

A CALL FOR GFOA MEMBERS TO

## Raise the State of the Profession



By Shayne Kavanagh

**F**inancial policies are an essential tool of good financial management. They establish the boundaries for financial decision making and help institutionalize good management practices. According to GFOA's website statistics, *Financial Policies* is the most popular best practice (see sidebar).

However, GFOA's surveys show that financial policies are not as widely adopted as we might hope. For example, one important financial policy is a one-time revenue policy. One-time revenues are revenues you don't expect to receive again in the future, like proceeds from selling excess real estate owned by the government. A policy says one-time revenues should not be used to fund ongoing expenditures such as salaries for permanent staff. GFOA's surveys show that only half of GFOA members have this kind of policy in place.

The 2020 Financial Policy Challenge is a GFOA-wide initiative, where all GFOA members can work together to adopt and share financial policies that are essential to a strong financial foundation and a thriving community.

The potential benefits of the Financial Policy Challenge are considerable and have been well-documented by GFOA, but there has been less focus on the collective benefit of financial policies. One of the beauties of local government is that good ideas can be easily shared among governments. The other side of the coin, though, is that sometimes local governments will not adopt new ideas unless a critical mass of other governments are doing so. As an example, in my early career as an assistant city manager, I'd bring a new idea to the mayor along with a solid rationale for implementing it — to which the mayor would often reply, "yes, but are the other towns doing it?" The Challenge will allow all GFOA members to answer this question confidently in the affirmative for financial policies.

### In Short

Visit [gfoa.org/financial-policy-challenge](https://gfoa.org/financial-policy-challenge) to:

- Find templates for all of the policies that are the subject of the Challenge.
- Submit your policies.
- Get inspiration from other governments.
- Find out about new information throughout the year.



## >>WHICH FINANCIAL POLICIES ARE THE SUBJECT OF THE CHALLENGE?

Ten policies form the core policies of the Challenge:

- Capital planning
- Debt (focused on affordability)
- Reserves (fund balance or working capital)
- User fees
- Economic development
- Structurally balanced budget
- Long-term forecasting and planning
- One-time revenues
- Investment
- Procurement



The Challenge will last all year, so additional policies might be added to the list as we get feedback from GFOA members.

## >>HOW DO YOU WIN THE CHALLENGE?

Participants can visit [gfoa.org/financial-policy-challenge](https://gfoa.org/financial-policy-challenge) to submit their policies. There are two ways you can win.

The first way to win is if your policies address at least 80 percent of the criteria for what constitutes the “essentials” across all ten policies that are included in the Challenge. To illustrate, here are the criteria for what an investment policy should include:

- Why an investment policy is important, and funds that are subject to the policy.
- Objectives of investment (safety, liquidity, yield).
- Standards of care, including authority to invest, prudence (prudent person or expert rule), and prohibition of conflicts of interest.
- Composition of the investment portfolio, including authorized investments and diversification requirements.
- Safekeeping and custody, including collateralization requirements and internal controls.

To win, your government needs to meet 80 percent of the criteria across all ten policies *in aggregate*. For example, if you can satisfy all five of the investment policy criteria but can only satisfy three of the five criteria for another policy, you are still on track to win because you will have satisfied eight of ten criteria across both policies. Any number of GFOA members can win the Challenge this way. In fact, we hope all members can win!

The criteria are from the “essential” policy features described in the GFOA book, *Financial Policies*. This means that the criteria do not include all possible useful policy features, just the most important ones. When you submit your policy, you will self-assess if your policy contains the features the Challenge is looking for on an electronic checklist.

The second way to win the Financial Policy Challenge is for one of your policies to be judged “best in class.” GFOA’s standing committees — the committees in charge of GFOA best practices — will judge the policies to determine which are best. Only up to 10 percent of the policies submitted can win best in class. Best-in-class policies demonstrate an outstanding implementation of the policy features described in *Financial Policies* and may also include innovations not described in the book.

## >>WHAT RESOURCES ARE AVAILABLE TO HELP YOU WIN?

GFOA members can draw on many resources to help them complete the Challenge. Below are some of the most important:

- *Financial Policies* is essentially a “cookbook” for designing and implementing financial policies.
- To find templates for all of the policies that are the subject of the Challenge, go to [gfoa.org/financial-policy-challenge](https://gfoa.org/financial-policy-challenge).

- All the policies submitted by other governments as part of the Challenge can be downloaded. They will be sortable by size and type of government, along with other useful features.
  - GFOA will have a series of free webinars throughout the year on financial policies.
  - The GFOA Annual Conference in May 2020, in New Orleans, will have sessions on financial policies.
- Other resources will be developed throughout 2020, as well.

## >>WHAT IS THE PRIZE FOR WINNING?

The most important prize is the warm feeling you will get from helping to advance the state of the entire public finance profession! GFOA will conduct surveys throughout the year to see how we are doing in making financial policies more common. We hope that, together, we can make a big difference in the number of members who have adopted financial policies.

A secondary prize is fame and glory. Winners will be recognized by GFOA, featured on the GFOA website, and more.

Finally, the Challenge will feature occasional raffles and other gifts for challenge participants.

## >>HOW DO I GET STARTED?

First, if you already have some of the ten policies in place, visit [gfoa.org/financial-policy-challenge](https://gfoa.org/financial-policy-challenge) and submit them, allowing other governments to start benefiting from your good work right away.

For the policies you don't have, access any of the resources described above for help in starting to develop them.

Finally, get in touch with your peers in other local governments to share materials and experiences to help each other win! ■

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## GFOA's Financial Policies

*Financial Policies* is a GFOA publication that provides guidance on developing and implementing financial policies. The book takes a new look at traditional policies such as those for general fund reserves, debt, and revenues. It also examines emerging policy issues around economic development, enterprise risk management, and reserves for funds other than the general fund.

This book provides governments with a step-by-step approach to developing and implementing financial policies. The author provides comprehensive coverage of financial policies for a range of administrative functions, including budgeting, capital improvements, debt management, and investments.

It can be purchased at [gfoa.org](https://gfoa.org).

