

# Executive Board Approves Best Practices, Advisories, and a Public Policy Statement

The GFOA's Executive Board approved 12 best practices and four advisories, and recommended approval of one public policy statement at its March 2010 meeting.

## Economic Development

### *Analyzing the Benefits of Economic Development Projects*

This new best practice recommends that finance officials should identify and examine the expected benefits associated with economic development projects, programs, and policies. Potential benefits that should be evaluated and could affect decision making should be considered as part of the process in evaluating the economic development project, program, or policy and its ability to achieve the organization's goals.

### *Balancing the Costs and Benefits of Economic Development Projects*

This new best practice explains the need for finance officials to complete a thorough analysis of both the costs and benefits of economic development projects in order to provide the most accurate and complete information for local officials, helping them make informed decisions on the project's net value to the organization and public. These considerations are important in determining return on investment or developing a business case to proceed with the project.

### *Incorporating Environmentally Responsible Practices in the Capital Improvement Program*

This new best practice instructs finance officers to evaluate both the financial and non-financial effects of a project, including any long-term impact on the local, regional, and global environment as well as overall quality of life for the public.

### *Capital Asset Assessment, Maintenance, and Replacement Policy*

This revised best practice, which was originally approved in 2007, recommends that local and state governments establish a system for assessing their assets and then appropriately plan and budget for any capital maintenance and replacement needs.

## Governmental Budgeting

### *Inflationary Indices in Budgeting (and Committee on Canadian Issues)*

This new best practice recommends that governments should consider using the inflation indexes that work best as a predictor. This might mean using different indexes, depending on the expenditure categories, which are reviewed in the best practice.

### *Managing the Salary and Wage Budgeting Process*

This new best practice encourages governments to consider forecasting procedures that would result in more accurate expenditure projections, especially as they relate to personnel costs.

## Debt Management

### *Understanding Your Continuing Disclosure Responsibilities*

This new best practice provides a broad overview of a municipal bond issuer's continuing disclosure responsibilities, which are in place for the lifetime of the bond.

### *Payment of the Expense Component of Underwriter's Discount*

This revised best practice, originally approved in 1996, recommends that issuers look carefully at the expenses that are charged by underwriters in a negotiated bond sale, and deny charges that are deemed inappropriate.

### *Use of Debt-Related Derivatives Products and the Development of a Derivatives Policy*

This advisory, originally approved in 1997, has been updated to reinforce the Executive Board's view that governments should exercise caution when looking at entering into derivative contracts. The advisory also recognizes recent changes in the derivatives market and expands the section related to collateralization and counterparty risks. The companion derivatives checklist has also been updated.

### *Using Variable Rate Debt Instruments*

This advisory was updated to reflect market changes with variable rate debt instruments,

as the market has changed dramatically since the recent credit crisis. Specifically, the section on the risks associated with variable rate debt instruments has been enhanced.

#### ***Issuing Build America Bonds***

Build America Bonds were created by Congress in the American Recovery and Reinvestment Act of 2009 (ARRA). Build American Bonds allow state and local governments to issue taxable bonds for governmental purposes, and the issuer will receive a subsidy payment equal to 35 percent of the interest costs of the bonds for the lifetime of the bonds. This advisory provides a list of planning considerations and transaction execution items that governments should review when looking to issue Build America Bonds.

#### ***Tax Credit Bonds and Other Federally Subsidized Bonds***

This public policy statement, which was last revised in 1977, was updated to reflect the acceptance of tax credit bonds in today's market and the emergence of taxable bonds for which the issuer receives a subsidy payment from the federal government equal to a percentage of the bond's interest costs. The policy statement does nothing to minimize the

GFOA's overriding policy that the primary vehicle for state and local governments to access the capital markets is through tax-exempt bonds. The statement stresses the need for Congress, the Treasury, and the Internal Revenue Service to work with state and local governments on aspects of tax credit bond programs.

#### **Retirement and Benefits Administration**

##### ***Governance of Public Post-Retirement Benefit Systems***

This new best practice recommends that state and local governments establish rules of governance for their post-retirement benefits systems and define the key elements necessary for trustees and fiduciaries to fulfill their responsibilities.

##### ***Preparing an Effective Summary Plan Description for Retirement Plans***

This revised best practice, from 1996, recommends that all state and local government pension plans prepare a summary plan description that completely, accurately, and clearly describes the significant components of the pension plan for participants.

#### **Treasury and Investment Management**

##### ***Using Remote Deposit Capture***

This is a new best practice that provides background information and reviews the benefits for using remote deposit capture, an evolving technology that allows checks to be scanned into digital images and cleared electronically.

##### ***Procurement of Banking Services***

This revised best practice has been updated to include additional services that now fall under this procurement activity, as well as additional due diligence measures that should be incorporated into a government's treasury management policies and procedures. It was last updated in 2005.

##### ***Use of Derivatives and Structured Investments by State and Local Governments for Non-Pension Fund Investment Portfolios***

This advisory, which has been restructured from a previous recommended practice, cautions governments on the use of derivative instruments for investment purposes and identifies the steps governments should take if they decide to invest in derivatives or structured investments.

A GFOA ***best practice*** identifies specific policies and procedures as contributing to improved government management. It aims to promote and facilitate positive change rather than merely to codify current accepted practice. Partial implementation is encouraged as progress toward a recognized goal.

A GFOA ***advisory*** identifies specific policies and procedures necessary to minimize a government's exposure to potential loss in connection with its financial management activities. It is *not* to be interpreted as GFOA sanctioning the underlying activity that gives rise to the exposure.

A GFOA ***policy statement*** is a formal position on a matter of public policy involving legislative or regulatory matters before state or federal legislative or regulatory bodies.