

EFFECTIVE FINANCIAL POLICIES



Presenter



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Why have financial policies?

- Outline a clear vision of how your jurisdiction will manage its financial resources
- Increase accountability and minimize confusion by identifying who can take what actions
- Support good bond ratings and reduce the cost of borrowing
- Promote long-term and strategic thinking
- Manage and reduce risks to your organization
- Protect staff and management in case something goes wrong

Considerations



- Financial policies should be tailored to your own jurisdiction's unique financial situation – not copied from another jurisdiction's policy without careful consideration and evaluation.
- Include review and update of financial policies during pre-budget process - are they relevant and do they still meet your jurisdictions objectives
- Financial policies can be in one comprehensive policy, stand-alone, or some incorporated in personnel policies

Core Financial Policies



- Asset management
- Cost allocation
- Credit card use
- Debt management
- Fund balance and reserves
- Investment
- Travel and expense reimbursement

Other best practices include budgeting, capital improvements, procurement, risk management, and revenues and expenditures

Asset Management Policy



Asset management policy should consider oversight and control in addition to the short-term and long-term maintenance, repair, and replacement of assets.

Policy should include:

- Scope and purpose
- Definitions
- Capitalization threshold
- Additions, transfers, disposals, and losses
- Inventory and periodic assessment of condition
- Maintenance and repair

Cost Allocation Plan



A cost allocation plan distributes indirect costs such as accounting, payroll and IT to the respective funds for the services they receive.

Why allocate costs?

- Identifies the actual costs of services
- Shares costs of shared facilities and services
- Ensures accuracy of cost-based user fees
- Relieve pressure on the general fund
- Complies with state law RCW 43.09.210
- Allows for reimbursement of overhead from federal and state grants

Cost Allocation Plan



Basic steps of cost allocation:

- Identify shared facilities
- Identify costs to be allocated
- Determine the allocation factors/methodology to distribute costs equitably
- Allocate the costs
- Update and monitor the data and methodology to ensure the allocation remains fair and equitable over time.

Discussion of basic steps and examples of plans can be found on MRSC website

Credit Card Use Policy



For local governments that utilize credit cards, RCW 43.09.2855 requires that the legislative body adopt a system for:

- Distribution of the credit cards
- Authorization and control of the use of credit card funds
- Credit limits for the cards
- Payment of bills
- Any other rule necessary to implement or administer the credit card system

Major policy areas for credit cards are:

- Authorized expenses
- Authorized users
- Documentation, payment, and internal controls

Credit Card Use Policy



Authorized Expenses

- Small & incidental
- Travel
- Payment of claims (rebate)
- Emergencies
- Key considerations:
 - Types of expenses allowed
 - Are pre-paid cards allowed
 - Credit limits
 - Prohibited uses



Credit Card Use Policy



Authorized Expenses (continued)

- Authorized users
 - Determine which department and who
 - Define cardholder responsibilities
 - Determine if non-employee use is allowed
 - Document acknowledgement and training
 - Require safeguarding
 - Preventing misuse (logo, special sleeve, contact info)
- Documentation, payment, and internal controls
 - Require appropriate documentation – itemized receipt
 - Determine process for review of expenses and documentation
 - Set procedures for misuse of credit cards

Debt Management Policy



A successful debt management policy should, at a minimum, include:

- Scope and purpose
- Uses of debt
- Types of debt permitted
- Debt limitations
- Debt structure & repayment
- Debt issuance practices



Debt Management Policy



Uses of Debt

- When is it appropriate and for what purpose?
- Long-term debt
 - Most commonly used to finance capital improvements
 - Should not be used to support current operations
 - Term of indebtedness should not exceed life expectancy of a facility or infrastructure
- Short-term
 - Fund reserves
 - Interfund loans
 - Revenue anticipation needs, bond anticipation needs, or temporary cash flow shortages.

Debt Management Policy



Types of Debt Permitted

- Short term obligations
 - 1-3 years
 - Often used as a bridge for immediate needs of a capital project
- Assessment/LID bonds
 - Finance capital improvements benefiting a specific group of property owners
- Limited Tax General Obligation (LTGO) bonds
 - Councilmanic or non-voted debt
 - Payable from current taxes being collected

Debt Management Policy



Types of Debt Permitted (continued)

- Unlimited Tax General Obligation (UTGO) bonds
 - Voted debt
 - Requires 60% voter approval
 - Excess levy
- Revenue debt
 - Finances enterprise capital improvements and facilities
 - Repaid from service charges
- Other types of debt
 - Local Option Capital Asset Lending (LOCAL)
 - Interfund loans

Debt Management Policy



Debt Limitations

- Debt limits are set by State laws
- Local jurisdiction may adopt ordinances/resolutions imposing lower debt limits
- Consider your Capital Improvement Program (CIP)
- How does your debt ratio compare to other local governments?
- Consider your tax base (property taxes vs. sales tax)
- What is the level of your reserves?

Debt Management Policy



Debt Structure & Repayment

- Generally, should not be longer than estimated useful life
- Payment structure
 - Equal installments
 - Front- or back-loaded
 - Equal principal amortization
 - Should assure maximum repayment of principal and avoid excessive interest
- Should your jurisdiction consider variable rate loans?

Debt Management Policy



Debt Issuance Practices

- Selection and use of professional service providers
 - Bond counsel
 - Financial advisor
 - Underwriters
- Criteria for selecting sale method
 - Competitive vs. negotiated
 - Private placement
- Criteria for issuance of advance refunding and current refunding bonds
- Credit ratings
 - Relationship management with credit agencies
 - Policy, budget, and forecasts

Fund Balance & Reserve Policies



Establishes minimum levels for designated funds to ensure stable service delivery, meet future needs, and protect against financial instability. At a minimum, the policy should include:

- Scope and purpose
- Appropriate fund balance level
- Use and replenishment of funds



Fund Balance & Reserve Policies



Scope and Purpose

- Establish minimum fund balances for major funds
 - GFOA best practice – general fund and enterprise funds
- Consider funds dependent on another (general fund and street fund)
- What type of reserves should be included:
 - Contingency reserves
 - Rainy day funds
 - Emergency reserves
 - Current & future capital needs reserves
 - Liability for compensated absences, unemployment, OPEB

Fund Balance & Reserve Policies



Appropriate Fund Balance Level

- General fund no less than 60 days (16.5%)
- Enterprise funds no less than 45 days (12.3%)
- Consider debt payments
- Consider revenue sources
 - Property taxes – April 30 & October 31
 - Utilities
 - Seasonal fluctuations
 - Customer base (loss of big customer)
 - Billing frequency
- Consider likely natural disasters – wildfires, landslides, flooding
- Buffer for economic downturns

Fund Balance & Reserve Policies



Use and Replenishment of Funds

- When can reserves be used?
 - Define triggering events and what counts as an emergency
- How will reserves be replenished when used?
 - Revenues potentially to be used
 - Set time frame (usually 1 to 3 years)



Investment Policy



Improves financial security and provides protection for elected officials and staff by spelling out investment goals and responsibilities.

Recommended areas:

- Scope and investment objectives
- Delegation of authority and responsibilities
- Authorized financial dealers and institutions
- Authorized investments
- Investment diversification
- Performance standards
- Reporting and oversight

Investment Policy



Scope and Investment Objectives

- Define funds included in the policy
- Rank objectives by priority
 - Liquidity
 - Safety
 - Return on investment
- Consider different objectives based on fund type
 - Operating funds – more liquid
 - Bond reserves – less liquid
 - Capital reserves – considered timing of projects

Investment Policy



Delegation of Authority and Responsibilities

- Designate investment officer – select position
- Determine level of authority and discretion
- Select alternative investment officer – during vacated position
- State which, if any, investments require special authorization – longer investments may require another level of internal control

Authorized Financial Dealers and Institutions

- Develop written procedure for selection
- Decide criteria used for selection
- Consider requiring a minimum number of quotes/bids

Investment Policy



Authorized Investments

- Determine based on investment objectives
- Consider potential changes in economy and market

Investment Diversification

- Establish maximum limits for each type. Examples:
 - WA State LGIP – max 100%
 - US Treasury bills – max 100%
 - CDs – max 30%
 - WA State and Local Bonds – max of 20%
 - Bonds of other states/local governments – max 15%
- Diversification can help maximize revenue, minimize risk and ensure enough liquidity in case access to money is needed.

Investment Policy



Performance Standards

- Compare investment yield to other key indexes.
 - Federal level – Treasury bills
 - WA State LGIP

Reporting and Oversight

- Provide report to management and legislative body
 - Minimally once per quarter
 - Market conditions may call for more frequency
 - Should a body receive reports monthly?
- Include market conditions, economic developments, security types, transaction details, ROI comparisons
- Clarify “cost” and “fair market”

Travel & Expense Reimbursement Policy



Major policy areas:

- Authorized individuals
- Authorized expenses
- Transportation
- Meals and lodging
- Methods of payment
- Documentation and internal controls



Travel & Expense Reimbursement Policy



Authorized Individuals

- Discuss if the policy covers elected/appointed officials, board/commission members, volunteers (or are there separate policies?)

Authorized Expenses

- Provide examples of “reasonable” expenses
- Determine what travel-related expenses are reimbursable
- Determine what non-travel expenses are reimbursable
 - Meals while working
 - Mileage reimbursement, tolls, parking
 - Official cell phone
 - Annual membership dues to work-related organizations

Travel & Expense Reimbursement Policy



Authorized Expenses (continued)

- State which expenses are not reimbursable
 - First class airfares
 - Alcoholic beverages
 - Fines, forfeitures, tickets, penalties
 - Long distance from hotel rooms
 - Expenses incurred by a spouse/family member
 - Travel insurance
 - Theft or loss of personal items while traveling

Travel & Expense Reimbursement Policy



Transportation

- Discuss incidental transportation expenses that are covered
- Include cost-competitive requirement for comparable modes of transportation
- Determine appropriate use of vehicles
 - Personal vehicles
 - Rental cars
 - Carpool requirement

Travel & Expense Reimbursement Policy



Meals and Lodging

- Per diem (OFM WA State, GSA national)
 - Reduce by meals provided by conference/hotel
- Reimbursement for actual expenses
 - Itemized receipt
- Combination depending on type of travel?
- Define when “travel status” begins/ends
- Methods of payment
- Determine if certain expenses require a specific payment method (Credit card, AP, employee reimbursement) or use of a procurement officer
- Many local governments adopt a separate credit card use policy

Travel & Expense Reimbursement Policy



Documentation and Internal Controls

- Documentation required for any reimbursement
- Establish time limit to submit claims for reimbursement
 - State law requires fully itemized travel vouchers for travel-related expenses on an official government credit card to be submitted no later than 30 days of billing cycle date (RCW 42.24.115)
 - For advance travel, fully itemized receipts must be submitted with 15 days after end of travel period (RCW 42.24.150)
- Determine preapproval requirements
 - Travel authorization
 - Out-of-state travel

Travel & Expense Reimbursement Policy




Documentation and Internal Controls (continued)

- Support documentation requirements
 - Itemized receipts
 - Conference agendas
 - Itineraries
- Review of reimbursement requests
 - Ordinary staff = department director
 - Department director = city manager
 - City manager = mayor
- Resolving reimbursement disputes
 - If an employee contests a denial of reimbursement, what is the proper course of action and who will resolve the issue?

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Financial Policies Tool Kit

MRSC, in partnership with the State Auditor's Office [Center for Government Innovation](#), has developed this series of online resources to help local governments in Washington State develop and adopt effective financial policies and procedures.

MRSC recommends reviewing and updating your financial policies every year as part of the pre-budget process, to make sure your policies are still relevant and meet your jurisdictions' objectives.


Disclaimer: These resources are presented for informational purposes only and do not represent criteria for legal or audit purposes. They are intended to provide governments with background information, key questions to consider, examples, and links to helpful resources. They are not intended to supplement or replace existing prescriptive guidance in the BARS Manual, issued by the State Auditor's Office.

Related Materials


 [BLOG](#)

[Reprioritizing in the Rebound](#)

[Key Takeaways from the AWC Budget and Finance Management Workshop](#)

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[GFOA Launches Fiscal First Aid Resource Center](#)

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