



# THE EVER-CHANGING WORLD FOR CFOs

## What You Need to Know...Right Now!

ILLINOIS COMMUNITY COLLEGE  
CHIEF FINANCIAL OFFICERS  
FALL 2015 CONFERENCE

GREG KUBITZ, SENIOR FINANCIAL CONSULTANT  
TOM LANZARA, SENIOR PORTFOLIO ADVISOR  
PAUL WESSELS, RELATIONSHIP OFFICER  
PMA FINANCIAL NETWORK, INC.

October 14, 2015

- Long Range Financial Projections
- Rating Agencies and Key Board Policies
  - Debt Management
  - Fund Balance
  - Investment

“The ability to think strategically may be one of the most important legacies of a public official”.

-John Luthy, “Strategic Planning: A guide for Public Managers”

## Why do we need financial projections?

- Continue to face challenges
  - Enrollment
  - Tuition Rates
  - Staffing
  - Programs
  - State Funding
  - Legislative Changes

- 5-year Financial Projections are not absolute predictions of the future, but projections of possible states based on known assumptions
- Best projections are based on solid understanding of historical trends combined with range of future scenarios derived from a detailed analysis of known factors that can affect revenues and expenditures.
- 5-year Financial Projections can reveal structural imbalances that are not yet apparent, giving the district time to take corrective action in a proactive (strategic) way, thus optimizing the use of funds.
- Best projections, not only help districts analyze trends, but also help communicate financial issues to key stakeholders.

- Essentials for optimizing the financial projections
  - Organizing financial data
  - Studying economic variables
  - Performing scenario analysis
  - Transforming data into charts
  - Reporting
  
- Ability to be *reactive* by being *proactive*

Bond Rating agencies use four broad categories when assigning a bond rating to tax-supported bonds:

- The economic base of the community
- The financial condition of the local government
- Debt factors on existing and proposed debt
- Governance and financial planning of the organization
  - Standard and Poor's evaluates the financial practices of a local government in the following areas:
    - Revenue/Expenditure assumptions
    - Budget amendments and updates
    - Long-term financial planning/capital planning
    - Investment management policies
    - Debt management policies
    - Reserve (Fund balance) policy

- During credit rating and surveillance calls the rating agencies will ask whether the College has the following policies in place
  - Fund Balance
  - Debt Management
  - Investment
- Strong policies may enhance the College's credit rating assessment
  - As part of its rating review, Standard & Poor's provides a Financial Management Assessment

- Why does the College have one?
  - Manage cash flow challenges throughout the year
  - Avoid short-term borrowing
  - Earmark funds for one-time capital projects
- Identify operating funds included in the calculation
- Guidelines (ranges vs absolute)
  - Spell out corrective action, if needed
- Consider impact on or use of short-term borrowing needs
- Revisit the policy with the Board of Trustees at least annually

- A Strong Debt Management Policy
  - Supports budgeting and commitment to long-range planning
    - Should tie to fund balance policy and capital improvement plan
  - Provides guidelines for issuance of debt
  - Encourages financial flexibility
  - Promotes consistency in debt issuance as Boards of Trustees and administration change over time
  - Provides justification of debt practices to public
  - Helps lower borrowing costs

- A Strong Debt Management Policy
  - Explains conditions in which debt is allowable for payment of operating expenses
  - Identifies preferred debt structure (eg: level debt service, level tax rate)
  - Addresses the method of sale (competitive, negotiated, direct purchase)
    - Case by case basis?
  - Identifies post-sale compliance procedures (IRS, SEC)

- Investment Policy
  - State law requires every college to have an investment policy
  - Common to reference Public Funds Investment Act
  - May further restrict investments by college or board policy
  - Periodically Review & Update Your Investment Policy

- Investment Policy should address the following:
  - Investment Objectives
  - Authorized Investments
  - Selection of Providers
  - Collateral Requirements
  - Safekeeping/Custody Arrangements
  - Internal Controls
  - Policy on Ethics and Conflicts of Interest

# Disclaimer

This document was prepared for clients of PMA Financial Network, Inc. It is being provided for informational and/or educational purposes only without regard to any particular user's investment objectives, financial situation or means. The content of this document is not to be construed as a recommendation, solicitation or offer to buy or sell any security, financial product or instrument; or to participate in any particular trading strategy in any jurisdiction in which such an offer or solicitation, or trading strategy would be illegal. Nor does it constitute any legal, tax, accounting or investment advice of services regarding the suitability or profitability of any security or investment. Although the information contained in this document has been obtained from third-party sources believed to be reliable, PMA cannot guarantee the accuracy or completeness of such information. It is understood that PMA is not responsible for any errors or omissions in the content in this document and the information is being provided to you on an "as is" basis without warranties or representations of any kind.

Securities, public finance services and institutional brokerage services are offered through PMA Securities, Inc. PMA Securities, Inc. is a broker-dealer and municipal advisor registered with the SEC and MSRB, and is a member of FINRA and SIPC. Prudent Man Advisors, Inc., an SEC registered investment adviser, provides investment advisory services to local government investment pools, and separately managed accounts. All other products and services are provided by PMA Financial Network, Inc. PMA Financial Network, Inc., PMA Securities, Inc. and Prudent Man Advisors (collectively "PMA") are under common ownership.

Securities and public finance services offered through PMA Securities, Inc. are available in CA, CO, FL, GA, IL, IN, IA, KS, MI, MN, MO, NE, OH, OK, PA, SD, TX and WI. This document is not an offer of services available in any state other than those listed above, has been prepared for informational and educational purposes and does not constitute a solicitation to purchase or sell securities, which may be done only after client suitability is reviewed and determined. All investments mentioned herein may have varying levels of risk, and may not be suitable for every investor. PMA and its employees do not offer tax or legal advice. Individuals and organizations should consult with their own tax and/or legal advisors before making any tax or legal related investment decisions. Additional information is available upon request.