



Legislation Text

File #: [19-0377], Version: 1

Discuss Draft Financial Policy Guidelines.

Staff:

Maurice Jones, Town Manager
Amy Oland, Director

Department:

Manager's Office
Business Management

Overview: Financial policies are central to a strategic, long-term approach to financial management. At the Council retreat on January 25, 2019, Davenport & Company, the Town's financial advisors, presented on the Town's credit rating, current and future debt portfolio, and recommended that the Town consider adopting financial policies for debt, fund balance reserves, cash management and investment strategies, and Other Post Employment Benefit (OPEB) pre-funding strategies. At the March 4, 2019 budget worksession, the Town Manager and Business Management Director presented the draft Financial Policy Guidelines for Council review. We are returning to Council to provide additional information and receive Council feedback on the draft financial policy statements and recommended policy measures.



Recommendation(s):

That the Council receive and provide feedback on the following draft financial policy statements: Debt Policy, Fund Balance Reserve Policy, Cash Management and Investment Policy, and Other Post-Employment and Benefit (OPEB) Pre-Funding Policy. Business Management staff will incorporate the feedback provided by Council with a goal to return in June for policy adoption.

Key Issues:

- The **benefits** of adopting formal, written financial policies to help governments include:
 - I. Institutionalizing good financial management practices by promoting stability and continuity.
 - II. Clarifying strategic intent for financial management by defining a shared understanding of how the organization will develop its financial practices and manage its resources to provide the best value to the community.
 - III. Defining boundaries by for actions that staff may take in order to realize the organization's strategic intent.
 - IV. Supporting the Town's excellent bond ratings which reduces the cost of borrowing.
 - V. Promoting long-term strategic thinking by articulating the organization's strategic intent because financial policies demand a long-term perspective.
 - VI. Managing risks to financial condition by ensuring that there is the accountability to not incur excessive risk in the pursuit of public goals.
 - VII. Complying with established public management best practices. The Government Finance Officers Association (GFOA) has recognized financial policies as an essential part of public financial management.
- The policy guidelines and recommended debt, fund balance, cash and investments, and OPEB pre-funding measures were developed in collaboration with Davenport & Company, the Town's financial advisors.
- The recommended measures were designed using the quantitative scoring ranges from the Town's bond rating agencies, Standard & Poor's and Moody's and by comparing the Town with the other NC

AAA peer comparative agency ratings.

- **Debt Policy**

A debt policy assists in the decision making process and supports efforts to identify conflicts, inconsistencies, and gaps in an entity's approach to project finance and debt management. An effective debt policy helps set a proper balance between limits on the use of debt financing and providing sufficient flexibility to respond to unforeseen circumstances and opportunities.

- I. Net Debt to Assessed Valuation - measures a municipality's net debt (all debt that is tax supported) compared to the value of the real property purchased as assessed. A lower number represents less risk of the government being unable to repay the debt issue.

Recommendation = Net Debt as a percentage of total assessed value of taxable property should not exceed 1.5%.

- II. Debt Service Expenditure Ratio - measures the amount committed to annual debt service as a percentage of total expenditures. A higher ratio represents less flexibility because more operating resources are being committed to a required financial obligation.

Recommendation - The ratio of debt service expenditures as a percent of total governmental fund expenditures should not exceed 15%.

- III. 10-Year Payout - measures the amount of principal that will be retired in the next ten years as a percentage of the municipality's net debt. A lower number may indicate whether a locality is back-loading its debt.

Recommendation - The aggregate ten-year principal payout ratio target should be 65% or better.

- **Fund Balance Reserve Policy**

It is important for governments to maintain adequate levels of fund balance to mitigate current and future risks (e.g. revenue shortfalls and unanticipated expenditures) and to ensure stable tax rates.

- IV. General Fund Unassigned Fund Balance % - The portion of fund balance that has not been restricted, committed, or assigned to specific purposes as a percent of the General Fund's budgeted expenditures.

Recommendation - The Town will strive to maintain a targeted Unassigned Fund Balance at the close of each fiscal year equal to 22% of General Fund Expenditures. Unassigned Fund Balance in excess of 22% of General Fund Expenditures may be appropriated from time to time for pay-as-you-go capital and other one-time uses.

- **Cash Management and Investment Policy**

A cash management policy establishes sound practices and safeguards cash receipts against theft or loss and maximizes cash flow by timely deposit of receipts. An investment policy provides guidance on the investment of public funds, including permissible instruments, standards of care for invested funds and the role of staff.

- V. Liquidity - Measures the extent to which the Town has accessibility to its cash.

Recommendation - No less than 20% of funds available for investment will be maintained in liquid investments at any point in time.

- VI. Maturity: Date on which the life of a financial instrument ends, after which it must either be

renewed, or it will cease to exist.

Recommendation - All investments will mature in no more than 36 months from their purchase date.

- VII. Diversification - Process of allocating capital in a way that reduces the exposure to any one particular asset or risk.

Recommendation - No more than 5% of the Town's investment funds may be invested in a specific company's commercial paper and no more than 20% of the Town's investment funds may be invested in commercial paper. No more than 25% of the Town's investments may be invested in any one U.S. Agency's Securities.

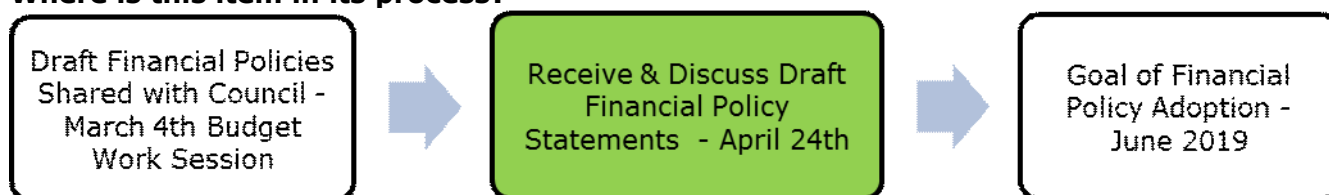
- **Other Post-Employment Benefit (OPEB) Pre-Funding Policy**

The OPEB Pre-Funding policy allows the Town to develop a funding strategy for the future liability related to retiree healthcare costs. Even a modest level of pre-funding will improve the plan's funded status and balance sheet impact.

- VIII. Pre-Funding Contributions - To set aside funding in advance of the required date of contribution for retiree healthcare costs.

Recommendation - The Town may contribute an additional amount to prefund benefits contributed to the trust annually as determined by the Council. The Town will contribute annually to the OPEB trust to help fund the Annually Required Contribution and work towards reducing the overall OPEB liability. In the event that funds are available over the General Fund 22% targeted fund balance amount, the Council may choose to contribute a portion of this amount to the OPEB trust.

Where is this item in its process?



Council Goals:

<input checked="" type="checkbox"/>		Create a Place for Everyone	<input checked="" type="checkbox"/>		Develop Good Places, New Spaces
<input checked="" type="checkbox"/>		Support Community Prosperity	<input checked="" type="checkbox"/>		Nurture Our Community
<input checked="" type="checkbox"/>		Facilitate Getting Around	<input checked="" type="checkbox"/>		Grow Town and Gown Collaboration



Attachments:

- Draft Financial Policies

The Agenda will reflect the text below and/or the motion text will be used during the meeting.

PRESENTER: Amy Oland, Business Management Director

RECOMMENDATION: That the Council receive and provide feedback on the draft financial policy statements.