

James F. Gilley

From: James F Gilley, Jr
Sent: Monday, September 25, 2017 1:34 PM
To: Amber Lewis; Jim Gilley; Kyle, Jerry
Cc: Gavin Massingill
Subject: RE: Standard & Poors
Attachments: S&P_Financial Management Assessment_revised 02.17.pdf; SampleInvestmentPolicy.pdf; SampleDebtManagementPolicy.pdf; S&P Rating Report Final_ 2 26 15.pdf

Good afternoon Amber,

As requested I have attached a recently updated S&P report on Financial Management Assessment, which should provide more detail to answer your question. Reading through the entire report may be helpful, but Tables 1 through 7 beginning on page 3 gives an overview of these seven financial practice areas S&P considers in issuing a rating (along with other factors). As you pointed out Rollingwood's rating report (also attached) mentions that the City "maintains adequate policies in some, but not all, key areas"; and S&P identifies the following areas that correspond to the numbered Tables for the City:

Table 1: Revenue & Expenditure Assumptions - "City officials look back at three years of data in budgeting for revenue and expenditures..."

Table 2: Budget Amendments & Updates - "budget amendments are performed **as needed** and require city council approval."

Table 3: Long-Term Financial Planning - "**lacks policies in...long-term financial planning**"

Table 4: Long-Term Capital Planning - "maintains an **informal** long-term capital improvement plan"

Table 5: Investment Management Policies - **none**

Table 6: Debt Management Policies - **none**

Table 7: Reserve and Liquidity Policies - "policy is to maintain at least 25% of operations in reserve"

As far as ways of improving any "inadequacies", the bolded 'Strong' categories in each Table will give you an idea of ways the City could improve in this area. For example in Table 2 the City performs such budget amendments "as needed". S&P points out that a Strong policy would be to conduct at budget surveillance at least on a quarterly basis, and the City could substantiate this by adopting a formal policy to conduct monthly or quarterly budget reviews. Also Tables 3 and 4 are tied to each other, since a Long-Term Capital Plan (or "CIP") is a smaller component of a broader Long-Term Financial Plan. The City has an 'informal' long term CIP, but the City's rating could benefit from formally adopting both a CIP and a long term Financial Plan. We certainly applaud and encourage your efforts to pursue such a Financial Plan and CIP, since these could not only benefit the City's rating but more importantly would provide a framework for managerial discipline and continuity from one administration to the next as you explained at the September 13th budget workshop.

Furthermore S&P's report points out that the City lacks formal Investment and Debt Management Policies. Also attached are a sample debt management policy and sample investment policy that might be of some help in contemplating the drafting and adoption of such policies for the City. Some of the information contained may or may not apply to Rollingwood, but this should give a general idea of what is involved. The City might consider developing and formally adopting such policies, and this could benefit the City's rating according to S&P's methodology.

Finally the rating report mentions that the City has a 25% reserve policy, but it also points out that the City's available reserve (at least in FY 2014) was "nominally low and close to [S&P's] \$500,000 negative adjustment level." While maintaining 25% reserves is a good general rule-of-thumb to go by, S&P recognizes that the size of

governmental entities' budgets vary widely and a 25% reserve policy is not necessarily appropriate across the board. This is especially true when comparing the City of Rollingwood's budget with that of the City of Austin. A reserve policy of 25% of Rollingwood's 2016 budget of \$1,882,452 in expenditures would yield a number under \$500,000; while the same policy for Austin's \$932,241,000 budget would require a reserve of over \$230,000,000. For some cities a reserve of \$500,000 might be inadequate in case of a catastrophe, while a reserve of \$230,000,000 might be excessive and in this area S&P recognizes that there is not a one-size-fits-all approach. But assuming Rollingwood's budget remains relatively constant from year to year and notwithstanding the existing 25% reserve policy, we would encourage the City to maintain an available reserve well in excess of S&P's \$500,000 "negative adjustment level" to avoid downward pressure on its rating.

Hopefully this is of some help in addressing your questions. I'm glad you had a chance to look through our presentation because we had hoped to discuss some of the material with you and the Council, but as so often happens there just wasn't enough time. Please let us know if you have any additional questions or would like to discuss this in further detail, and we'd be happy to come meet with you and members of the Council in person if you'd prefer.

Thank you,
James

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-----Original Message-----

From: Amber Lewis [mailto:administrator@cityofrollingwood.com]
Sent: Friday, September 22, 2017 12:41 PM
To: Jim Gilley <jgilley@uscallc.com>; James F Gilley, Jr <jfgilley@uscallc.com>; Kyle, Jerry <JerryKyle@andrewskurth.com>
Cc: Gavin Massingill <gavinmassingill@cityofrollingwood.com>
Subject: Standard & Poors

Hi Gentlemen,

We have been reading the presentation US Capital Advisors did for Rollingwood at the September 13 meeting of Council. We are curious about the reference on page 9, (page 3 of the Standard & Poors rating report), that mentions the S&P "Financial Management Assessment methodology." Are you able to provide us with copy of the actual FMA methodology?

Also, we are always looking for ways to improve and in that same section, it states that the City is "adequate policies in some, but not all..." Can you please tell me what policies we are not adequate in and do you have samples that we could consider?

Thank you,

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