

March 22, 2016

Best Practices on Financial Policies

Auditor of State Dave Yost
Local Government Officials Conference





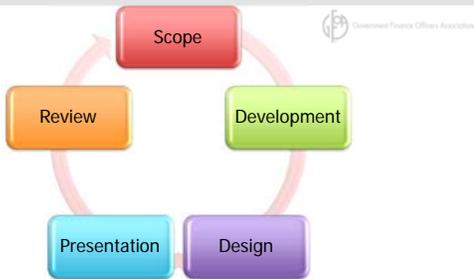
Financial Policies

- Financial Policies
 - Institutionalize good financial management practices
 - Clarify and crystalize strategic intent for financial management
 - Define boundaries
 - Support good bond ratings; reduce cost of borrowing
 - Manage risks to financial condition
 - Comply with established public management best practices.





Financial Policies – Steps to Consider



 **Financial Policies - Scope**

Financial policies all governments should consider:

- General Fund reserves
- Reserves in other funds
- Grants
- Debt
- Investment
- Economic Development
- Accounting and financial reporting
- Risk management and internal controls
- Procurement
- Long-term financial planning
- Structurally balanced budget
- Capital
- Revenues
- Expenditures
- Operating budget



 **Financial Policies - Development**

The following steps should be considered in the development of effective policies:

- Define the problem the policy will address
- Draft the policy
- Review and present the policy to government officials
- Formally consider and adopt policy
- Implement policy making sure staff and government officials are aware of policies



 **Financial Policies - Design**

Effective policies have a number of design features in common:

- Policies must exist in written form
- Policies should be expressed in a manner that is understandable to the intended audience



 **Financial Policies - Review**

Financial policies are most successful when they are reviewed after being enacted

- Policies should be monitored, reviewed, and updated as needed in a systematic way
- Analyze the reasons if specific policies are not being followed

 Government Finance Officers Association

 **Financial Policies**

- Financial Policies
 - City had memorialized financial practices in 5-year Capital Improvements Program, Annual Operating Budget
 - Administration and City Council have adhered to those practices when developing budgets
 - No formally adopted financial policies existed
 - Driving force behind development of the policies? Bond Ratings
 - 2016 - Proposed adoption of two policies:
 - General Fund Balance Policy
 - Debt Policy



 **Financial Policies**

- Process for developing financial policies
 - Research best practices
 - GFOA
 - Rating agency metrics
 - Similar entities
 - Speak to advisors
 - Determine entity specific risks/considerations
 - Run 'What-If' scenarios – test what implications the policy would have had on your operations had it been in place
 - Consider involvement of advisors if appropriate
 - Involve Finance Committee (if necessary)
 - Presentation to City Council: Adoption of Policies (Ordinance, Resolution)

 **Financial Policies**

- General Fund Policy
 - Establishes that the General Fund Balance will be no less than 50% of the budgeted General Fund expenditures
 - Recognizes that the fund balance may fluctuate at various points throughout the year
 - Establishes that annual appropriations and any subsequent amendments to the annual appropriations will be prepared to ensure this minimum level of fund balance is maintained

 **Financial Policies**

- General Fund Policy Development Considerations
 - Past practice
 - Reliance on Income Tax Revenue
 - 90% of General Fund revenue is derived from Income Tax
 - Top 10 employers generally make up approximately 30% of total income tax revenue
 - Competitive business environment
 - Level of service expectations
 - Rating considerations

 **Financial Policies**

- Rating Methodology: US Local Government General Obligation Debt

<u>Finances 30%</u>	<u>AAA</u>	<u>Aa</u>
• Fund Balance	>30%	30% \geq n > 15%
• Fund Balance (5-year trend)	>30%	25% \geq n > 10%
• Cash Balance	>25%	25% \geq n > 10%
• Cash Balance (5-year trend)	>25%	25% \geq n > 10%

 **Financial Policies**

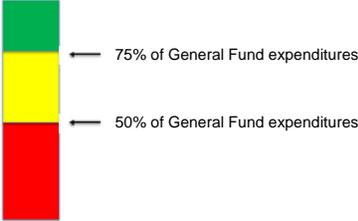
- Conditions for Use
 - Natural disaster or other emergency
 - Economic recession/depression
 - Unexpected decline in revenue
 - Unexpected large one-time capital expenditures
- Goal to replenish the balance back to the minimum 50% level within the following fiscal year

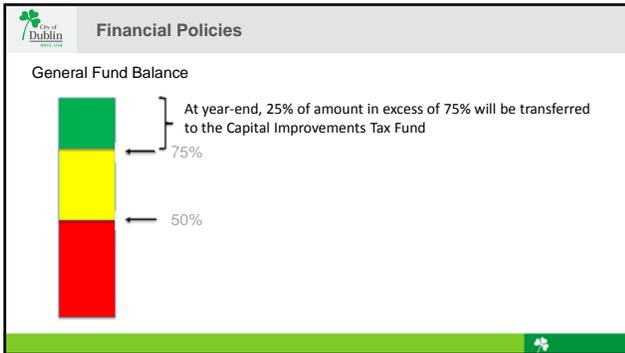
 **Financial Policies**

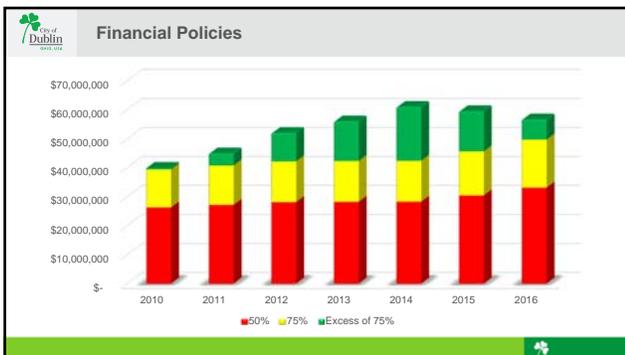
- Excess fund balance
 - Prior to recession, General Fund transferred money to the Capital Improvement Tax Fund
 - Policy establishes that if the fund balance is in excess of 75% of the General Fund expenditures at the end of each fiscal year, 25% of the amount in excess of 75% will be transferred to the Capital Improvement Tax Fund

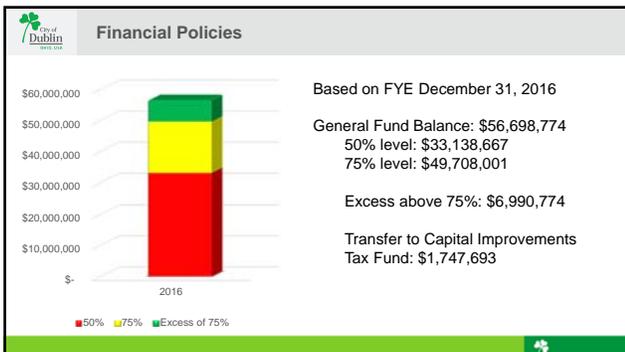
 **Financial Policies**

General Fund Balance









 **Financial Policies**

- Debt Policy
 - 25% of income tax revenue dedicated to Capital Improvements Tax Fund (established by Ordinance No. 17-87)
 - 40% allocated to cash fund projects
 - 60% allocated to pay debt service on projects
 - Any excess not used for debt service may be used to cash fund projects

 **Financial Policies**

Income Tax Projections

Year	Income Tax Projection	Capital Improvement Tax Funding (25%)	Cash Capital Allocation (40%)	Debt Service Allocation (60%)
2018	86,000,000	21,500,000	8,600,000	12,900,000
2019	87,290,000	21,822,500	8,729,000	13,093,500
2020	88,600,000	22,150,000	8,860,000	13,290,000
2021	89,929,000	22,482,250	8,992,900	13,489,350
2022	91,300,000	22,825,000	9,130,000	13,695,000

 **Financial Policies**

- Debt Policy
 - Authorized methods of sale
 - Credit objectives
 - Refunding debt
 - Investment of bond proceeds
 - Compliance with federal regulations, including arbitrage requirements
 - Compliance with Annual Continuing Disclosure requirements
 - The hiring of Underwriters
 - Waiver of the Debt Policy
 - Debt limitations
 - Sources of revenue to retire debt; and
 - Structural features of debt

 **Financial Policies**

Authorized Methods of Sale

<p>Competitive Sale</p> <ul style="list-style-type: none"> • General obligation sales • Stable market conditions • Traditional structure 	<p>Negotiated Sale</p> <ul style="list-style-type: none"> • Revenue bond issues or project backed financing • Volatile market conditions • Refinancing • Non-traditional structures
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 **Financial Policies**

- Credit objectives - Maintain the highest credit rating for all categories of its debt

US Local Government General Obligation Debt Scorecard

<p>Finances 30%</p> <ul style="list-style-type: none"> - Fund Balance - Fund Balance (5-yr trend) - Cash Balance - Cash Balance (5-yr trend) 	<p>Management 20%</p> <ul style="list-style-type: none"> - Institutional Framework - Operating History 	
<p>Economy/Tax Base 30%</p> <ul style="list-style-type: none"> - Tax base size - Full Value per Capita - Tax Base Size - Full Value per Capita - Wealth 	<p>Debt Provisions 20%</p> <ul style="list-style-type: none"> - Debt to Full Value - Debt to Revenue - Moody's Adjusted Net Pension Liability to Full Value - Moody's Adjusted Net Pension Liability to Revenue 	

 **Financial Policies**

- Direct Debt Limitations
 - Ohio Revised Code provides that voted and unvoted net general obligation debt of the City shall never exceed 10.5% of the total assessed valuation of the City.
 - In addition, the unvoted net debt of the City cannot exceed 5.5% of the total assessed valuation.

Total assessed valuation = \$2,063,082,680
 10.5% = \$216,623,681
 5.5% = \$113,469,547

 **Financial Policies**

- Indirect Debt Limitations
 - Ohio Constitution and Revised Code provide that the City and all overlapping taxing subdivisions may not issue unvoted, general obligation debt in an amount which would collectively require more than 10 mills of real property taxes to pay debt service.
 - Millage available between the City, Dublin City Schools, Washington Township, SWACO and Delaware, Franklin, Union Counties (separately) is analyzed with each debt issuance.
 - Restricted to the lowest amount: As of September 2015 – Union County
2.47 mills available → \$61.7 million

 **Financial Policies**

- City of Dublin Limitation
 - 25% of income tax revenue dedicated to Capital Improvements Tax Fund (established by Ordinance No. 17-87)
 - 40% allocated to cash fund projects
 - 60% allocated to pay debt service on projects
 - The maximum amount of debt (both existing and proposed) shall not exceed 90% of the allocation of income tax revenue allocated to pay debt service

 **Financial Policies**

- Reporting to Legislative Authority
 - Report on the status of adherence to your policies routinely
 - Projected year-end General Fund balance for current year and next budget year will be provided to Council as part of the annual operating budget review process
 - Monthly, the Director of Finance will provide financial reports to City Council which will include revenue and expenditure activity; current General Fund balance.
 - Quarterly, the Director of Finance will provide financial updates which provide more detailed analysis on revenue and expenditures.
 - Bring to their attention anything that isn't in compliance
 - Reference policy as much as possible



Questions/Comments

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