Winter 2015

ILLINOIS
GOVERNMENT
FINANCE
OFFICERS
ASSOCIATION

the dispatch

members' update from the Illinois Government Finance Officers Association

Learning
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In this issue:

We take a look at the Professional Education committee and its Chair, Rachel Musiala; recap highlights of the Legislative Veto Session; list the First Thursday Webinars; delve into GASB Statement No, 67; provide information on the 2015 Illinois Public Pension Institute on March 19 (register by March 12 for best rates); and more.

Save the date:

2015 IGFOA Annual Conference

Sun. through Tues. Sept. 13 through 15 Springfield Hilton

Much was accomplished: 2014 IGFOA Strategic Plan

Much was accomplished in 2014. Here are details on three major areas, plus a list of other achievements for the year.

Three key projects drove the IGFOA 2014 Strategic Action Plan:

- Website overhaul,
- Regional meetings expansion, and
- Partner program launch.

Details of the website overhaul

The website overhaul began in 2013 and included integrating the public and members-only segments of the association's web presence. IGFOA selected Webitects, a Chicago area firm focused on association and intergovernmental web sites for this project.

Webitects tailored a membership management database and content management system for IGFOA that provides a one-stop center for members to connect and share experience and resources 24/7.

Members can:

- Peruse the user-friendly *Members Directory* and *IGFOA Services Guide*
- Explore the Knowledge Exchange where queries and answers, documents, news and updates are corralled and accessible as a members-only feature
- Post and review *Jobline* announcements as they become available
- Review and register for upcoming Education Events
- Search for members using a variety of options and view results on a map

Since launching in May 2014, 885 members have active profiles on www.igfoa.org.

The most popular web page continues to be the *Jobline*.

The new website is intended to be a fluid, evolving tool for IGFOA members and since launch the following upgrades have been installed:

- Restricted documents sharing for committees and chapters
- Subscription option for Knowledge Exchange threads

Site improvements in the works for 2015 include integration with IGFOA's:

- General Ledger
- Email broadcast
- Webinar registration/instructions

Members have posted 64 queries, 86 answers or comments and shared 36 documents. The 2015-16 Strategic Action Plan emphasizes increasing participation in the Knowledge Exchange by increasing the number and currency documents shared by 20%. The Strategic Plan also calls for at least 90% of the queries posted to receive appropriate responses.

Regional meeting expansion

The second major initiative of 2014 was to expand and support regional meetings.

Chapters were instrumental in this effort and led a five-fold increase in regional programs including:

- Forming the Rock River Region within the Downstate Chapter
- Delivering regional Grab and Gab lunches for the Chicago Metro Chapter
- Launching of a second Assistants Network group in the Northwest region

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Committee briefing: IGFOA PEC

A look at the Professional Education Committee

The IGFOA Professional Education Committee provides technical, informational and skill-building courses widely recognized for quality, relevance to current needs and contribution to individual professional development.

The IGFOA Strategic Plan directs this committee to develop and publish an Annual Training Plan and deliver training to members. Targets include:

a. Training plan updated quarterly
b. Increase attendance at training programs 3% each year
c. No seminars cancelled due to lack of volunteers
d. Seminars not cancelled due to lack of attendance
e. Continue to make training accessible to members statewide with at least 75% of training within 100 miles of 90% of members
f. Offer 70 hours of CPE compliant training programs per year
g. Deliver training within 120 days of new/significantly modified mandates, regulations, or professional standards.
h. Deliver at least two specific training programs on local government finance topics appropriate for non-finance staff and elected officials.
i. Offer at least four programs on best practices training on fundamentals of government finance.
j. Include examples of work place applicability in each training seminar.
k. Provide at least three programs on management and leadership training to help members address continuing stress on resources and workplace.
l. Encourage training on the expanding role of Finance Directors in economic development, media communication, transparency, policy development and strategic planning and management either through IGFOA training or training with affiliated associations.

See the 2015 Training Plan next page

Volunteer Focus: Rachel Musiala

Q & A with the Professional Education Committee Chair

1. **What motivated you to join IGFOA, and why do you stay involved?**
I've been an IGFOA member for a long time. Early on, I clearly saw the benefit of being able to get together with my peers and bounce ideas around. From the very start, I got so much out of IGFOA's networking and assistant director events. And now years later, I still find the networking and resources to be invaluable. There is so much to learn, and so many people I can call on at a moment's notice for help, if needed. Having that support system in place helps me be successful.

2. **Could you share some details about your career path?**
I've been at the Village of Hoffman Estates for almost 20 years. I started as an entry-level accountant, then moved on to Fiscal Operations Manager, and then was promoted to Assistant Director. Two years ago, I was promoted to Director of Finance. I've had the opportunity to work with so many great influences over the years in terms of bosses and supervisors; from the beginning, I had ones that were really respected in the profession of municipal finance and were great examples for me to follow. The boss I had for the last 15 years prior to becoming Director was someone who made sure I knew as much as he could teach me about issues and projects he was working on. He truly trained me to be a Director one day and I am so thankful for that.

3. **Please list your education and government finance involvement.**
I have a Bachelor's Degree in Accountancy from Northern Illinois University and am a CPA. I have been a Budget Reviewer for the GFOA Budget Awards Program for many years, and recently became a Certified Pension Trustee. With IGFOA, I was a volunteer for a couple of years with TARC and PEC (where I focused on budgeting training). In September, when I was asked to serve as the PEC Chair, I gave up TARC in order to focus my efforts on PEC. I currently assist with the annual Basic Governmental Accounting seminar offered by IGFOA and have spoken at a few other budget-related sessions over the years.

4. **What's on the docket for the PEC this year?**
We have such a great group of people on PEC and I am excited to work with them on several new initiatives. We want to put more focus on training topics that may not have been getting the focus in the past (local government revenue, budgeting and management topics). We are in the process of finalizing some core curriculum related to municipal debt that will result in some great training sessions in the near future. Our Spring and Fall Academies, which cover a variety of topics, were very well received last year and we are working on making them even better. And we are really excited about the direction the Annual Conference is heading; it is gearing up to be another great conference this year.

5. **How much time is involved in the PEC?**
We meet in person once or twice a year and have monthly phone calls of about 45 minutes to discuss targets and goals. We go over everything together, so no one of us is ever on their own: there are always a dozen others to help with resources and find speakers. Yes, it does take some time as each team oversees two or three training sessions a year – but we all work together. The end result is really rewarding.

6. **Do you need more PEC members?**
Yes! We need more members to become part of the PEC team. Specifically, we need someone who loves municipal budgeting to take that over. Working on the PEC team will give someone the opportunity to meet so many other IGFOA members, plus they'll have the opportunity to meet and interact with the guest speakers – which I have really enjoyed. Anyone who's interested or who wants more information can simply contact the IGFOA office.

7. **Do you have advice for new members?**
Get involved. The sooner you jump in, the sooner you will benefit.

2015 IGFOA PEC Training Plan

Month	Program	ext. CPU	Team	Format
February	First Thursday Webinar: Cash Management	1.0	Cash Management	webinar
March	First Thursday Webinar: Purchasing Legalities	1.0	Management	webinar
March to June	Intermediate Govt. Accounting Web Course (8 sessions)	2.0 ea.	Accounting	webinar
March	Illinois Public Pension Institute	8.0	Pension	in-person
April	First Thursday Webinar: Hot Topics in Debt Management	1.0	Debt Management	webinar
April	Payroll Update	3.0	Payroll	in-person
May	First Thursday Webinar: Hot Topics in Accounting & Financial Reporting	1.0	Accounting	webinar
May	IL Government Finance Professionals' Academy I	12.0	Academies	in-person
June	First Thursday Webinar: Investment Management	1.0	Cash Management & Leadership	webinar
June	Regional webcast: Utility Billing	4.5	Utility Billing	webinar to regional in-person groups
August	First Thursday Webinar: Budgeting	1.0	Budget	webinar
September	First Thursday Webinar: IT	1.0	Management	webinar
September	Annual Conference	12.0	Conference/ Revenue	in-person
October	First Thursday Webinar: Accounting and Financial Reporting	1.0	Accounting	webinar
October	Debt Management Institute	7.0	Debt	in-person
October	Basic Governmental Accounting	7.0	Accounting	in-person
October	IL Government Finance Professionals' Academy II	7.0	Academies	in-person
November	First Thursday Webinar: Banking Services	1.0	Cash Management	webinar
December	First Thursday Webinar: Hot Topics in Local Government Revenue	1.0	Revenue	webinar
December	Regional webcast: Payroll	3.0	Payroll	webinar to regional in-person groups

Visit www.igfoa.org for specific program and registration information

Legislative Veto Session recap

The override of the Governor's veto of the Voluminous FOIA Request bill

Recap provided by IML: HB 3796 would establish "a definition of a "voluminous request" and allow the public body to respond to a voluminous request in much the same manner as when responding to a recurrent requester under the current law. The bill also states that a public body is not required to copy and make available for public inspection a public record that is published on the public body's website – unless the requester does not have reasonable electronic access. *Supported by IML*

Passage of the Fire Minimum Manning bill, which generally would not be supported by local governments

The Legislative Committee has been getting updates from our legislative consultants that a trailer bill is coming to help mitigate the effects of this bill.

Recap provided by IML: On January 7, Governor Quinn signed the fire department minimum staffing legislation into law as Public Act 98-1151. The new law makes collective bargaining over staffing levels a mandatory subject of bargaining in every municipality with a unionized fire department. The law carries an immediate effective date.

The IML is presently working with Senator Mulroe on a trailer bill intended to ensure that arbitrators must apply a "breakthrough" standard before assenting to impose a manning standard where one presently does not exist, or when considering a mandate of additional fire fighters on a shift.

2011 income tax hike not extended

The Legislature failed to extend the 2011 income tax hike, so the income tax rate has dropped from 5.0% to 3.75%. It does not appear, however, that this will impact the municipal share of income tax revenue.

Report on the 2014 IGFOA Strategic Plan

continued from front

- Hosting educational programs in the Southwest region
- Establishing a routine meeting schedule for the Southern Illinois region

Establishment of the Partners Program

Establishing the IGFOA Partners Program was another key 2014 initiative. Introduced with 2014 membership renewals, the Partner Program sought to increase opportunities for engagement between public and private sectors. Forty-three firms elected to partner with IGFOA and during 2014 contributed:

- 28 content expert speakers for Professional Education programs
- authored 27 articles for IGFOA newsletters
- 22 volunteered their time and talents to IGFOA chapters and committees and
- 37 exhibited at the Annual Conference

We celebrated IGFOA Partner contributions at a May appreciation luncheon held at Brookfield Zoo. The IGFOA Executive Board plans to increase the Partner Program at least 3% in 2015.

Additional Strategic Plan accomplishments in 2014

Other 2014 Strategic Action Plan accomplishments include:

- Added 188 new members, 123 of which were from the public sector
- Hosted a Past Presidents Luncheon
- Held a Fall Volunteer Appreciation Breakfast and Training Program
- Offered new website "how-to" webinars and recorded demonstrations
- Added tools for members to share their specific interests and expertise in their directory profile and posts
- Published testimonials from leaders to encourage volunteerism
- Established new IGFOA Speakers Bureau
- Delivered 139 CPE hours of professional education to 1,485 participants

The power of "Thank You"

Dave Goranson, Goranson Consulting, Inc.

While there may be only one day per year dedicated to giving thanks, expressing thanks regularly throughout the year is the way to go. Doing it and doing it well can be one of the most profitable business strategies you can adopt.

The habit of giving thanks in business really does work. We all are doing more with less and the last thing you probably want (I can feel the stress building already, LOL) is one more thing on your to-do list. Let's explore some easy and effective ways to truly express gratitude to those people on your teams who deserve it.

Be specific when giving thanks.

The ineffective way to do this? "I really appreciate the job you did today. Thanks a lot." Sounds good, right? Well, it is general, non-specific and leaves no meaningful impression on the person receiving it. If you want to do it right, thank them for something VERY specific. That's what will really stick and help build respect, trust, engagement and much more. For example, "Thanks for your efforts today. You really did a great job handling that very difficult customer situation with ABC Supplies. You listened, empathized, calmed them down and most importantly solved their problem. Awesome."

Show appreciation for the process.

The example just given is a great one of how to do it. But you could even further imprint the actions and outcomes you appreciate most by adding "I like how you hung in there when things got really tough. You exhibited patience, professionalism and respect. Good job!"

It's not about YOU, it's about THEM.

I am a huge believer in really getting to know people, without getting TOO personal. If you really get to know your team members it pays dividends in a big way in the area of giving thanks. If someone just became a new parent, consider giving them a book on being a new Mom/Dad/Parent for example. If a family member of an employee passed away from a specific illness, consider a donation in their name to that foundation. Cards are great but this goes the extra mile. It's meaningful, real, genuine and shows you really paid attention. Actions like these break through the relationship ice and become transformational in nature, not transactional. This can be a game changer!

Make your thanks timely.

It's great to show gratitude for a job well done, a project completed, a problem solved, etc. etc. But you can do everything right and lose the whole effect and benefit of doing so if it is not time sensitive to what prompted the praise in the first place. The rule of thumb that works best is as soon as possible. The closer to the event or action warranting the thanks the more impactful. I know, seems obvious, but I am amazed by how many times I hear just the opposite was done. For example, I often hear "It came up at my annual review. I didn't even know he noticed." A good rule of thumb is NO MORE than 24 hours.

Old school "thanks" work better than ever.

We all live in a world of high tech but LOW touch. Emails and texts are nice, but the old-fashioned act of writing a handwritten note of thanks goes a long way. I keep those and have many on the walls of my office. The emails, tweets, Facebook comments… not so much. There's just something special in today's world about a sincere, handwritten note of appreciation. Very few take the time to do so and it makes YOU stand out if you do so yourself.

A featured speaker at November's Downstate Conference, Dave Goranson, is Founder and President of Goranson Consulting, www.goransonconsulting.com.

IGFOA First Thursday Webinars

Earn CPE at your desk!

IGFOA offers webinars from 10:00 to 11:00 a.m. the first Thursday of each month (except January and July). Earn CPE at your desk while getting valuable updates on hot topics and best practices in Illinois government finance. The 2015 line-up includes:

- **February 5, 2015: Hot Topics in Cash Management – Rapid Pace of Change in the Payments Landscape**
- **March 5, 2015: Purchasing Legal Issues with speaker Jim Sullivan, Sikich LLP**
- **April 2, 2015: Hot Topics in Debt Management**
- **May 7, 2015: Hot Topics in Accounting and Financial Reporting**
- **June 4, 2015: Investment Management**
- **August 6, 2015: Budgeting**
- **September 3, 2015: Hot Topics in IT**
- **October 1, 2015: Accounting and Financial Reporting**
- **November, 5, 2015: Banking Services**
- **December 3, 2015: Hot Topics in Local Government Revenue**

Fees

IGFOA Member Choice Access: $250.00
save $25 off individual webinars
Register for five Webinars of your choice (register by July 31, 2015)

Individual Webinar Fees:
$55 for IGFOA members
$70 for each non-member from an IGFOA member government (public sector)
$100 for each non-member

Sign up today at www.igfoa.org!

REMEMBER: Whether you are watching on your own or in a group setting, each individual must be registered – including those who may not intend to claim continuing professional education (CPE) credit.

DETAILS: The program is delivered via a secure web site and audio conferencing service to your desktop. In order to participate you will need a computer with a Web browser to view the presentation. You can listen to audio through your computer speakers or headset. Discussion with participants is usually muted throughout the webinar and we rely on Q&A online to respond to questions. If you do not have the capability to listen from your computer, you will receive instructions with a toll-free phone number and access code (different for each webinar). Registrants will receive e-mailed instructions with the secure password and conference call number, along with course materials for the upcoming session within one week of the program date. To ensure that you will receive the instructions from IGFOA, list "IGFOA Professional Education Committee [meetings@meetings.readytalk.com]" as an approved or trusted sender in your email addresses and test the connection in advance of the webinar.

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About IGFOA webinars

IGFOA is licensed by NASBA to deliver both Group Live (in-person) and Internet Based (on-line) Continuing Professional Education credit.

To receive CPE credit, individuals must attend the webinar in its entirety and complete at least 80% of the participation monitoring tools during the webinar. Participation monitoring tools may include, but are not limited to:

- Response to audio role call
- Response to an on-line role call
- Response to on-line poll
- Chat response to specific verbal question or instruction during the webinar
- Answer to a specific question via email when requested during the webinar
- Provide a passcode when instructed during the webinar

Why unfunded Congressional mandates pose little threat to U.S. state and local government ratings

by Jane H. Ridley and Gabriel J. Petek, CFA

STANDARD & POOR'S RATINGS SERVICES
McGRAW HILL FINANCIAL

Standard & Poor's Ratings Services is an IGFOA Sustaining Partner for 2014. The opportunity to present this educational article is a benefit of the IGFOA Partner Program.

For information on the IGFOA Partners Program, see the front of this newsletter or contact info@igfoa.org

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Standard & Poor's Ratings Services has long held the view that U.S. state and local governments enjoy a significant level of fiscal autonomy from the federal government that many of their international peers do not. With locally derived revenue streams, the discretion to determine service levels, and the ability to raise revenues, state and local governments generally have greater autonomy than local governments in countries where the central government controls finances. This forms the foundation of a more limited rating relationship between the U.S. federal government and U.S. state and local governments than exists in many other countries around the globe (see "Ratings Above The Sovereign: Corporate And Government Ratings—Methodology And Assumptions," published Nov. 19, 2013; "USPF Criteria: Local Government GO Ratings Methodology And Assumptions," Sept. 12, 2013; and "USPF Criteria: State Ratings Methodology," Jan. 3, 2011, on RatingsDirect).

In March 2014, the Congressional Budget Office (CBO) published its update to its 2013 report on unfunded mandates, "A Review of CBO's Activities in 2013 Under the Unfunded Mandates Reform Act." We believe that the update bears out our opinion: U.S. state and local governments maintain a high degree of financial independence from the federal government, and we view this as a positive factor when analyzing these governments' creditworthiness. In fact, in our view, state and local governments could maintain ratings two or even three notches higher than that of the U.S. sovereign rating. However, it is important to note that not all federal mandates come in the form described in the CBO's report; some requirements, such as those administratively imposed by federal agencies — some of which apply to local utilities, for example — can have a significant impact on operating and capital costs for local governments, which, in turn, can have an impact on the rating.

The 2013 CBO Report on Unfunded Mandates

Unfunded mandates (defined as the U.S. federal government's requirement for a state or local government to provide services but without providing money to fulfill them) are important to our analysis of U.S. public finance general obligation (GO) ratings because they have the potential to create sizable, unexpected financial pressures on a government. In the institutional framework of our GO criteria, we include both the predictability of revenue sources and revenue and expenditure balance, a key driver of which is unfunded expenditure mandates. The institutional framework for our state criteria considers unfunded mandates from the federal level to the state level. The institutional framework score for our local government GO criteria considers the funding relationship between the state and its underlying local governments; however, the pass-through nature of some federal funds and funding requirements means that tracking these mandates and their impact is also important.

In its March update, the CBO demonstrates this more distant financial relationship, showing limited use of unfunded mandates from the federal government. In 2013, the mandate threshold was $75 million for intergovernmental mandates, a level we consider low given the impact would be spread across the entire spectrum of U.S. state and local governments. The annually-produced CBO report stems from the Unfunded Mandates Reform Act, passed in 1995, which allows Congress to see the potential effects of mandates as it considers proposed legislation. To effectuate this, the CBO reviews bills throughout each fiscal year.

The history of the mandates report

During 2013, the CBO reviewed 437 bills, 9% of which (39) had intergovernmental mandates. Of the 39 bills, Congress enacted four laws that were below the statutory threshold; no laws exceeded it (see table).

U.S. Unfunded Mandates History

	2009	2010	2011	2012	2013
Total mandates enacted	30	86	23	44	4
Mandates with costs that exceed the statutory threshold	0	7	0	0	0
Mandates with costs that could not be determined	3	7	0	1	0
Mandates with costs that fall below the statutory threshold	27	72	23	43	4

Source: Congressional Budget Office

The CBO began reporting on unfunded mandates in 1997, listing unfunded mandates enacted since 1996. Since then, it's become clear that the number of laws enacted has not been onerous for governments, as Congress passed only 13 public laws that exceeded the threshold (in 1996 it was $50 million and has since risen to the current $75 million).

Of the 13 laws enacted between 1996 and 2013, four pertained to taxation at the state/local level (prescription drugs, Internet sales and services, and tax withholding); two each to the minimum wage (increasing minimum wage to state and local government employees) and transportation; and one each to child nutrition (school meals), child support, driver's license standards, food stamp administration, and healthcare insurance.

How the federal-local relationship differs in the U.S.

In countries where the sovereign government more tightly controls finances and revenue streams, unfunded mandates are common. However, often the central government believes it has previously provided adequate funding for the mandate but the local government takes the opposite view. In stark contrast, the funding and mandate climate in the U.S. is so sensitive that the CBO publishes an annual report to track unfunded requirements, even for proposed legislation.

Our view that U.S. state and local governments have significant autonomy compared with certain local governments around the world is particularly important to credit strength derived from the local economy, and we feel the CBO report on unfunded mandates supports this opinion. Given the specific delegation of powers to states under the U.S. Constitution, we view U.S. states as having sovereign powers that allow them to increase revenues and adjust service levels in order to balance their budgets. In fact, most U.S. states are required by statute or their constitution to propose or adopt a balanced budget. This transparent relationship between the federal government and lower levels of government results in generally high marks for measures related to financial operating flexibility in the Institutional/Government Framework measure under our local GO and state criteria.

Without a direct dependence on federal contracts, revenues, subsidies, and guarantees, state and local governments have a resiliency that allows for strong credit characteristics given generally strong liquidity and budgetary flexibility, particularly in the case of a U.S. default. Furthermore, fiscal federalism and the 10th amendment to the U.S. constitution ("The powers not delegated to the United States by the Constitution, nor prohibited by it to the States, are reserved to the States respectively, or to the people.") provide a predictable framework that, in our view, enhances credit quality, while limiting the kinds of unfunded mandates and negative sovereign intervention commonplace elsewhere. In our view, these elements combine to provide state and local governments with an operational framework that allows bond ratings to be up to two notches—and in certain cases three notches—higher than the sovereign rating on the U.S. However, this is a theoretical scenario, given that the current sovereign rating is only one notch below the highest possible rating, and our outlook is stable.

Beyond the CBO's technical assessment

Although we view constitutional and legal autonomy as crucial backstops to state and local government independence from extensive negative federal fiscal intervention, we recognize that federal policies can have both positive and negative credit implications for the state and local sector. For instance, one of the most sweeping pieces of social policy legislation in recent decades, the Patient Protection and Affordable Care Act (ACA), does not include any intergovernmental unfunded mandates above the $75 million threshold and, therefore, the CBO did not include it in its 2011 report.

In our view, programs like the ACA are part of a government's core operations, and we evaluate those costs as part of the rating process. From a credit perspective, we believe the ACA has significant fiscal implications for the states, especially given that on average states cover 43% of the cost of Medicaid, and compliance with the "individual mandate" likely will mean more people will enroll in Medicaid. States will also continue to fund a similar share for any new enrollees that were previously eligible. Medicaid is a federal-state entitlement program (residents would still have to pay federal taxes to support Medicaid even if their state opted out) and any unanticipated expenses associated with it could affect some states' credit quality. However, given the sovereignty and flexibility states enjoy in administering programs, in our credit analysis we view the ACA not as an unfunded mandate but as an operating cost for the health and welfare of a state's constituents.

Unfunded mandates constitute little concern for ratings

In our view, the unique, transparent relationship between the U.S. federal government and its lower-level counterparts will continue to be a positive factor in state and local government credit quality. In fact, even in the unlikely scenario that the U.S. sovereign rating were to drop, we believe that state and local government bond ratings could remain two or even three notches higher because of the autonomy these governments maintain. We will continue to follow the CBO's reporting on unfunded mandates.

Overview

- In its March 2014 update to its report on unfunded mandates, the CBO reports that no federal laws exceeded the threshold for unfunded mandates.
- Overall, there is considerable funding distance between the U.S. federal government and lower-level governments, enabling the latter to maintain strong credit characteristics such as revenue-raising and cost-cutting flexibility.
- We believe this autonomy is a key credit strength for U.S. local governments and reflect it in our analysis, and, in our view, this provides state and local governments with an institutional framework that allows bond ratings to be up to two notches—or in some cases three notches—higher than the sovereign

Related criteria and research

- Ratings Above The Sovereign: Corporate And Government Ratings—Methodology And Assumptions, Nov. 19, 2013
- USPF Criteria: Local Government GO Ratings Methodology And Assumptions, Sept. 12, 2013
- USPF Criteria: State Ratings Methodology, Jan. 3, 2011

Getting ready for GASB Statement No. 67: The money-weighted rate of return

by Brian W. Caputo, CPA, CPFO
Chief Financial Officer/City Treasurer, City of Aurora
and Member, IGFOA Technical Accounting Review Committee

About TARC:

The Technical Accounting Review Committee (TARC) monitors and comments on activities and rulings of the Governmental Accounting Standards Board (GASB).

The committee provides testimony on GASB standards and educates the IGFOA membership on those standards.

In June 2012, the Governmental Accounting Standards Board (GASB) released its Statement No. 67, Financial Reporting for Pension Plans, and Statement No. 68, Accounting and Financial Reporting for Pensions. These pronouncements significantly change financial reporting practices for pensions. GASB Statement No. 67 applies to financial statements issued by individual public pension plans whether in the plan's separately issued report or in the sponsoring employer's report. GASB Statement No. 68 applies to financial statements issued by state and local government employers that sponsor public pension plans. The new pension pronouncements are effective for fiscal periods beginning after June 15, 2013 and June 15, 2014, respectively. GASB Statement No. 67 contains a requirement to report information on a public pension plan's "money-weighted rate of return (ROR)." Advance planning and preparation are important for the efficient incorporation of money-weighted ROR information into financial statements.

According to a poll conducted by the IGFOA, only about 25% of the single-employer pension plans in Illinois (e.g., downstate public safety pension plans) issue stand-alone financial reports. A stand-alone pension plan financial report is a report that contains financial information about a pension plan that is separate from the pension-related information contained in the sponsoring government's annual financial report. If a pension plan does not issue a stand-alone report, it may have been possible for the associated sponsoring government to have set aside GASB Statement No. 67 for a time. However, that time is coming to a close.

The investment performance measure of the money-weighted ROR must be included in the stand-alone financial report of a pension fund or, if the pension fund does not publish a stand-alone report, money-weighted ROR information must be reported in the annual financial report of the government sponsoring the public pension plan. Soon, all local governments in Illinois will need to understand the concept of the money-weighted ROR in order to comply with GASB Statement No. 67. This is because all local governments in the state participate in a multiple-employer pension plan (e.g. the Illinois Municipal Retirement Fund), sponsor a single-employer pension plan (i.e., downstate public safety pension plan), or both.

Investment return is always of interest when evaluating pension fund performance. There are multiple alternatives available for calculating the ROR of an investment portfolio. To promote comparability across reporting entities, the GASB chose to adopt the method of the money-weighted ROR as the common measure for reporting the investment performance of public pension funds. GASB Statement No. 67 defines "money-weighted rate of return" as "a method of calculating period-by-period returns on pension plan investments that adjusts for the changing amounts actually invested…. (M)oney-weighted rate of return is calculated as the internal rate of return (IRR) on pension plan investments, net of pension plan investment expense." Inputs (cash flows) for the IRR determination must be considered at least monthly. The pronouncement encourages financial statement preparers to consider inputs on a more frequent basis. The money-weighted ROR is a calculation of investment return that differs from what many investment advisors, actuaries, and other professions have been providing to public pension plans and their sponsoring governments in the past.

Statement No. 67 requires that the money-weighted ROR for the immediate reporting year of a pension plan be disclosed in the notes to the plan's financial statements. Also, the money-weighted ROR for the immediate and previous nine fiscal years must be reported in a schedule as required supplementary information (RSI). Note 9 to Statement No. 67 specifies that this same information should be included in the financial report of the government sponsoring a pension plan if the plan does not issue a stand-alone report. If a pension plan issues a stand-alone report, the money-weighted ROR information of the plan should be presented in the financial report of the sponsoring government in such a manner that avoids unnecessary duplication. With respect to the RSI schedule, until a full ten years of information about a pension plan's money-weighted ROR is available, the plan or its sponsoring government should report as many years of return information as is available. The retroactive calculation of money-weighted RORs is not required.

In the case of a multiple-employer pension plan (cost-sharing or agent), the plan will typically arrange for the calculation of the applicable annual money-weighted ROR for its participating governments. The participating governments will then be able to incorporate the information into the notes and RSI in their own financial reports. Thus, it will be relatively easy for governments participating in multiple employer pension plans, such as the Illinois Municipal Retirement Fund, to obtain money-weighted ROR information to comply with GASB Statement No. 67.

The task of obtaining money-weighted ROR information for inclusion in either the stand-alone report of a single-employer pension plan (e.g., downstate public safety pension fund) or the financial report of its sponsoring government will be more challenging. There are two reasons for the challenge. First, in the situation of a single-employer plan, there is no external entity that will be responsible for calculating and providing investment return information. By whatever means, the plan will be responsible for calculating the annual money-weighted ROR. This will take staff time. Alternatively, an investment management consultant or other outside professional engaged by the plan will need to prepare the calculation. The plan or sponsoring government may incur fees for these services. Even for an outside professional, the task of calculating the annual money-weighted ROR will prove to be less burdensome if the cash flow information to be considered in the calculation is compiled periodically (e.g., monthly) instead of all at once after the end of the fiscal year. Thus, single-employer pension plans and the governments sponsoring them are encouraged to undertake the process of compiling data for the money-weighted ROR as soon as possible. If an outside professional is to be engaged for the work, the professional should be identified and be provided with the cash flow data for the ROR calculation at the earliest opportunity.

The second factor complicating the calculation of an annual money-weighted ROR is that multiple investment managers may be involved. For example, a single-employer pension plan may engage one investment manager to manage fixed-income securities and another to manage equity securities. In the case of pension funds with a large amount of assets, even more investment managers may be involved. The more investment managers that are involved, the more complicated the task of calculating the money-weighted ROR becomes. If a pension fund has engaged an investment management consultant to help the fund's pension board oversee all of the investment managers, the pension fund may be able to rely on the investment management consultant to calculate the money-weighted ROR. In any event, lead time will be very helpful to whomever is charged with the responsibility of calculating the money-weighted ROR.

The key points with respect to generating money-weighted ROR information for inclusion in a financial report for compliance with GASB Statement No. 67 are to determine who will be responsible for preparing the calculation and start compiling the data for the calculation as early as possible.

In February 2014, the IGFOA's Technical Accounting Review Committee published "Recommended Practice for Implementing GASB Statement Nos. 67 and 68," which may be accessed at: http://www.igfoa.org/content/documents/gasb67_68whitepaper_2014_02_07_final.pdf.

The recommended practice addresses the need to ascertain a money-weighted ROR for a pension plan and other issues pertaining to the implementation of GASB Statement Nos. 67 and 68.

About the author

Brian W. Caputo, CPA, CPFO, is the Chief Financial Officer/City Treasurer for the City of Aurora. He is a past chair and current member of the IGFOA Technical Accounting Review Committee. He is also an Adjunct Professor of Governmental Accounting at Northern Illinois University. Mr. Caputo holds a B.S. from the United States Military Academy, an M.S. in Accountancy from DePaul University, and an M.P.A. from NIU. Presently, he is a Ph.D. candidate at NIU in public policy and government finance. In 2014, Mr. Caputo was recognized by the ***Daily Herald Business Ledger*** as a Government CFO of the Year.

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Please suggest topics and speakers for the IGFOA Speakers Bureau. The IGFOA Professional Education Committee, Chapters, Networks, Regional groups, volunteer leaders and staff all use the Bureau to identify topics and speakers of interest to IGFOA members. From time to time IGFOA provides access to its Speakers Bureau to affiliated organizations. Find the Speakers Bureau contribution form at www.igfoa.org/about/igfoa-speakers-bureau

Generational differences in the workplace

Highlights from a presentation by Cynthia Berry, Ph.D., at the November Downstate Conference

Most workplaces include four generations of employees: Traditionalists, Boomers, Gen X and Gen Y/Millennials.

There are basic characteristics for each, and ways to keep the three generations working harmoniously. Here is a chart showing some highlights for each.

	Traditionalists	Baby Boomers	Generation X	Millennials
Birth Years	1900-1945	1946-1964	1965-1980	(1977-1994) 1981-2000
Famous People	Bob Dole, Elizabeth Taylor	Bill Clinton, Meryl Streep	Barak Obama, Jennifer Lopez	Ashton Kutcher, Serena Williams
#		80 Million	51 Million	75 Million
Other Names	Veterans, Silent, Moral Authority, Radio Babies, The Forgotten Generation	"Me" Generation, Moral Authority	Gen X, Xers, The Doer, Post Boomers, 13th Generation	Generation Y, Gen Y, Generation Next, Echo Boomers, Chief Friendship Officers. 24/7's
Influencers	WWII, Korean War, Great Depression, New Deal, Rise on Corporations, Space Age. Raised by parents that just survived the Great Depression. Experienced hard times while growing up which were followed by times of prosperity.	Civil Rights, Vietnam War, Sexual Revolution, Cold War/Russia, Space Travel. Highest divorce rate and 2nd marriages in history. Post War Babies who grew up to be radicals of the 70's and yuppies of the 80's. "The American Dream" was promised to them as children and they pursue it. As a result they are seen as being greedy, materialistic and ambitious.	Watergate, Energy Crisis, Dual Income families and single parents, First Generation of Latchkey Kids, Y2K, Energy Crisis, Activism, Corp. Downsizing, End of Cold War, Mom's work, Increased divorce rate. Their perceptions are shaped by growing up having to take care of themselves early and watching their politicians lie and their parents get laid off. Came of age when USA was losing its status as the most powerful and prosperous nation in the world. The first generation that will NOT do as well financially as their parents did.	Digital Media, child focused world, school shootings, terrorist attacks, AIDS, 9/11 terrorist attacks. Typically grew up as children of divorce They hope to be the next great generation & to turn around all the "wrong" they see in the world today. They grew up more sheltered than any other generation as parents strived to protect them from the evils of the world. Came of age in a period of economic expansion. Kept busy as kids First generation of children with schedules.
Family Experience	Traditional Nuclear	Disintegrating "Cleaver Family" Mom stayed home As children were seen as "special"	Latch-key kids Women widely expected to work outside the home The first "day care" generation Dual Income families	Merged families Coddled kids (they got a trophy for coming in 8th place)
Education	A dream	A birthright	A way to get there	An incredible expense
Value	Family/Community	Success	Time	Individuality
Dealing with Money	Put it away Pay cash Save, save, save	Buy now, pay later	Cautious Conservative Save, save, save	Earn to spend
% of Workplace	%5	45%	40%	10%

Cynthia Berry, Ph.D., spoke at the November 2014 IGFOA Downstate Conference. she specializes in Industrial/ Organizational, Personality and Experimental Psychology. She is founder of BOLD, Berry Organizational and Leadership Development, LLC. BOLD works in Human Resources, Organizational and Fund Development, Evaluation and Research, including large-scale community needs assessments and surveys, Psychometrics, and Employee Training with an expertise in statistical design, survey/ assessment development and evaluation. Dr. Berry also provides grant writing and fundraising for not-for-profits. Focusing on both the for-profit and not-for-profit organizations allows her to align with the highest community priority at the time. Dr. Berry can be reached via email at cynberry42@msn.com.

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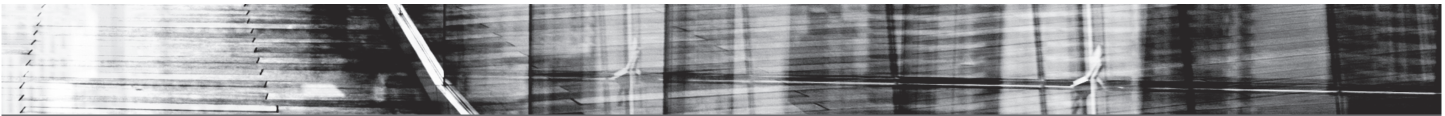

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Presented by the IGFOA Professional Education Committee

7:40 – 8:25 a.m. **Registration & Continental Breakfast**

8:25 – 8:30 a.m. **Welcome and Overview**

8:30 – 9:00 a.m. **IMRF GASB 68 Report**
Speaker: Mark Nannini, Chief Financial Officer, Illinois Municipal Retirement Fund

9:00 – 10:00 a.m. **What Will the Auditors Want for GASB 67 and 68**
Speakers: Linda Abernathy, CPA, Partner, McGladrey and Fred G. Lantz, CPA, Partner-in-Charge, Government Services, Sikich LLP

10:00 – 10:30 a.m. **Tier II Benefits**
Speaker: Mark Nannini, Chief Financial Officer, Illinois Municipal Retirement Fund

10:30 – 10:45 a.m. **Morning Break**

10:45 a.m. – noon **Speak Now or Forever Hold Your Peace: Municipal Intervention in Pension Disability Hearings**
Speaker: Yvette Heintzelman, Attorney, Seyfarth Shaw, LLP

Noon – 12:45 p.m. **Lunch**

12:45 – 1:30 p.m. **Administration of QILDRO's and Service Transfer Credits**
Speaker: Allison Barrett, Principal, Pension Benefits Services, Lauterbach & Amen

1:30 – 2:30 p.m. **Maximizing Investment Returns**
Speakers: Bill Yocius, Jr., MBA, Senior Vice President, Mitchell, Vaught and Taylor, Inc. and Jim Nowicki, CPA, Vice President, Mitchell, Vaught and Taylor, Inc.

2:30 – 2:40 p.m. **Afternoon Break**

2:40 – 3:40 p.m. **Pension Regulatory Audits**
Speaker: Bruce Sartain, Actuary, Illinois Department of Insurance

3:40 – 4:30 p.m. **PUC vs EAN: What Do They Mean to the Average Pension Fund**
Speaker: Kathleen Manning, Consulting Actuary, MWM Consulting Group

4:30 p.m. **Wrap-up**

Register and find more details and the Cancellation Policy at www.igfoa.org

Many thanks to Chris Minick, Finance Director, City of St. Charles and Public Pension Team Leader for the IGFOA Professional Education Committee for planning and coordinating the 2015 IPP Institute!