THE EVER-CHANGING WORLD FOR CFOs
What You Need to Know...Right Now!

ILLINOIS COMMUNITY COLLEGE
CHIEF FINANCIAL OFFICERS
FALL 2015 CONFERENCE

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• 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”.

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 (e.g., 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
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