proceeds
- Competitive vs. negotiated
- Selection of a debt team
- Disclosure - 15c2-12 requirements
- Arbitrage calculation
- Reporting/review

# Fitch 12 Habits of Successful Finance Officers

1. Fund Balance Policy
2. Multi-year financial forecasts
3. Monthly or quarterly reporting
4. Contingency planning policy
5. Policies regarding non-recurring revenue
6. Debt Affordability Reviews and Policies

# Fitch 12 Habits of Successful Finance Officers

7. Superior Debt Disclosures Practices
8. Pay-as-you-go Capital Funding Policies
9. Rapid Debt Retirement Policies
10. Five Year CIP that Integrates Operating Costs for New Facilities
11. Certificate of Achievement- GFOA
12. Distinguished Budget Award-GFOA

# *Questions?*

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