Financial Policy Guidelines

For:

PRINCE GEORGE COUNTY
VIRGINIA

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TABLE OF CONTENTS

FINANCIAL POLICY GUIDELINES

County of Prince George, Virginia
November 27, 2018

FISCAL POLICY GUIDELINES - OBJECTIVES

This fiscal policy is a statement of the guidelines and goals that will influence and guide the financial management practice of the County of Prince George. A fiscal policy that is adopted, adhered to, and regularly reviewed is recognized as the cornerstone of sound financial management.

The County's existing Financial Policy was adopted in November of 2006. Since this time, the Governmental Accounting Standards Board released Statement No. 54 which deals with the classification of fund balance. This policy, as presented, is revised per the requirements of GASB 54.

Effective fiscal policy:

- Contributes significantly to the County's ability to insulate itself from fiscal crisis,

- Enhances short term and long term financial credit ability by helping to achieve the highest credit and bond ratings possible,

- Promotes long-term financial stability by establishing clear and consistent guidelines,

- Directs attention to the total financial picture of the County rather than single issue areas,

- Promotes the view of linking long-run financial planning with day to day operations, and

- Provides the Board of Supervisors and the citizens a framework for measuring the fiscal impact of government services against established fiscal parameters and guidelines.

To these ends, the following fiscal policy statements are presented.

CAPITAL IMPROVEMENT BUDGET POLICIES

1. The County will consider all capital improvements in accordance with an adopted capital improvement program.

2. The County will develop a five-year plan for capital improvements and review and update the plan annually.

3. The County will enact an annual capital budget based on the five-year capital improvement plan. Future capital expenditures necessitated by changes in population, changes in real estate development, or changes in economic base will be included in capital budget projections.

4. The County will coordinate development of the capital improvement budget with development of the operating budget. Future operating costs associated with new capital improvements will be projected and included in operating budget forecasts.

5. The County will maintain all its assets at a level adequate to protect the County's capital investment and to minimize future maintenance and replacement costs.

6. The County will project its equipment replacement needs as part of the capital improvement process. From this projection a replacement schedule will be developed and followed.

7. The County will identify the estimated costs and potential funding sources for each capital project proposal before it is submitted for approval.

8. The County will attempt to determine the least costly and most flexible financing method for all new projects.

DEBT POLICIES

1. The County will confine long-term borrowing to capital improvement or projects that cannot be financed from current revenues except where approved justification is provided.

2. The County will utilize a balanced approach to capital funding utilizing debt financing, draws on capital reserves and/or fund balances in excess of policy targets, and current-year (pay-as-you-go) appropriations.

3. When the County finances capital improvements or other projects by issuing bonds or entering into capital leases, it will repay the debt within a period not to exceed the expected useful life of the project. Target debt ratios will be annually calculated and included in the review of financial trends.

4. Direct net debt as a percentage of estimated market value of taxable property should not exceed 3.5%. Direct net debt is defined as any and all debt that is tax-supported. This ratio will be measured annually.

5. The ratio of direct debt service expenditures as a percent of the total annual general fund expenditures net of interfund transfers and inclusive of the Prince George County School Board's expenditures should not exceed 10.0% with a targeted direct debt aggregate ten-year principal payout ratio of 55.0% or better for all tax supported debt. These ratios will be measured annually.

6. The County recognizes the importance of underlying and overlapping debt in analyzing financial condition. The County will regularly analyze total indebtedness including underlying and overlapping debt.

7. Where feasible, the County will explore the usage of special assessment, revenue, or other self-supporting bonds instead of general obligation bonds.

8. The County will only issue tax anticipation debt due to unforeseen circumstances and where cash flow projections identify an absolute need, and will retire any such tax anticipation debt annually. Bond anticipation debt will be retired within six months after completion of the project or upon availability of permanent financing.

BUDGET POLICIES

1. The County shall prepare an annual budget in accordance with the Code of Virginia, sound financial practices, and generally accepted accounting principles.
2. The adopted, appropriated budget shall control the expenditure of funds for all County purposes during the ensuing fiscal year and levy of taxes shall support the budget.
3. The County budget shall be balanced wherein budgeted expenditures equal budgeted revenues.
4. Ongoing operating costs should be supported by ongoing stable revenues. One-time or other special revenues, as well as one-time expenditure savings, will not be used to finance continuing County operations, but instead will be used for funding special projects or other non-recurring expenditures.
5. Normally, the Board will appropriate undesignated fund balance for one-time or capital purposes, as long as thresholds established in its approved Fund Balance policies are met.
6. The County, when practical, shall establish a meaningful general fund contingency to address unforeseen emergencies throughout the year. Recommended use of contingency funds shall be provided to the board for consideration and approval.
7. The Board shall provide local funding to the Public School system preferably using the established **Memorandum of Understanding for Transferring Local Revenue from the Prince George County Board of Supervisors to the Prince George County School Board**. The Board may, at its discretion, appropriate additional funds to the School Board as needs dictate and resources allow.
8. The Finance Director will maintain ongoing contact with departments throughout the fiscal year to assist in ensuring the budget is implemented as planned. Revenue and expenditure reports, comparing actual amounts to budgeted amounts, shall be provided periodically to department heads and staff for review and discussion. The board shall receive updates on the financial status of the County no less frequently than quarterly.
9. The County Administrator may approve budget amendments (increases in appropriation) of $5,000 or less. Amendments to the budget (increases in appropriation) exceeding $5,000 shall be provided to the Board for consideration and approval. All budget amendments that exceed 1% of the total adopted budget require a public hearing prior to board approval.
10. The County Administrator may approve budget transfers within the General, Special Revenue and Utility funds so long as such transfers are necessary to further the Department's mission and total expenditures do not exceed adopted, appropriated amounts.

BUDGET POLICIES *Continued*

11. At fiscal year-end, outstanding obligations (purchase orders) and unexpended grants and donations shall be provided to the board for review and re-appropriation. Appropriations for capital purposes (within Capital Improvement fund) shall remain appropriated until the completion of the project or until the Board of Supervisors, by ordinance or resolution, changes or eliminates the appropriation.

FUND BALANCE POLICIES

Fund Balance is the difference between assets and liabilities reported in governmental funds. It serves as a measure of financial resources available for current operations. The Governmental Accounting Standards Board prescribes the classification scheme for components of fund balance. The types of fund balance components are non-spendable, restricted, committed, assigned and unassigned. The policy will focus on the amount remaining after accounting for non-spendable and restricted fund balance, which is comprised of three elements; committed, assigned and unassigned fund balance.

	Definition	Example
Non-spendable	Net resources that cannot be spent because of their form or they must be maintained intact	• Inventory • Prepaid Asset • Long-Term Receivables
Restricted	Limitations imposed by creditors, grantors, contributors, or laws and regulations of other governments	• Federal Grants • Unspent bond proceeds • Bond covenants • Taxes raised for a specific purpose
This policy will focus on the amount remaining after accounting for non-spendable and restricted fund balance, which is comprised of the following three types:		
Committed	Limitations imposed by the Board of Supervisors that requires a resolution to remove	• Encumbrances (formal action) • Limitation imposed no later than the close of the reporting period
Assigned	Intended use established by the County Administrator of his/her designee	• Encumbrances (informal action) • Recommended use of fund balance at year-end
Unassigned	Total fund balance in the general fund in excess of non-spendable, restricted, committed and assigned fund balance	• 12.5% set aside for emergency needs as approved by Board of Supervisors

FUND BALANCE POLICIES *Continued*

1. The County will establish a contingency fund to pay for needs caused by unforeseen emergencies, including unanticipated expenditures of a nonrecurring nature, or to meet unexpected small increases in service delivery costs. The County will target a contingency fund balance equal to 0.5% of the general fund budget.

2. Unassigned fund balances at the close of each fiscal year should be at least 12.5% of the total annual general fund expenditures net of interfund transfers and inclusive of the Prince George County School Board's expenditures.

3. The County Board may, from time-to-time, appropriate unassigned fund balances that will reduce available fund balances below the 12.5% policy for the purposes of a declared fiscal emergency or other such global purpose as to protect the long-term fiscal security of the County. In such circumstances, the Board will adopt a plan to restore the available fund balances to the policy level within 36 months from the date of the appropriation. If restoration cannot be accomplished within such time period without severe hardship to the County, then the Board will establish a different but appropriate time period.

4. The County considers restricted fund balance to be spent when expenditure is incurred for purposes for which restricted and unrestricted fund balance are available unless prohibited by legal documents or contracts. When expenditure is incurred for purposes for which committed, assigned or unassigned amounts are available, the

   County considers committed fund balance to be spent first, then assigned fund balance, and lastly unassigned fund balance.

5. In recognition of the incremental costs of capital improvements and their future maintenance and replacement costs, the County will establish a Capital Improvements Reserve Fund. The level of the Fund will be determined on an annual basis and incorporated into the County's Annual Operating Budget. This Fund will be initially established at some minimum level based upon a further evaluation of future capital improvement needs (inclusive of pay-go capital).

DEFINITIONS

- **Assigned Fund Balance:** Amounts that are constrained by the government's *intent* to be used for specific purposes but are neither restricted nor committed. Fund Balance may be assigned either through the encumbrance process as a result of normal purchasing activity (which includes the issuance of a purchase order), or by the County Administrator or his/her designee.

- **Capital Projects Funds:** Fund used to account for and report financial resources that are restricted, committed or assigned to expenditure for capital outlays including the acquisition to expenditure for capital outlays including the acquisition or construction of capital facilities and other capital assets. Capital project funds exclude those types of capital-related outflows financed by proprietary funds or for assets that will be held in trust for individuals, private organizations, or other governments.

- **Cash Balance:** The sum of cash and investments of an accounting fund.

- **Committed Fund Balance:** Amounts that can only be used for specific purposes pursuant to constraints imposed by resolution of the Board of Supervisors. Formal Board action includes designations of funds to be held for a specific purpose in future fiscal years and budget amendments to carry forward appropriations that were unexpended at fiscal year-end.

- **Debt Service Funds:** Funds used to account for and report financial resources that are restricted, committed or assigned to expenditure for principal or interest. Debt service funds should be used to report resources if legally mandated. Financial resources that are being accumulated for principal and interest maturing in future years also should be reported in debt service funds.

- **Enterprise Fund:** Account for activities for which a fee is charged to external users for goods and services. The Water & Sewer Fund is an enterprise fund.

- **General Fund:** The County's primary operating fund that accounts for County services not otherwise accounted for in a separate fund.

- **Non-spendable Fund Balance:** Portion of fund balance that includes amounts that cannot be spent because they are either a) not in spendable form (i.e. inventories, prepaids) or b) legally or contractually required to be maintained intact.

DEFINITIONS *Continued*

- **Restricted Fund Balance:** Portion of fund balance that reflects constraints placed on the use of resources that are either external sources such as creditors, grantors, contributors, laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

- **Special Revenue Fund:** Funds used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specific purposes other than debt service or capital projects.

- **Temporary Borrowing:** Loan from one fund to another fund due to temporary cash shortage with the expectation of repayment within 12 months. Not considered legal debt.

- **Unassigned Fund Balance:** Fund Balance that has not been assigned to other funds and that has not been restricted, committed or assigned to specific purposes within the general fund. The general fund should be the only fund that reports a positive unassigned fund balance amount.

- **Unrestricted Fund Balance**: The total of committed fund balance, assigned fund balance and unassigned fund balance.