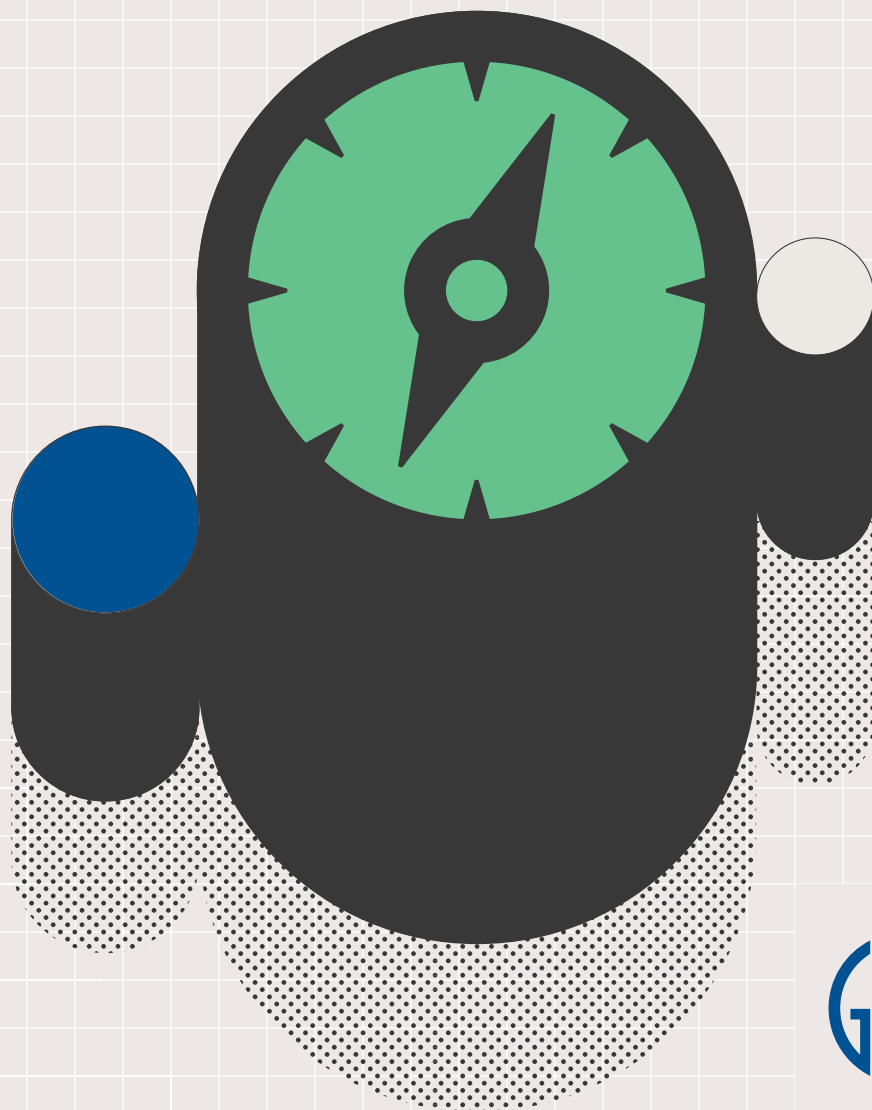


# USING FINANCIAL POLICIES TO NAVIGATE A FINANCIAL CRISIS

## THE CASE OF FRASER VALLEY REGIONAL LIBRARY

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The Government Finance Officers Association (GFOA) represents approximately 20,000 public finance officers throughout the United States and Canada. GFOA's mission is to promote excellence in state and local government financial management. GFOA views its role as a resource, educator, facilitator, and advocate for both its members and the governments they serve and provides best practice guidance, leadership, professional development, resources and tools, networking opportunities, award programs, and advisory services.

**F**raser Valley Regional Library (FVRL) is a public library system shared by its 15 constituent municipal governments (“Members”) and is located to the east of Vancouver, British Columbia.

FVRL had a problem. In late 2014, FVRL’s board dismissed the two top finance staff successively (director and manager). Some Members had lost confidence in the financial management of the organization. They also had begun to doubt they were receiving value for the money from FVRL, citing a lack of clarity and understanding in FVRL’s finances. Some of the Members were threatening to leave the regional library system and go it alone. Supporting this sentiment, and perhaps resulting from it in part, FVRL’s financial position was at a low point:

- Reserves were low (in a deficit) and not enough to meet short-term operational needs.
- FVRL had taken on debt in the form of a capital lease that was not permitted under its governing legislation, and;
- A recent actuarial evaluation identified a sizable unfunded liability for future employment benefits for its almost 400 employees (increased the liability over four times!).

In this paper, we will show how FVRL turned the situation around. The development of a “Financial Management Policy” was central to the change, so we’ll focus on the role of this policy. We’ll examine FVRL’s experience through the lens of GFOA’s Financial Foundations for Thriving Communities. The Financial Foundations framework consists of five pillars:

**Establish a long-term vision.**

Give people a reason to work together in supporting a financially strong local government.

**Build trust and open communication.**

Create the conditions for people to work together.

**Use collective decision-making.**

Develop forums for working together.

**Create clear rules.** Reinforce constructive behavior.

**Treat everyone fairly.** Promote and protect mutual trust and respect.

This is a general framework for making better decisions and reaching better financial outcomes in local governments. The Financial Foundations Framework will help identify the lessons that other local governments can draw from FVRL.

## FVRL AND COVID-19

This report shows how FVRL came out of a financial crisis with the help of financial policies. Like all local governments, FVRL is navigating COVID-19. Though it is too early to say how local government will come through the COVID-19 crisis, FVRL has found its financial policies have supported its efforts so far. We’ll review these successes at the end of this paper.



## ESTABLISH A LONG-TERM VISION

A long-term vision provides a shared understanding of where the organization is going and why it is important to make good financial decisions. A good vision helps balance the big picture with day-to-day needs.

FVRL's Financial Management Policy started with developing two fundamental components that support this pillar: 1) a statement of the purpose of the policy; and 2) guiding principles.

The statement of purpose articulated what FVRL's Members would gain through the development and application of the policy:

- Service levels that the Members developed will be met and sustainably funded.
- Financial assessments charged to the Members by FVRL will be stable, predictable, and affordable.

The decision-making principles provide guidance on how the finances of FVRL should be run and are the basis for an understanding between Members and staff on this point. There are eight principles. Each is meant to create a shared understanding of core operational issues. Also, many of the principles addressed Members' concerns that led to their lack of confidence in financial management.

**Transparency.** Transparency is the basis for open communication and trust. For FVRL, transparency means that financial policies, practices, and results should be actively and openly shared. *This principle directly addressed a key concern expressed by Members and established a basic approach to FVRL financial operations.*

**Accessibility.** FVRL's mission is "opening minds" and "enabling dreams" for all members of the community. This principle stated that library services are to be provided for free or for a small charge because fees should not prevent people from using the services. This is a defining principle for FVRL, given that all of FVRL's Members charge fees for many of their municipal services. This principle has meant that:

- Almost all library services are free. FVRL has supported financial decisions to not increase existing fees or add new ones since 2014.
- FVRL intends to reduce reliance on (and perhaps eliminate) fines as a source of ongoing funding. Each year, FVRL seeks to reduce reliance on fines by removing more fine revenue as a source of ongoing operational funding and transferring it to reserves that are meant to fund one-time, periodic expenditures.

This principle helped/helps FVRL address the tension between the short-term financial pressures to add and/or increase fees and its long-term service goal of being accessible to all.

**Value for money.** This commits FVRL to look for efficiency gains and to economize resources where possible while maintaining or improving its ability to meet its service goals.

**Long-term view.** FVRL cannot directly incur debt beyond a single fiscal period. Though incurring long-term debt is possible (indirectly), it is complicated, costly, and not assured. Members want predictability in their costs. Taking a long-term view provided support for FVRL to set up long-term plans for capital assets and move toward funding annual reserves to fund these assets.

**Continuous improvement.** This principle sets expectations that change will not happen immediately, creating a shared understanding that a series of smaller, planned adjustments is the path to making a big improvement.

**Adopter of proven technology.** This commits FVRL to be a savvy investor in new technology and staying off "the bleeding edge."

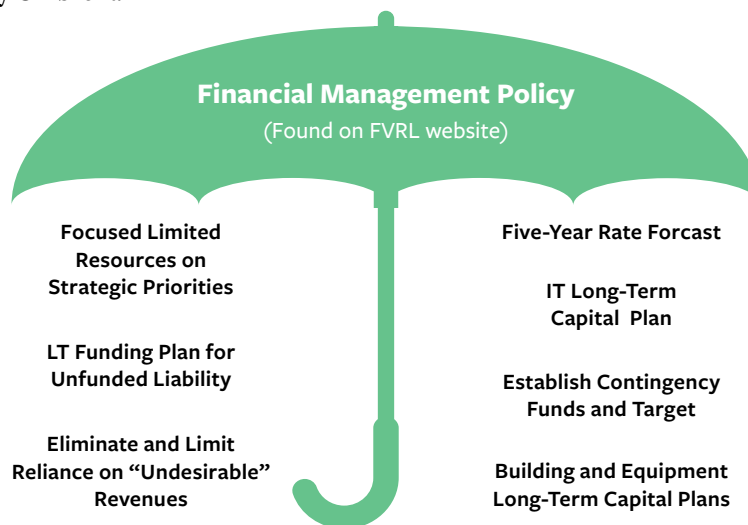
**Community partner.** Modern libraries contend with social problems that inhibit their constituents from realizing their full potential. However, most libraries, including FVRL, do not have the resources to become social service agencies. This principle commits FVRL to form relationships with other organizations that are able to provide social services and limit FVRL's direct services to core library services.

**Regional service.** As a regional library, FVRL must balance the need to provide equitable services across branches with the need to stay flexible enough to adjust services as needed for each community. This principle recognizes these conflicting goals and supports that individual community needs/wants must be evaluated within the context of (or not detract from) services across the entire FVRL system.

The Financial Management Policy provides decision-making boundaries for the annual budget, the long-term financial plan, how FVRL raises revenue, and how it spends money. The policy also serves as an “umbrella” for technical processes that help put FVRL’s principles into practice. Exhibit 1 shows the umbrella. Let’s take a few

examples from Exhibit 1, starting with “Five-Year Rate Forecast” in the upper right. The principle of “Long-Term View” is driven by Members’ desire for predictability in the financial contributions they are asked to make to FVRL. The Five-Year Rate Forecast provides a plan to build up reserves and create stability in Member contributions. Another example is “Eliminate & Limit Reliance on ‘Undesirable’ Revenues” on the lower left of Exhibit 1. This puts the principle of “Accessibility” into practice by adopting a policy that supports most library services being provided free of charge and prohibit fees from being higher than the direct cost to provide that service/program. It also addresses “Community Partner” through a policy that discourages FVRL from pursuing grants that would distract FVRL from its core mission and goals.

**Exhibit 1:** FVRL’s Policy Umbrella



### Questions and Conversation Starters:

- Do you have principles that provide big-picture guidance to financial decision-making? If not, what are the concerns people have about your government’s services and finances that might be the starting point for principles?
- How do you show people outside of the finance office how your technical initiatives fall under a coherent vision? FVRL used the umbrella metaphor. What is your metaphor?
- Can people see the link between your technical initiatives and your principles?



## BUILD TRUST AND OPEN COMMUNICATION

GFOA's Code of Ethics describes trust as a finance office's most valuable asset. The code identifies "honesty and integrity" and "consistency and reliability" as keys to a trustworthy reputation. These are important for FVRL. FVRL has 15 constituent municipalities, each of varying size, location, and other characteristics. This means it is very important that FVRL is open and transparent about its finances and that FVRL's approach to financial management is consistent and reliable.

FVRL's Financial Management Policy helps promote honesty, reliability, and consistency. For example, FVRL's budget is tied to FVRL's strategic plans. There is openness about what the spending priorities are. Spending is directed toward activities that FVRL's constituent municipalities have agreed are important.

The Financial Management Policy promotes honesty, reliability, and consistency in detailed, day-to-day

decision-making. It is often said that the devil is in the details. A concern for many Members was a lack of clarity on what expenses FVRL was responsible for versus the Member for their particular library/libraries. To address this, a high-level statement about how costs are shared is within the main policy, which is supported by an appendix. This allows FVRL staff to reference who is responsible for almost any expense and ensures consistent application across all Members.

The process of developing the policy increased Members' trust in FVRL. This is reflected throughout the policy that provides FVRL staff with the flexibility to decide how to spend money, provided they stay within the total budget. If the Members did not trust FVRL staff to manage the details, they would feel it necessary to micromanage FVRL finances. For instance, the Financial Management Policy allows staff to reallocate savings in one service area (maybe from retirement or efficiency enhancement) to another. FVRL staff can change service levels at library branches as long as it doesn't increase costs more than \$10,000 to the constituent municipality. This gives FVRL staff the flexibility to adjust to changing conditions and try new things while providing constituent municipalities with accountability on the cost of library services.

**GFOA's Code of Ethics describes trust as a finance office's most valuable asset.**

### Questions and Conversation Starters:

- What elements of the GFOA Code of Ethics might be your most important opportunity to build trust with your stakeholders?
- Is your budget process guided by clear and consistent spending priorities?
- Do your day-to-day business practices give people confidence that good financial stewardship is in place? Are there policies you could adopt to build more confidence?



## COLLABORATIVE DECISION-MAKING

FVRL staff worked with what FVRL calls the “Member Finance Group.” The group is comprised of the CFOs from all the constituent municipalities. The group reviewed the proposed policies and offered a challenge to FVRL. This helped FVRL create policies that gave the group confidence that FVRL was taking their concerns to heart. FVRL also has a governing board of elected officials from the constituent municipalities. They relied on the Member Finance Group to work with FVRL staff on the Financial Management Policy. If the Member Finance Group is satisfied, then the elected officials typically are as well.

The CFO of FVRL, Nancy Gomerich, led the process to create the Financial Management Policy with the Member Finance Group. Nancy has worked with several local governments, including those where citizens were in the role played by the Member Finance Group. She believes that having local government CFOs in the group was an advantage. She also believes that about 80% of what FVRL did would have worked with a group comprised of citizens, though some conversations were too technical for laypeople. The takeaway from FVRL’s experience is that by collaborating on the Financial Management Policy with people who the elected officials found credible, the FVRL staff was able to gain the confidence of the elected officials.

### Questions and Conversation Starters:

- Are there people outside of the finance office who elected officials find credible? Can finance staff borrow their credibility by including them in the process of developing financial policies?
- How can the process be designed so that outsiders’ participation is constructive? What decision-making boundaries can they help set while avoiding too much detail? How can they be made to feel adequate and comfortable with participating in technical conversations about public finance?



## CREATE CLEAR RULES

Financial policies are boundaries around how financial decisions will be made. FVRL’s Financial Management Policy is about creating and sharing expectations about how decisions get made, who makes them, and when. The Financial Management Policy provides guidance across different areas. Here are some examples of policy guidance we haven’t touched upon in this paper:

**Structurally balanced budget.** Requires a budget that balances recurring revenues with recurring expenditures, including the expenditures needed for payments on debt and for capital asset maintenance and replacement.

**Long-term financial plan.** Commits FVRL to develop a plan that identifies financial problems and solutions.

**Reserves.** Sets funding target and permissible uses of the reserve.

FVRL’s CFO has observed that the guidance provided in the Financial Management Policy forms a whole that is greater than the sum of its parts. It gives confidence to the elected officials and Member Finance Group that the decision-making principles are being fulfilled.

### Questions and Conversation Starters:

- Do you have written policies that cover topics like reserves, investments, limits on the use of debt, one-time revenues, user fees, a structurally balanced budget, and/or other topics that are important to your circumstances? The GFOA book Financial Policies provides guidance on essential policy elements.
- Can people see that the policies contribute to a clear approach to meeting organizational goals?



## TREAT PEOPLE FAIRLY

If people feel unfairly treated, they are likely to withdraw their support from a system and, in extreme cases, attempt to bring the system down. We saw a glimpse of this in FVRL when some constituent municipalities were threatening to withdraw from FVRL because they didn't think they were getting good value for their money. The Financial Management Policy promotes a sense of fair treatment. Here are some examples:

- Cost allocation policies provide fairness and transparency in how allocations to each constituent municipality are set. This reassures Members they are not being overcharged.
- FVRL's policy on service level increases or decreases ensures Members there is the flexibility to adjust services within certain parameters to meet local needs. An example of a parameter is that a service level increase must come along with an identified funding source.
- FVRL has a limited borrowing capacity, so debt is not a source of financial flexibility. At the same time, the constituent municipalities don't want FVRL to accumulate too large of a reserve. Reserves are another form of financial flexibility. The structurally balanced budget and reserve policy help resolve this point of contention by specifying the size of the reserve FVRL can have and making sure the budget is structurally balanced so that FVRL won't have to rely on the reserve to bail itself out of trouble.

### Questions and Conversation Starters:

- Do your policies give people assurances that they will not be overcharged for services? Internal cost allocations and user fees are areas where this could be a concern.
- Do policies give people some capacity to make decisions for themselves while providing the limitations to ensure ongoing financial health for the local government?
- What are the points of potential conflict in the financial management of your government? Given that many of these conflicts are unavoidable and can't be permanently solved, how can your policies make sure people are treated fairly as these conflicts take place?

**If people feel unfairly treated, they are likely to withdraw their support from a system.**



## CONCLUSION

FVRL shows us how a comprehensive and coherent approach to financial policies can help a local government create a solid financial foundation. The manner in which FVRL approached policy development addressed every pillar of the Financial Foundations framework. Other local governments do not have to duplicate how FVRL approached its financial policies, but they can take inspiration from FVRL's approach to develop their own approach that will work under local conditions.

### How FVRL's Policies Have Helped Navigate COVID-19

Here are examples of how the policies you have heard about in this paper have helped FVRL navigate the COVID-19 crisis:

- **Principle of “transparency.”** FVRL instituted weekly communications to Members and detailed financial overviews to the Members.
- **Reserves policy.** Some Members wanted cash refunds when FVRL was closed. Others wanted to delay the opening of the libraries to create cash savings in their budgets. FVRL's policy includes provisions on how surpluses can be shared with Members. The policy provided for detailed reporting of surpluses to Members at fiscal year-end. Thus, the process to provide surpluses to Members, if they materialize, already was in place. It would have been difficult to formulate policy in the middle of the COVID-19 crisis.
- **Reopening guidance.** The policy provided the framework for a consistent strategy for reopening across the FVRL system, even with the local control that Members have.



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