BEST PRACTICES IN FINANCIAL POLICIES

Ryan Stechschulte, Treasurer
Paul Overman, Director of Treasury Management
Toledo City School District
Wednesday, September 21, 2016
Table of Contents

I. Introductions

II. Policy Purposes and Objectives

III. Constructing a Policy Team Responsible for Development

IV. Identify Best Practices

V. Policy Development

VI. TPS’ Experience

VII. Appendix
I. Introductions
Contact Information

- **Speakers:**
  - Ryan Stechschulte, Treasurer
    Toledo City School District
    rstechsc@tps.org
    (419) 671-0350
  - Paul Overman, Director of Treasury Management
    Toledo City School District
    overmanp@tps.org
    (419) 671-0370

- **Moderator:**
  - Bethany Pugh, Managing Director
    PFM Financial Advisors LLC
    pughb@pfm.com
    (440) 239-7070
II. Policy Purposes and Objectives
Identify and Develop Policy Objectives

- Engage Stakeholders
  - Governing body
  - Administration and key staff
  - Finance team members (e.g., Municipal Advisor and Bond Counsel)

- Identify key rationale for policy
  - Establishing parameters for decision making
  - Employing Best Practices
  - Communicating objectives to external parties – underwriters, broker-dealers, etc.
  - Provide for management transition
  - Provide for Transparency

- Develop plan/schedule for seeking stakeholder input during policy development

- Policies cannot address every conceivable situation, so developing and designing can be somewhat of an art. It is important to outline how situations which necessitate deviations from formal, written policies will be handled (i.e., by the governing board, by a single officer of the entity, or by some other means)
III. Constructing a Policy Team Responsible for Development
Constructing the Policy Team

- Appropriately represent the various stakeholders on the team

- Create an effective way to track and integrate feedback

- Care should be taken to make the process as transparent as possible, especially for substantial changes from existing policies or the introduction of new policies
IV. Identify Best Practices
Understand all of the rules and regulations that will impact the policy. Examples include:
- Legal requirements
- Auditor of State Compliancy Requirement
- Board policies

Review by internal and external counsel is critical to determining any legal requirements.
Utilizing Resources

- Inspect the policies of peer entities

- Consult bond counsel, financial advisor, underwriters with long-standing relationships, and any other finance team member
  - Financial advisors and underwriters can provide valuable context on the impact that the financial policies may have on the issuer’s bond rating and marketability of debt

- Utilize the GFOA and the resources it has available

- Utilize the OASBO and the resources it has available

- Tap into internal administrative staff and governing boards knowledge base
The Government Finance Officers Association has stated that “[f]inancial policies are central to a strategic, long-term approach to financial management.”*

Rationales for adopting formal, written financial policies include:
- Promoting stability and continuity and preventing the need to re-invent responses to recurring issues
- Fostering collective understanding of how financial practices will be developed
- Defining boundaries on the actions staff may take
- Supporting good bond ratings and reducing the cost of borrowing
- Promoting long-term, strategic thinking and planning
- Managing risks to financial condition
- Complying with established public management best practices

These rationales are not necessarily mutually exclusive and the adoption of formal, written policies often achieves many of these aims.

In addition, GFOA recommends that (i) policies exist in written form, (ii) policies be expressed in an understandable manner for intended audiences, (iii) policies be made available to all stakeholders and be published with multiple means of access, and (iv) policies address all relevant issues and risks for that specific policy in a concise fashion.

*GFOA Best Practice: Adopting Financial Policies
V. Policy Development
Debt Policy

Potential Focus Areas

- Roles and Responsibilities of Governing Body and Staff
- Finance Team Members – Municipal Advisors, Bond Counsel, Underwriters, etc.
  - Roles and Responsibilities
  - Method of Selecting External Service Providers
- Authority to Borrow and Debt Limitations
- Methods of Sale
- Acceptable Financing Alternatives
- Debt Structuring Considerations
  - Optional Redemption Provisions
  - Call Option Analysis
- Credit Rating Considerations
- Credit Enhancement
- Refunding Considerations
  - Savings as a % of Refunded Par
  - Refunding Efficiency (Option Value)
Debt Policy - Continued

Potential Focus Areas – continued

- Post Issuance Compliance
  - Continuing Disclosure
  - Tax Compliance
  - Credit Enhancement Program Requirements
  - Other

- Investment of Bond Proceeds

- Internal and External Accounting Requirements

- Internal Controls

- Provide for Continuing Education (even in times of tight budgets)
Potential Focus Areas

- Legal Requirements
- Purpose and Scope
- Objectives and Guidelines
- Investment Authority
- Use of Investment Advisors
- Investment Responsibilities
- Permissible Investments
- Investment Criteria
- Broker Dealer Criteria, Roles and Responsibilities
- Safekeeping and Custody
- Bid Monitoring
- Investment Selection
- Prohibited Investments
- Reporting, Monitoring and Controls
- Internal Control
- Accounting Issues – Internal and External (GASB)
- Cash Management Practices
- Filing Requirements
Budget or Other Reserves/Fund Balance Policies

Potential Focus Areas

- What is target minimum and/or maximum balance
- When are contributions made
- Are contributions Mandatory or Voluntary
- What is the formula for determining the amount of the contributions
- What is the maximum cumulative amount of contributions
- When are expenditures allowed
- Treatment of Investment Income
Debt Structuring Practices

The District’s debt structuring considerations will vary based on the type of debt being issued. However, for each issue, consideration should be given, but not necessarily limited, to all of the following:

- Total Par Value Issued
- Par Value by Maturity Date
- Maximum Allowable Maturity
- Optional Redemption Features
- Coupon Type (Standard, Bifurcated or a combination of both)
- Timing of Principal and Interest Payments (generally June and December 1st)
- Method of Sale (Negotiated, Private or Direct Placement or Informal or Formal Competitive)
- The appropriate debt service structure (generally level debt service will be appropriate)
- Arbitrage Rebate or Other Tax Compliance considerations
- Need for Retail Market Sales Potential
- Need for Institutional Market Sales Potential
- Need for Credit Enhancement or participation in the State of Ohio’s School District Credit Enhancement Program
- Need for an Official Statement, Offering Circular or other disclosure document
- Need for Rating Agency Presentation(s)
- Need for an Annual Information Filing
Debt Structuring Practices

- Need for a Bond Registrar/Paying Agent
- Need for a Municipal Advisor
- Need for Underwriter Participation (required for refunding of bond or COPs issues)
- Need for Co-Managing Underwriter Participation
- Understanding of all issuance costs
- Requirement of a level of MBE/WBE participation as determined by the Treasurer
- Type of Underwriter Participation (Group Net or Net Designated)
- Separate counsel for the District and the Underwriter(s)
- Timing of the Sale
- Investment of Debt Proceeds
- The District’s ability to meet federal tax requirements for post issuance compliance, including the timely allocation of proceeds for expenditures and the potential for arbitrage rebate
- The District’s long-term capital project plans and goals
Sample From Investment Policy

Investment Criteria and Restrictions

At the time of purchase, each investment and deposit, and each type of investment and deposit, will be subject to the following restrictions specified by security type:

<table>
<thead>
<tr>
<th>Security Type</th>
<th>Maximum Maturity</th>
<th>Maximum Par Value % of Total Portfolio</th>
<th>Aggregate Maximum % Of Total Portfolio</th>
</tr>
</thead>
<tbody>
<tr>
<td>United States Treasury Securities</td>
<td>5 Years*</td>
<td>5%</td>
<td>100.00%</td>
</tr>
<tr>
<td>Federal Agency Securities</td>
<td>5 Years*</td>
<td>5%</td>
<td>100.00%</td>
</tr>
<tr>
<td>Callable Securities</td>
<td>5 Years*</td>
<td>5%</td>
<td>25.00%</td>
</tr>
<tr>
<td>STAROhio</td>
<td>N/A</td>
<td>N/A</td>
<td>100.00%</td>
</tr>
<tr>
<td>Overnight Repurchase Agreements</td>
<td>Next Business Day</td>
<td>5%</td>
<td>50.00%</td>
</tr>
<tr>
<td>Term Repurchase Agreements</td>
<td>30 Days</td>
<td>5%</td>
<td>25.00%</td>
</tr>
<tr>
<td>Commercial Paper **</td>
<td>270 Days</td>
<td>5%</td>
<td>30.00%**</td>
</tr>
<tr>
<td>Bankers Acceptances**</td>
<td>180 Days</td>
<td>5%</td>
<td>30.00%**</td>
</tr>
<tr>
<td>Certificates of Deposit</td>
<td>2 Years</td>
<td>5%</td>
<td>50.00%</td>
</tr>
<tr>
<td>State of Ohio Securities</td>
<td>5 Years*</td>
<td>1%</td>
<td>20.00%**</td>
</tr>
<tr>
<td>Municipal Obligations</td>
<td>5 Years*</td>
<td>1%</td>
<td>20.00%**</td>
</tr>
<tr>
<td>No-Load Money Market Mutual Funds</td>
<td>Next Business Day</td>
<td>N/A</td>
<td>25.00%</td>
</tr>
</tbody>
</table>

* Unless matched to a specific obligation or debt of the District. See "Maturity".

** The District shall not purchase Commercial Paper or Banker’s Acceptances unless (i) the Treasurer has completed additional training pursuant to Section 135.142 of the Revised Code and (ii) the Board of Education has adopted, by an affirmative vote of at least two-thirds of its members, a resolution authorizing the Treasurer to invest in Commercial Paper or Bankers’ Acceptances, as applicable.

*** The 30% maximum percent of total portfolio is for Commercial Paper Notes and Banker’s Acceptances combined. At the time of purchase, the District’s combined holdings of Commercial Paper Notes and Banker’s Acceptances will not exceed 30% of the Total Portfolio and no more than 5% of the District’s total portfolio is invested Commercial Paper Notes or Bankers Acceptances of any one issuer.

**** The District shall not purchase Municipal Obligations, unless (i) the Treasurer has completed additional training pursuant to Section 135.14(B)(4)(d) of the Revised Code, (ii) the District’s combined holdings of State of Ohio Securities and Municipal Obligations will not exceed 20% of the Total Portfolio, and (iii) no more than 5% of the District’s total portfolio is invested in obligations of any one issuer.
Investment Criteria and Restrictions

In addition to those restrictions:

No more than ten percent (10%) of the District's total portfolio will be invested in Certificates of Deposit of any one Depository at any one time. District funds invested in interim deposits of a Depository may not exceed thirty percent of the Depository's assets. The maximum maturity of a Certificate of Deposit will be the lesser of two (2) years or the date of expiration of the current depository agreement for interim funds.

Only collateralized, non-negotiable Certificates of Deposit, from a Depository approved to hold interim funds, will be considered for purchase. All Certificates of Deposit shall be collateralized as provided in Section 135.18 or 135.181 of the Revised Code and the District's Collateral Security Agreement with the Depository. A surety bond is acceptable as collateral for District deposits if the surety bond is issued by a corporate surety (i) licensed by the State of Ohio and authorized to issue surety bonds in the State pursuant to Chapter 3929 of the Revised Code, (ii) qualified to provide surety bonds to the federal government pursuant to 96 Stat. 1047 (1982), 31 U.S.C.A. 9304 and (iii) rated in the highest class by a Rating Agency. **Failure of a Depository to enter into a Collateral Security Agreement with the District will preclude the Depository from the District's Certificate of Deposit bid list.**

As to investments in Repurchase Agreements:

- A signed Master Repurchase Agreement or specific written Repurchase Agreement containing all of the provisions required by Section 135.14(E) of the Revised Code shall govern the repurchase transaction.
- Securities subject to any Repurchase Agreement must have a maturity of five years or less.
- Securities that are the subject of a Repurchase Agreement must be free and clear of any lien.
- The District will only enter into Overnight Repurchase Agreements with designated Depositories for its interim or active funds.
- The market value of securities subject to an Overnight Repurchase Agreement must be at least 102% of the principal value of the Overnight Repurchase Agreement.
- Securities that are the subject of an Overnight Repurchase Agreement may be held by a Custodian or may be held in trust for the District by the Depository from which they are purchased.
Sample From Investment Policy

Investment Criteria and Restrictions

- No more than ten percent (10%) of the District's total portfolio will be invested in Term Repurchase Agreements of any one Depository at any one time.

- Securities that are the subject of a Term Repurchase Agreement must be held by a Custodian acting solely as agent for the District, and such Custodian must not be the seller under the Repurchase Agreement.

- The market value of securities subject to a Term Repurchase Agreement must be at least 102% of the principal value of the Term Repurchase Agreement and holding period interest of the transaction and must be marked to market daily. If the market value of the securities falls below the prescribed levels during the duration of the Term Repurchase Agreement, the Depository with which the District has contracted shall be required to deliver additional securities to bring the transaction back to full collateralization.

No more than five percent (5%) of the District's total portfolio will be invested in Commercial Paper in any one issuer at any one time. The District will not invest in Asset Backed Commercial Paper Programs.

No more than five percent (5%) of the District's total portfolio will be invested in Banker's Acceptances of any one bank at any one time.

No more than five percent (5%) of the District's total portfolio will be invested in Municipal Obligations of any single issuer.

The minimum number of offers required for each security purchased by the District is three (3) with all offers being documented and retained for audit purposes.
Toledo City School District’s Board Policy

The standards of sound fiscal integrity for the District’s General Operating Fund suggest the availability of maintaining financial reserves for current operating expenses. These reserve funds would be set aside within the General Operating Fund on an annual basis at the end of each fiscal year to provide a contingency available to address unexpected (and, thus, unbudgeted) expenditures; to provide for the interruption or delay in the receipt of revenue; to provide for situations in which revenues are less than those that had been forecast; and, to provide for extraordinary conditions beyond the control of the District.

It is the desire of the Board to establish a cumulative budget stabilization reserve not to exceed 15% of total District General Operating Fund average appropriations for the past three years as reported in the five-year forecast submitted to the State of Ohio in May of the same fiscal year.

A budget stabilization reserve shall be established and funded annually provided that there is positive growth in the fiscal year end District General Operating Fund balance. Each fiscal year, after the close of the financial statements for June 30th, fifty percent (50%) of the increase in the District General Operating Fund unencumbered fund balance over the prior fiscal year-end closing unencumbered fund balance will be set aside as a budget stabilization reserve. Should the General Operating Fund balance decrease year-over-year, the budget stabilization reserve will not be reduced.

A reduction or expenditure of monies in the budget stabilization reserve will require a separate Board Resolution.

For investment and cash management purposes, the balance in the budget stabilization reserve will be combined with the balance in the District’s General Operating Fund for interest distribution purposes. Investment income on the budget stabilization reserve portion will be credited to the District’s General Operating Fund throughout the fiscal year. Investment income will not accumulate in the budget stabilization reserve.
Final Steps and Objectives

**Final Steps**
- Review and sign-off by the Policy Team
- Formal Presentation of Policy
  - Formulate and approve a one-page Board Policy sanctioning policies

**Certifications**
- Seek Administrative Staff and External Provider Certification
- Seek Certificate of Excellence from the Association of Public Treasurers of U.S. and Canada

**Annual Review of Policies**
- Changes in the law
- Changes in Environment / Industry
VI. TPS’ Experience
Debt

- In March 2016, the District adopted an Administrative Policy for Debt Issuance, Management and Post-Issuance Compliance. The full policy can be found at the hotlink in the Appendix.

- Also in March 2016, the District adopted a Board Policy which recognizes the Administrative Policy. That Board Policy reads as follow:

  Consistently with the District’s Administrative Policy for Debt Issuance, Management and Post-Issuance Compliance, the District may issue voted and unvoted general obligation bonds and bond anticipation notes for proper school district public purposes (including refunding prior such bonds or BANs), current tax revenue notes and tax anticipation notes and may enter into other borrowing transactions, including lease purchase financings, in accordance with applicable provisions of ORC Chapters 133, 3318, 3313 and 5705 and in compliance with applicable provisions of federal securities and tax law and related regulations and rules.

All borrowings, regardless of type, require approval of an authorizing resolution by the Board.

New issues may be sold through competitive sale, negotiated sale or private placement sale as may be recommended by the Treasurer in accordance with the District’s Administrative Policy for Debt Issuance, Management and Post-Issuance Compliance and approved by the Board in the related authorizing resolution.

After the terms of the borrowing are established, the Treasurer, Superintendent and the Board President and Vice President and other named District officials are to execute the necessary documents for the borrowing transcript and to complete the borrowing in accordance with related authorizing resolutions adopted by the Board.

The Treasurer will utilize the legal services of bond counsel in connection with all new borrowings and post issuance compliance and reporting on borrowings outstanding from time to time. The Treasurer may in connection with any borrowing, and shall in connection with a refunding transaction, also utilize the services of a municipal advisor. The Treasurer may utilize the services of an underwriter or underwriting team for public offerings of District securities and other obligations and the services of a placement agent for private placements of such securities and obligations.

Post issuance compliance and management of all outstanding borrowings will be the responsibility of the Treasurer and his staff.

All borrowing transcripts are to be retained three (3) years after the issue is retired and in accordance with record retention guidelines established by the Ohio Historical Society.
Investments

- Originally adopted in September 1996, the District adopted an Administrative Policy for Investment and Cash Management Activity. The full policy can be found at the hotlink in the Appendix.

- In March 2015, the District revised it Board Policy DFA: “Use of Surplus Funds” to recognize the Administrative Policy. The full Board Policy can be found at the hotlink in the Appendix.

Budget Reserve

- In May 2012, the District adopted a policy outlining the desire of the Board to establish a Budget Stabilization Reserve equal to 10% of total district general operating fund appropriations for the prior fiscal year. In its rating report, S&P cited TPS’ financial management practices as “good,” but noted that “governance officials might not formalize or regularly monitor all of them” and that TPS was “currently not in compliance with [the Budget Stabilization Reserve] policy.”

- In Fiscal Year 2015, TPS established a Budget Stabilization Reserve in its General Fund and set aside $6.6 million. Since establishing that Fund, the District has added an amount equal to 50% of any net gains in the Fiscal Year-end General Fund carryover balance.
VII. Appendix
Links

- GFOA Best Practice: Adopting Financial Policies (http://www.gfoa.org/adopting-financial-policies-0)
- Toledo City School District Administrative Policy for Debt Issuance, Management, and Post-Issuance Compliance (TCSD Debt Policy)
- Toledo City School District Board Policy DCB – Debt Issuance (See Slide 21)
- Toledo City School District Administrative Policy for Investment and Cash Management Activity (TCSD Investment Policy)
- Toledo City School District Board Policy DFA – Use of Surplus Funds (TCSD Board Policy DFA)
  - After launching the hyperlink you will need to go the Polices Tab; Section D: Fiscal Management
- Toledo City School District Board Policy DAA – Budget Stabilization Reserve (TCSD Board Policy DAA)
  - After launching the hyperlink you will need to go the Polices Tab; Section D: Fiscal Management
- Quarterly Treasury Management Reports (TCSD FYE2016 Treasury Mgmt Report)
- Contact Paul Overman, overmanp@tps.org, 419-671-0370