



Government Finance Officers Association

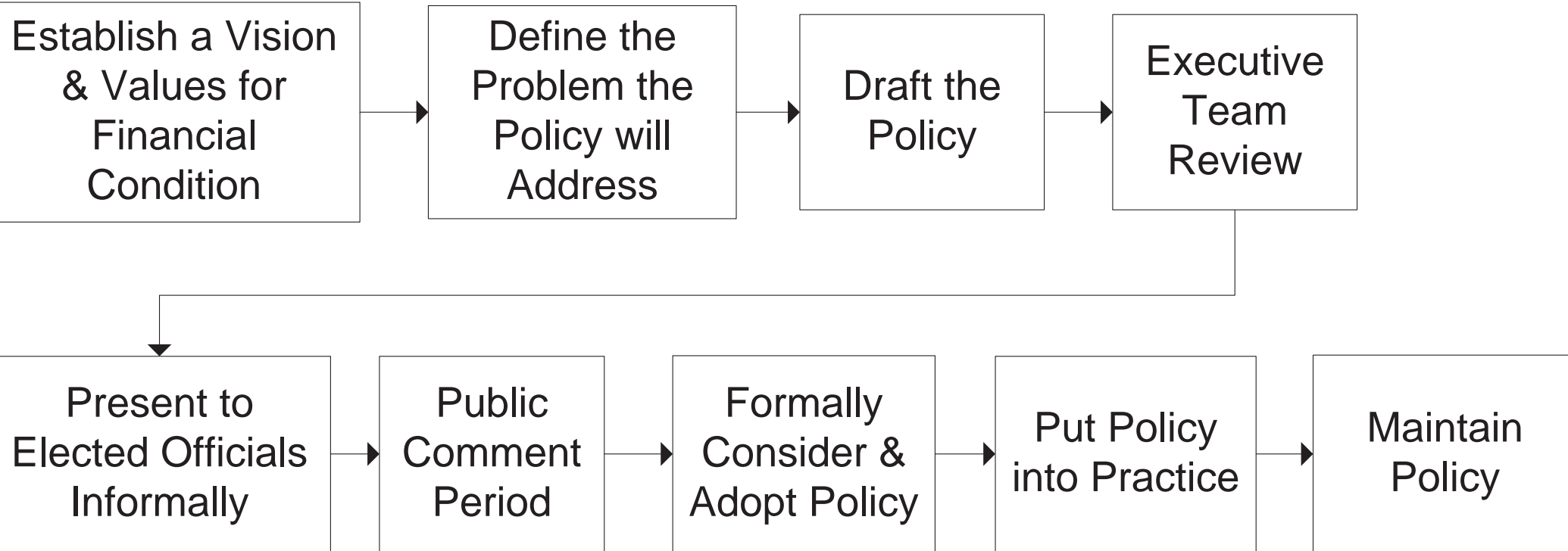
Developing Policies

Section 3

Agenda

- Steps to follow
 - A risk-based approach
- Common objections to policies
- Policy writing tips
- Introduction to afternoon exercise

Steps to Follow



Establish a Vision for Financial Condition

- Define the big picture board vision for financial condition
 - Define “financial sustainability” in the board’s words
- Policies become a tool to bring the vision to reality

Yolo County's Principles of Financial Sustainability

- **Ensure continuing value of services into the future.** Assess the usefulness of services and the public's satisfaction with services.
- **Operate within available means and with optimal debt.** Adopt balanced budgets, enforce budgetary controls, and make financial responsibility everyone's job.
- **We are responsible for our financial health and take charge of our financial destiny.** Maintain adequate reserves, monitor financial condition, and build productive partnerships with stakeholders in the County's financial position.
- **Build and preserve ability to produce.** Identify key assets, physical and human, and ensure their ability to create value.
- **Plan to stay in business for the long-run.** Develop and maintain long-range plan for finances and key operation areas.

Financial Management Policies

Basic Policy Statement

The **City of Renton** is committed to the highest standards of responsible financial management. The City, including the City Council, Mayor and staff will work together to ensure that all financial matters of the City are addressed with care, integrity, and in the best interest of the City.

The rules and procedures contained in this section are designed to:

1. Protect the assets of the City of Renton;
2. Ensure the maintenance of open and accurate records of the City's financial activities;
3. Provide a framework of operating standards and behavioral expectations;
4. Ensure compliance with federal, state, and local legal and reporting requirements; and
5. Provide a means for the City Council to update and monitor these policies with the assistance and cooperation of the Mayor's office and the Finance and Information Services Administrator.

Define the Problem the Policy Addresses

- What is the risk the policy is managing?
 - Focuses the policy on issues with impacts that are easy to appreciate
- Work with CEO and Board to define risks
 - Example: St. Petersburg, Florida used its vulnerability to hurricanes as the driving force behind development of a reserve policy.

Policy Development Questions to Ask

- What risks (or issues) will the policy mitigate?
- How will the policy mitigate these risks?
- What are the potential costs of the mitigation strategies?

Draft the Policy

- Address fundamentals
 - What does the law say?
 - What do GFOA “Best Practices” say?
 - What are other governments doing?
- Consider how will others react to the policy
- Consider impacts on risk

Example of Risk in Policy Writing

- Consider these options for a grants policy:
 - Any grants must be consistent with the government's mission and strategic priorities.
 - A multi-year cost/benefit analysis must be performed before a grant is pursued and/or accepted.
 - Upon expiration of a grant, a thorough review of the program's value is conducted before it is supported with general tax dollars.
- What risks do these policies cover? At what cost?

Executive Team Review

- Expose objections
 - Use these to make the case for the policy
- Gain new sources of support
 - Wording suggestions
 - Find operational reasons for the policy

Present Policies to Board Informally

- Review with elected officials is less formal, low-stakes setting
 - One-on-one meetings, workshop
- Reveal concerns, better adapt policy to board's needs

Public Comment Period

- Optional step
- Can be helpful to reveal unexpected public reactions and modify policy before formal board consideration

Formally Consider & Adopt Policy

- Limit the number of policies considered at once
 - Go for deep commitment to a smaller number of policies
- Spread credit to all the participants

Put Policy into Practice

- Make staff aware of the new policy
 - Create a central repository, like a website
- Develop administrative procedures
 - Identify responsible staff person for policy & procedures
- Integrate policies into LTFP
 - Reserve analysis, financial trend analysis, policy self-assessment

Maintain Policies

- Regular review
 - Formally review with board and staff how the policies are working (or not working)
- Ad hoc review suggested by special events
 - Change in law
 - Financial crisis
 - Management issue

Common Objections

- The policy is a good idea, but this is not the right time.
 - Strike while the iron is hot and prioritize competing items
- The policy is too difficult to understand
 - Draft it to be concise and clear
 - Involve the board in the development
- It will be impossible to get unanimous agreement on the policy
 - Unanimous agreement is rarely possible for any new idea
 - Form a “guiding coalition” of committed supporters

Common Objections

- The proposed policy goes too far
 - Use to show that there is agreement that a policy is at least needed (only the current one is too much)
- Policy diverges from our traditional values
 - Show that policies support deepest values of good government, while admitting that procedural traditions may need to change
- The policy leaves too many questions unanswered
 - Point out that new ways of doing things always have some uncertainties, but many other governments have managed successfully.

Writing Policies (A Preview)

- Design features of good policies
- Writing devices
 - Preambles and rationales
 - Performance targets
 - Dates
 - “If, then” statements
 - Decision rights and responsibilities
 - Segregate the details

Design features

- **Explicit.** Policies must exist in written form
- **Current.** The policy is kept up to date.
- **Literal.** The policy is clear as to its intentions.
- **Centrally Available.** The policy is easily accessible to those that need it.
- **Concision.** The policy is brief and to-the-point. Primarily, this is accomplished by separating staff level procedures from true board policy.
- **Comprehensive.** The policy addresses the risks and issues that impact public officials' decision-making.

Device – Preambles & Rationales

- Preamble. Gives readers insight into the broader intent behind a large portfolio of policies. Mesa County's preamble:
 - The policies are intended to serve as a blueprint to achieve the fiscal stability required to accomplish the County's policy goals and objectives. Objectives are:
 - *To set forth operating principles which minimize the cost of government and reduce financial risk.*
 - *To maintain appropriate financial capacity for present and future needs.*
 - *To ensure the legal use of financial resources through an effective system of internal controls.*

Devices – Performance Targets

- Targets make the policy more literal & explicit
 - Could be a ratio or raw number, but any source of valid evidence that resonates with the board will do
- Targets can be expressed in ranges
 - Provides some additional flexibility
- Policy “goals”
 - May be a lower risk way to incorporate numerical targets

Target Examples

Policy Issue	Hypothetical Target
Amount of reserves to maintain?	Reserves should be equal to 15% of annual operating revenues
Acceptable level of yield on idle funds?	Attain a return on short-term investments at least equal to the three-month treasury bill
Acceptable level of debt?	No more than 10% of the budget may be spent on debt service
How to fund asset maintenance?	A minimum of 10% of all new (ongoing) discretionary revenue will be devoted to deferred maintenance and infrastructure.
How often should forecasts be made?	The finance department shall prepare a long-term forecast at least annually. ²³

Device - Dates

- Dates can make policies more literal and current
- Adoption date and last update are fundamental
- Also can be used in combination with target ranges
 - *General obligation debt shall not exceed 3.5% of the assessed valuation of taxable real property, with a goal to reach 3% by July 1, 2015.*

Device: If, Then Statements

- If, then prescribes a course of action if a certain condition comes to pass
- Example from the City of Long Beach

The annual budgets for all City funds will be structurally balanced throughout the budget process. Recurring revenue will equal or exceed recurring expenditures in both the Proposed and Adopted Budgets. If a structural imbalance occurs, [then] a plan will be developed and implemented to bring the budget back into structural balance.

Device: Decision Rights & Accountabilities

- A policy should define who has decision-rights and responsibilities for the policy.
- Three possibilities
 - Fundamental: Designate a responsible position or subunit for developing procedures and controls
 - Optional: Establish oversight committee. Commonly used for debt and investment policies. Decide where the committee provides value and write the policy to provide that value
 - Optional: Reserve specific decisions for the board or management

Device: Segregate the Details

- Details may be desired to make a policy more comprehensive, explicit, and literal. This can compromise concision.
- Consider alternatives to more detail in the policy
 - Segment the policy into different sections
 - Purpose; policy; procedures; authority
 - Develop parallel set of administrative procedures or directives that are for staff

The Exercise

- Various work groups will be created to work as teams
 - A. Each team will have general questions to discuss and share their conclusions with the class
 - B. Each team will be asked to create specific policies in an assigned topic area, then share them with the class

Group Discussion

- How do you define financial sustainability?
 - What are the biggest risks to sustainability?
 - What might the solutions to those risks look like?
 - What policy might help promote sustainability?
- Appoint a facilitator and a recorder
 - Discuss the questions one at a time for about 3 mins
 - Make note of major themes or conclusions
 - Be prepared to report out your ideas
- Key words to simulate conversation: structural balance, intergenerational equity, liabilities