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GFOA OKs Best Practices on Refundings, Investing, and Financial Services.

WASHINGTON – The Government Finance Officers Association's executive board has approved a series of new and revised best practices that make recommendations to issuers about refundings, investing their public funds, and procuring financial services.

The best practices also touched on issuers' use of electronic payments and designs for defined contribution retirement plans.

Kenton Tsoodle, vice chair of GFOA's debt committee, said the recommendations are the result of the committee's annual reviews to update or add best practices. The one on refundings of munis is a revision that recommends issuers establish guidelines to preserve future flexibility and set formal objectives as well as monitor refunding opportunities. It also urges issuers that do not have a dedicated debt management staff or expertise in analyzing refunding opportunities to engage a municipal advisor.

Tsoodle said the revisions center on urging issuers to consider more than the net present value savings they want to see from refundings. It suggests issuers also consider negative arbitrage efficiency, which takes into account an issuer having to pay back bonds up to the call date after a refunding.

The recommended practice also tells issuers to consider how much interest rates would have to rise by the call date to produce savings matching those that could be realized with an advance refunding as well as how much value there is in a call feature.

Tsoodle said the debt committee felt they should expand on this guidance even though it was previously discussed.

"One of the biggest things was trying to emphasize that net present value savings is not the only metric that issuers should be looking at," Tsoodle said. "The typical 35% savings that a lot of people look at is absolutely something issuers should consider but the best practice is also pointing out that there are some other metrics to look at as well."

He added that the committee recognizes these are "very complex topics."

"We were trying to just mention them in a brief way so that issuers, especially new [issuers] or issuers that are unfamiliar with these topics, could at least get mildly educated enough … to ask a municipal advisor about them," Tsoodle said.

The best practice also encourages issuers to identify and monitor potential refunding opportunities through a combination of spreadsheet-based debt tracking and analysis of current interest rates. Issuers should additionally analyze their decisions about investing proceeds of advanced refundings and be sure to explain the purpose of a refunding if it is not to produce debt service savings, GFOA said.

When it comes time to move forward with a refunding, GFOA recommends an issuer meet with its bond counsel and MA and, when hiring an outside bond financing team, use a competitive process.

The committee's new best practice on creating an investment program for public funds notes that governments have a fiduciary responsibility in managing their funds. An investment program for public funds will help issuers meet that duty, GFOA said. Issuers should establish such a program by: developing an investment leadership team; identifying the funds being invested and their cash flow characteristics; reviewing all applicable laws and regulations; establishing a risk profile; determining the portfolio management team; and creating an investment policy. The best practice on financial services contracts urges issuers to review them every five years and use a competitive hiring process that includes criteria like quality of servicing staff and regulatory standing.

Governments should also use electronic payments for all payments, in part to prevent fraud.

Issuers should consider a list of design elements GFOA included in a separate best practice if they choose to provide a defined benefit contribution plan, GFOA said.

The Bond Buyer

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