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Financial Policies

County commissioners make decisions relating to financial matters on a regular basis. County finance staff members rely on these decisions to successfully perform their assigned responsibilities. However, only a limited number of counties have adopted financial policies to assist in making these decisions. What are financial policies? Why should county commissioners adopt them? What obstacles will need to be overcome in developing financial policies? How are financial policies developed? This chapter reviews each of these questions.

WHAT ARE FINANCIAL POLICIES?

Financial policies are the rules that govern financial decisions in a county. County commissioners adopt and, along with their staff, follow these policies when making financial decisions about the future of their counties. Once county commissioners adopt financial policies, most subsequent financial decisions are simplified because the issues have been deliberated during the policy adoption stage.

Counties might adopt financial policies covering the following topics:

- Operating budget and equity (fund balance) reserves
- Capital improvements plan or program (CIP)
- Debt
- Revenue
- Accounting, auditing, and financial reporting
- Purchasing
- Cash and investments
- Pension/other post-employment benefits (OPEB)

Questions that county commissioners need to ask with regard to each of these policy issues are presented in Table 17-1.

Many counties have informal financial policies. Often resulting from precedent, these informal policies become standing practices within a county. For example, a county's property tax rate might not have been changed for a number of years. The county has no written policy that

Table 17-1. *Questions to Ask and Issues to Resolve When Establishing Financial Policies*

Operating budget and equity (fund balance) reserves	Which funds should be budgeted? Is the budget balanced? Is a contingency budgeted? What types of review and comment are the public provided? How much fund balance is maintained? Is the fund balance used in balancing the budget? When and how is fund balance replenished if used in balancing the budget? What is the legal level of budgetary control? Should a more detailed level of budgetary control be established? Is the budget process centralized or decentralized? Is the budget prepared on an annual basis or for another period of time (i.e., two years)? What happens to appropriations at the end of the year? What budgetary basis of accounting is used? Is a budgetary reporting system maintained? Who will perform and/or approve budget adjustments during the year? Does the county participate in the GFOA Certificate of Achievement Program for the annual budget?
Capital improvements program (CIP)	How are capital projects defined? What period of time does the CIP cover (i.e., is the CIP plan for 3, 5, 10, or 20 years)? What evaluation criteria are used to prioritize capital projects? How much of the CIP is funded each year from the annual operating budget? Are funding sources identified and prioritized? Is the impact of the CIP on future years' operating budgets included? Should the program include a replacement schedule for buildings and equipment?

Table 17-1. *Questions to Ask and Issues to Resolve When Establishing Financial Policies*

Debt	When is debt issued? What type of debt is issued? How much debt is issued? What type of sale is permitted (i.e., negotiated or competitively bid)? What are the maturity dates of debt issuances? What actions are undertaken to maintain positive relations with bond rating agencies? When will outside professional assistance be utilized? When is debt refunded?
Revenue	Should the county develop a revenue manual? What is the goal for establishing and maintaining a diversified revenue source? Are state laws followed in regard to the types of revenues collected? How are property taxes calculated? How are user fees and charges set, and how often are they updated? How are revenue projections developed, how often, and what periods of time are covered? How often are revenue projections reviewed, monitored, and reported to the county commissioners? What are the collection policies? What collection methods (such as tax sales, liens, collection agencies, etc.) are used?
Accounting, auditing, and financial reporting	How is the independent auditor selected? What is the level of audit coverage? Are generally accepted accounting principles (GAAAP) being followed? Who prepares financial reports for internal use, what type of reports will be prepared, and how often are the internal reports communicated to elected officials? Does the county participate in the GFOA Certificate of Achievement Program in the preparation of popular reports? Does the county use audit or finance committees? Does the county have an internal audit staff? Does the county participate in the GFOA certificate of achievement program with the production of a comprehensive annual financial report (CAFR)?

limits increasing the tax rate, yet everyone "just knows" that the position of the county commissioners is not to raise property taxes. Obviously, an informal policy is at work in this instance.

ADOPTING FINANCIAL POLICIES

Considerations

There are a variety of reasons why county commissioners should adopt financial policies:

Financial policies can provide county commissioners with the opportunity to review their present approach to financial management with an overall, long-range perspective.

Generally, during budget preparation, county commissioners spend most of their meeting time reviewing the annual operating budget. Therefore, because of the annual budget process, county commissioners are generally "annually oriented" in their financial planning. Fortunately, financial policies require county commissioners to conduct financial planning on a long-range basis, which can only improve a county's financial management.

Financial policies can improve county commissioners' credibility and the public's confidence in them.

When citizens are aware that the county commission has adopted meaningful financial policies, they feel confident that the commissioners are providing sound financial management for the county. As the adopted policies are consistently applied to financial decisions, the credibility and integrity of county commissioners are oftentimes improved. In addition, financial policies can provide the support needed to either improve or maintain a county's credit rating.

Financial policies can save time and energy for both the county commissioners and the county's administrative staff.

It has been said that 80 percent of the decisions that county commissioners make relate in some way to finance (e.g., hiring additional personnel, purchasing new vehicles, evaluating where to locate a new fire station). Therefore, if financial policies are in place, the amount of time at commissioners' meetings spent on financial issues can be minimized. Such policies also allow the county's administration to move ahead with financial matters as it follows the adopted financial policies, rather than wait for decisions from the county commission.

Formulating financial policies can be educational for county commissioners.

Because most county commissioners have a heavy workload, discussions of financial issues are sporadic. The process of developing financial policies provides county commissioners the opportunity to become educated on all facets of county financial management.

Financial policies can provide continuity for the county and its county commission.

If financial policies already exist, newly elected officials should not have to make major changes in the financial management of the county. Of course, the fact that financial policies are in place does not mean that newly elected officials cannot or should not change the policies. It simply means that existing financial policies promote necessary continuity for county operations.

Financial policies can provide a basis for coping with fiscal emergencies.

Financial policies are critical in order for a county to maintain financial solvency. Revenue shortfalls and emergencies requiring unanticipated expenditures can have a severe fiscal impact on a county unless financial plans and policies have been established to handle them.

Obstacles

When considering the development of financial policies, county commissioners may face many obstacles. Certain perceptions and oftentimes very real situations inhibit progress in creating long-term financial policies.

County commissioners themselves may resist developing long-range financial plans. As stated earlier, because of the annual budget cycle, commissioners tend to think of financial planning as an annual process. Also, the commissioners may believe that developing a long-range financial plan is not worthwhile because so many things can change over time.

Consideration must also be given to the county's political environment. In the process of developing financial policies, many important issues will be discussed at public meetings and each elected official's position on specific financial subjects becomes public knowledge. Some county commissioners may be reluctant to reveal too much about how they feel about a particular issue (e.g., increasing property taxes).

Furthermore, the task of developing financial policies is very time consuming and is therefore perceived as a drawback. It usually takes a number of special meetings or work sessions for the county commissioners to deliberate the proposed policies. Weighing these very real concerns against the benefits of adopting financial policies should make overcoming hesitations more acceptable and certainly possible. The time and effort necessary will be well rewarded.

HOW TO DEVELOP FINANCIAL POLICIES

County commissioners must complete various steps before they can adopt financial policies. One of the first steps is to have the county administration begin developing and drafting financial policies. The county administration might present the county commission with a work plan for developing financial policies, which would include most of the topics covered in this chapter. For example, the work plan might include

- defining financial policies;
- the purpose and benefits of financial policies;
- a review of the obstacles to developing financial policies;
- types of financial policies to be considered, with samples for each topical area;
- methods of developing financial policies; and
- strategies for using financial policies.

Once the county commission concurs and chooses the areas for policies, the county administration should begin drafting policies consistent with other adopted policies, as necessary. A good way to begin is to review policies adopted by other counties in the state and nation. Sample policies are available from the Carl Vinson Institute of Government. Another source of sample policy information is the Government Finance Officers Association, which publishes on its Web site (www.gfoa.org) policy statements, recommended practices, and best practices on a variety of finance-related subjects.

After the county administration drafts the policies, the county commission should devote as many work sessions as necessary to reviewing these policies. This process will be educational for the county commissioners but time consuming.

The county commission might decide to hold a public hearing on the financial policies to allow for citizen input. Finally, the policies should be adopted formally through a resolution or ordinance. All policies should be maintained in a policy book and be reviewed periodically (possibly annually and/or after newly elected county commissioners take office). Often, policies are incorporated into the county finance ordinance or resolution. See Table 17-2 for a selection of financial policy areas, issues, and sample policies.

Table 17-2. *Sample Financial Policies*

Area	Issue	Sample Policy
Operating budget and equity reserves	Fund balance amounts to maintain	The county will attempt to establish a fund balance reserve for the general fund to pay expenditures caused by unforeseen emergencies, to cover shortfalls caused by revenue declines, and to eliminate any short-term borrowing for cash flow purposes. This reserve will be maintained at an amount that represents approximately $300,000 or two months of regular general fund operating expenditures, whichever is greater.
Capital improvements program	Capital assets thresholds	For the capital improvements program, all land improvements, and buildings projects costing $25,000 or more are classified as capital assets. Equipment costing $5,000 or more with an estimated useful life of two or more years is considered a capital asset.
Debt	When to use capital leases rather than outright purchases	Capital leases are used to finance equipment purchases when the cost of the equipment purchases exceeds 12 percent of the general fund budget.
Revenue	Review of fees and charges	The government will review all fees and charges annually in order to keep pace with the cost of providing that service.
Accounting, auditing, and financial reporting	Auditor selection	Every five years the county will issue a request for proposal to independent auditors to provide an audit for the county's operation. The current auditing firm is eligible to propose on this audit.
Purchasing	Centralized purchasing	The county will maintain a centralized purchasing system through which all county purchases for both goods and services will be coordinated by the purchasing department

SUMMARY

The importance of financial policies cannot be overemphasized. Laws provide specific guidance regarding some of the issues that financial policies address. However, county commissioners are given much latitude regarding the context of the financial policies. The county and its elected officials should make every effort to adopt meaningful financial policies. Subsequently, both the county administration and county commission must follow these policies.