



# TOWN OF CHAPEL HILL

Town Hall  
405 Martin Luther King Jr.  
Boulevard  
Chapel Hill, NC 27514

## Legislation Text

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File #: [19-0543], Version: 1

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### Adopt the Financial Policy Guidelines.

**Staff:**

Maurice Jones, Town Manager  
Amy Oland, Director

**Department:**

Manager's Office  
Business Management Department

**Overview:** Financial policies are central to a strategic, long-term approach to financial management. Established financial policies are beneficial to have in place for a multitude of purposes including: the formalization of the Town's financial management practices, the recommendation of the Government Finance Officers Association (GFOA), and the usefulness when bond rating agencies evaluate the Town's creditworthiness in upcoming bond issuances.

The topic of the Town's need to adopt financial policies was discussed on the following dates:

- Council retreat on January 25, 2019 <<https://chapelhill.legistar.com/MeetingDetail.aspx?ID=675974&GUID=80BE2D0F-F90B-4996-AC5E-EF36F9CB7FCD&Options=info&Search=>>> - Davenport & Company, 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.
- Budget work session on March 4, 2019 <<https://chapelhill.legistar.com/LegislationDetail.aspx?ID=3874946&GUID=6BD0FC08-4F0E-4E6B-8F28-73FA03E757E2&Options=&Search=>>> - Town Manager and Business Management Director presented the draft Financial Policy Guidelines for Council review.
- Council Business Meeting on April 24, 2019 <<https://chapelhill.legistar.com/LegislationDetail.aspx?ID=3924506&GUID=0DB8E388-6F73-4D79-A422-8B06A4E266C5&Options=&Search=>>> - Business Management Director presented additional detail on each of the draft policies statements and the recommended strategies and measures under each policy to receive Council feedback.

Policy Measure Flexibility: The financial policy strategies, measures and targets 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. The measures were evaluated against the Town's current debt portfolio and the Town's 5-year forecasted debt portfolio. The recommended measures use a very conservative approach to ensure the Town will remain in compliance even when nearing the Debt Management Fund's funding capacity in FY 2024.

If there are any changes needed to remain in compliance with the Financial Policy Guidelines (e.g. economic downturn, higher interest rates, unplanned project opportunities, etc.), Council has the ability to amend any of the adopted policy measures, or to delay or change the scope of scheduled capital projects any time.

The goal of the financial policies is to formalize the Town's financial management practices while providing the flexibility to meet the current needs of the Town.



## **Recommendation(s):**

That the Council adopt the financial policy guidelines: Debt Policy, Fund Balance Reserve Policy, Cash Management and Investment Policy, and Other Post-Employment Benefit (OPEB) Pre-Funding Policy.

## **Key Issues:**

A summary of each policy's goals and recommended measures are as follows:

### **• 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.

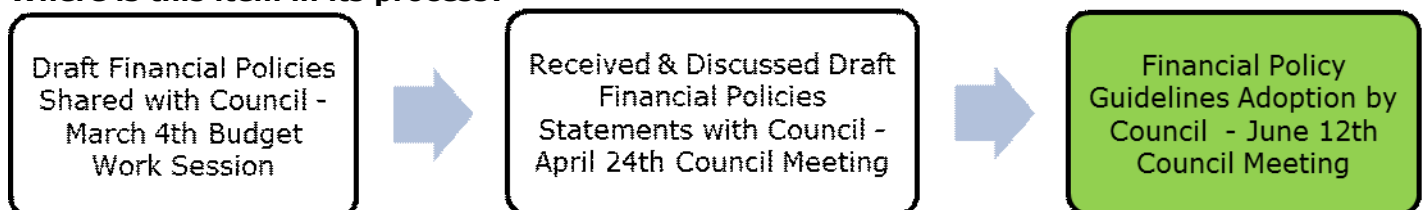
- **Other Post-Employment Benefit (OPEB) Pre-Funding Policy**

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:**

- Resolution
- Financial Policy Guidelines

**A RESOLUTION FOR THE ADOPTION OF FINANCIAL POLICY GUIDELINES (2019-06-12/R-2)**

WHEREAS, financial policies are central to a strategic, long-term approach to financial management; and

WHEREAS, the Government Finance Officers Association (GFOA) has recognized financial policies as an essential part of public financial management; and

WHEREAS, formal, written financial policies help governments promote financial stability and continuity, manage financial risks, promote long-term strategic thinking, and support the Town's excellent bond ratings;

NOW, THEREFORE, BE IT RESOLVED by the Council of the Town of Chapel Hill that the Council hereby adopts the Financial Policy Guidelines which includes: Debt Policy, Fund Balance Reserve Policy, Cash Management and Investment Policy, and Other Post-Employment Benefit (OPEB) Pre-Funding Policy.

This the 12<sup>th</sup> day of June, 2019.

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

By adopting the resolution, the Council adopts the Financial Policy Guidelines which includes: Debt Policy, Fund Balance Reserve Policy, Cash Management and Investment Policy, and Other Post-Employment Benefit (OPEB) Pre-Funding Policy.