

**Board of Supervisors**

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Thomas C. Foley  
County Administrator

## Finance, Audit & Budget Committee Meeting Agenda

October 16, 2018 - 1:30 p.m.  
Conference Room A/B/C - Second Floor

**Committee Members: Chairman Mark Dudenhefer, Jack Cavalier  
and Wendy Maurer**

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	Agenda Item	
1.	Central Purchasing Division Administrator update	Maria Perrotte
2.	Financial Policies	Andrea Light
3.	Update on Talent Management System	Shannon Wagner
4.	Update on Classification and Compensation study	Shannon Wagner
	Next FAB meeting is scheduled for December 11, 2018	

FAB10162018



# Principles Of High Performance Financial Management

Last Revision: Resolution R17-113, 04/18/2017

The Stafford County Board of Supervisors hereby establishes its Principles of High Performance Financial Management to prudently manage the people's resources through:

- Accountable and transparent allocation of resources
- Planned strategic use of financial resources to ensure sustainability
- Maintaining and upgrading the County's bond ratings
- Balanced tax burden from residential and commercial sources

## DEBT LIMITATIONS

- General obligation debt shall not exceed ~~3.0%~~ 2.75% of the assessed valuation of taxable real property.
- General fund debt service expenditures (County and Schools) shall not exceed 10% of the general government and schools operating budgets.
- The County intends to maintain a 10-year pay-out ratio at or above 60%. To the extent possible, future debt for County facilities will be issued with level principal payments.
- When the County finances capital improvements or other projects through bonds or capital leases, it will repay the debt within a period not to exceed the expected useful life of the projects.
- Debt ratios do not include debt to be repaid from identified revenue sources outside the General Fund. In the case of special service districts, the Board of Supervisors intends to set tax rates to cover any debt to be funded with the revenue.
- Capital lease debt service shall not exceed 1% of the general government budget. Capital lease debt may only be used if all the following four criteria are met:
  1. Capital lease purchase is eligible under state law for such financing;
  2. Useful life of the purchase equals or exceeds the term of the debt;
  3. Total purchase exceeds \$100,000; and
  4. Sufficient funds are available to service the capital lease debt.

## Capital Improvement Program (CIP) And Bonded Debt Service Affordability Guidelines

- ~~A ten-year CIP allocating capital improvement funds between the Schools and General Government will be adopted annually. five-year balanced CIP allocating capital improvement funds along with a planning CIP for years 6 - 10 developed between the Schools and General Government will be adopted annually.~~
- ~~Debt funded CIP projects for County and Schools will be no less than \$500,000 each and will have a useful life that meets or exceeds the life of any debt issuance.~~
- Capital Improvement projects for County and Schools are items for which the purchase, construction, renovation, non-recurring replacement, expansion, or the acquisition represents a public betterment and adds to the total physical worth of Stafford. Projects include, but are not limited to, expenditures for land, new structures, major repairs and renovations; maintenance of existing structures; and expenditures for machinery, equipment and vehicles. Each project funded by long term bonds should have a total cost of \$500,000 or more. ~~Scope of project includes all professional services (Bond funded expenses include~~ land acquisition, legal, planning, design) and construction costs.
- ~~Each year's maximum available debt service will be established by increasing the prior year's actual debt service by the percentage of general fund revenue changes averaged over the last 5 years.~~

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Last Revision: Resolution R17-113, 04/18/2017

- ~~The percentage of general fund revenue changes averaged over the previous 5 years will be compared to the increase in debt service projected in the CIP to determine affordability of anticipated debt.~~
- In any year when debt service decreases from the prior year, the resulting budget savings will be used to fund one time capital needs ~~or retained for future debt service.~~
- Year-end money and funds in the Capital Projects Reserve will be utilized during the budget process, and will be allocated in the CIP on projects that have been prioritized using the ~~debt or 3RCIP~~ criteria and process.
- To provide oversight over project budgets, the Board will generally appropriate by project phase (e.g. design, construction, FF&E) and may withhold from appropriation a portion of contingency funds until such time as the need for them is ascertained.

## UNASSIGNED FUND BALANCE

- The County shall maintain an unassigned fund balance that is not less than 12% of annual general fund revenues, not including transfers, reserves and grants. Use of the unassigned fund balance below this amount will be restricted to only significant unexpected declines in revenues or unanticipated emergency expenditures. Following any use of unassigned fund balance, the County will replenish the unassigned fund balance within three fiscal years.
- A reserve for healthcare costs equal to the estimated IBNR (incurred but not reported) plus 10% of annual claims will be maintained by school and county funds.
- Any amount in excess of the minimum unassigned fund balance will be assigned to these reserves, according to the following hierarchy and formulas:
  1. ~~Revenue Stabilization Reserve (RSR): minimum of  $\frac{1}{2}$  of 1 2% of General Fund revenues, with a goal of 2% by 2018.~~
    - The trigger for drawing on the reserve is a 2% revenue shortfall within a single fiscal year. The reserve can be used as a first stop for major unanticipated emergencies and catastrophes.
    - The reserve will not be used to offset a tax rate change.
    - The reserve will be used in combination with spending cuts.
    - The reserve will be restored to the minimum level within 5 years.
    - Withdrawal amounts may not exceed one-half of the RSR balance in any one fiscal year.
    - RSR funds should only be directed to one-time expenditures to the extent possible.
  2. Capital Projects Reserve of \$1,500,000 will be used to reduce reliance on debt, to provide cash flow for capital projects, and to pay down high interest debt when advantageous.
  3. Stafford Opportunity Fund Reserve: \$500,000.
  4. Any health care savings, after all expenditure and reserve needs have been met, will be set aside for a contribution to OPEB.
  5. Rollback Tax Revenue will be dedicated to the County's Purchase of Development Rights and land conservation programs.
  - ~~5-6.~~ If funds are available from Positive Results of Operation after all reserves are at policy levels, the first \$250,000 will be transferred to the Purchase of Development Rights reserve before moving remaining funds to the Capital Projects Reserve. Local PDR

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funds will be used to match other sources of funding at a rate no more than 50% local dollars.

~~7.~~ The County will maintain at minimum a \$300k reserve for expenditures for the Children's Services Act (CSA) program. In any year when CSA costs for private day school expenditures exceed the budget, 20% of the total overage amount may be funded by utilizing the CSA reserve. At the end of a fiscal year if the County has utilized the reserve for overages, the reserve will be replenished in the amount of 20% of the overage equally from unspent funds in both the County and the Schools budget. When CSA costs for private day school expenditures are below the budget, 20% of the savings will increase the reserve and the balance will be equally divided between the County and Schools Capital Project Reserves.

~~6.~~ The County will maintain a reserve for expenditures for the Child Services Act (CSA). In any year when CSA costs exceed the budget, 20% of the excess may be may be funded using the CSA reserve. At the end of a year when the County must absorb overages, the reserve will be replenished by 10% of the overage amount from unspent funds from the School budgets. When CSA costs are below the budget, 20% of the savings will increase the reserve and the balance will be equally split between the County and Schools Capital Projects Reserves.

~~7-8.~~ Any remaining monies available after the above reserve minimums are fully funded will go to the Capital Projects Reserve.

~~8-9.~~ Schools capital project reserve of \$1,500,000 will be used to reduce reliance on debt, to provide cash flow for capital projects, and to pay down high interest debt when advantageous. Funds above the minimum level may be added to the reserve from unspent school funds.

~~• Rollback Tax Revenue will be dedicated to the County's Purchase of Development Rights and land conservation programs.~~

- Stafford County does not intend to establish a trend of using Fund Balance to finance current operations. As a nonrecurring source of revenue, any balance not needed for liquidity or financial cushion as noted above will be spent solely for nonrecurring uses. After the yearly audit and confirmation of fund balances by the County's external auditor, and in consideration of current financial conditions, the Board of Supervisors will consider reappropriation of Schools' unspent prior year funds.

## General Fund Budget Guidelines

- Stafford will prepare and approve an annual budget with multi-year projections. The County will annually adopt and execute a budget for such funds as may be required by law or by sound financial practices and generally accepted accounting principles. The budget shall control the levy of taxes and the expenditure of money for all County purposes during the ensuing fiscal year. The County budget shall be balanced within all available operating revenues, including fund balance, and adopted by the Board of Supervisors.
- Each year as part of the budget process, five year projections of revenues and expenditures will be prepared and reviewed in public meetings by the Board of Supervisors through one or more work sessions. This five year outlook will guide the preparation of the annual budget.
- Stafford County does not intend to issue tax or revenue anticipation notes to fund operations. The County intends to manage cash to prevent borrowing to meet cash flow needs.
- The school's share of the general government revenues will be 100% of meals tax revenues and an appropriate amount to ensure a globally competitive school system. The school operating transfer will be the difference between the school's share of general government revenues and school-related bonded and lease debt service.

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- When the Schools desire an amendment to the adopted budget or appropriation, the School Board shall pass a resolution for consideration by the Board of Supervisors.
- An amount equivalent to 3% of general government expenditures will be set aside for pay-as-you-go capital projects. An amount equal to ~~±~~ 2% of the schools' operating transfer also will be set aside for pay-as-you-go capital projects. ~~by July 1, 2015, with a goal of 2% by July 1, 2017. This funding will be used for small capital projects and infrastructure needs.~~
- An amount equivalent to ½% of general government expenses will be set aside for the operating budget contingency reserve.

## Finance, Audit & Budget Committee

- The Board of Supervisors will appoint a Finance, Audit & Budget Committee each year.

## Budget Reviews

On a monthly basis, staff will provide written budget reports to the Board of Supervisors. Additionally, staff will provide quarterly budget and finance presentations at public meetings. All budget reviews will be available on the County's website.

## Tax Trigger Provision

- General revenue increases that exceed revenue forecasts, and are not accompanied by additional costs in the annual budget process, provide a trigger to reduce the real estate tax rate.

## Periodic Policy Review

The Board of Supervisors will review this policy no less than once every two years.

## Fund Balance Reporting

The new standard for fund balance reporting establishes criteria for classifying fund balances into specifically defined categories. There are now five (5) classifications versus the three (3) previously used in our financial statements.

Old Classification	New GASB 54 Classification
Reserved	Nonspendable
	Restricted
Designated	Committed
	Assigned
Undesignated	Unassigned

- Non-spendable - for items that would not be converted to cash, like inventories and prepaid items (cash has already been used).

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- Restricted - amounts that can be spent for specific purposes, dictated by external entities or legislation, like debt service covenants, and grants.
- Committed - for specific purposes determined by formal action of governing body, such as transportation projects or our Capital, Stafford Opportunity, and Revenue Stabilization reserves. The commitments for the specific purpose must be made prior to the end of the fiscal year. The actual amount may be determined subsequently (prior to financial statement issuance). Action by governing body is needed to “undo” the commitment.
- Assigned - management’s intentions/specific purposes, such as set asides we have for [CSA, permit center, or](#) future expenditures.
- Unassigned - residual, spendable amounts in the General Fund - there should not be any unassigned funds in Special Revenue and Capital Projects Funds, as all funds should relate to the purpose of the fund.

Encumbrances have been a designation of fund balance. Under the new standard encumbrances will be included in the total amounts reported as restricted, committed or assigned fund balance. The Notes to the Financial Statements will disclose the allocation by major fund and in aggregate for non-major funds.

## Fund Balance Classification Policies and Procedures:

The new standard requires disclosure of the government’s decision making authority and order of spending with regard to unrestricted fund balance. The following table describes the disclosures by fund balance classification.

Committed Fund Balance	Highest level of decision making authority.
	Formal action required to establish (and modify or rescind) a fund balance commitment.
Assigned Fund Balance	Official authorized to assign amounts to a specific purpose.
	Policy establishing that authorization.
Spending Policy	When an expenditure can be funded by either restricted or unrestricted fund balance, restricted funds are used first, followed by unrestricted funds. This parallels our policy of spending other funding sources first.
	Order of use of unrestricted fund balance is committed - assigned - unassigned.

# Financial Policy Update

October 16, 2018

# Changes to Financial Policies

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- Changes recommended:
  - To acknowledge achievements
  - To strengthen policies
  - To formalize practices
  - To refine definitions
  - To update for current conditions



# Debt Limitations

- Debt to AV ratio from 3% to 2.75%
  - To strengthen policy
  - No effect on current debt capacity
- Payout Ratio added
  - To strengthen policy
  - To follow best practices
  - No effect on current capacity
- Bond term tied to project life
  - To recognize current practice
  - No effect on current capacity

# CIP

- Change from 10 to 5 years balanced
  - To allow flexibility in future CIPs
- Refine definitions
  - To clarify policies
- Remove 5 year rolling average increase limitation
  - To avoid unintended consequences and bring into line with best practices
- Refine use of savings and rollover funds
  - To clarify policies
- Describe appropriation in phases
  - Added for better financial oversight

# Fund Balance

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- Revenue Stabilization
  - To acknowledge attainment of goal
- CSA
  - To provide cost sharing and incentive for Schools and to address uncertain nature of expenditures
- Re-ordering reserves listings
  - To clarify current policies and practices

# Budget

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- Five Year Financial Plan
  - Expand wording to recognize additional emphasis
- Cash Capital
  - To refine and acknowledge practices
- Budget Reports
  - To acknowledge current practice
  - To enhance transparency

# Questions

## Memorandum Human Resources

To: Finance, Audit and Budget Committee

From: Shannon Wagner  
Director of Human Resources

Subject: Talent Management System Update

Date: October 16, 2018

CC: Thomas Foley

### **HR Software for Talent Management**

Stafford County completed a request for proposal (RFP) for an integrated talent management solution with proposals due on September 11, 2018. The RFP defined a software solution which covers the primary functional areas of performance management, learning management, and succession planning for a new approach to managing talent within the organization. In addition, the system will encourage increased employee engagement within these functions through the ability to track the progress of established goals and to explore learning opportunities and career paths.

A total of six proposals were received in response to the RFP, and a selection committee was formed to evaluate the proposals including Human Resources and Information Technology staff. Two proposals were identified as finalists and were invited to provide a demo of the system. Cornerstone OnDemand, Inc. (Cornerstone) has been identified by the selection committee as the preferred vendor.

The selected system with Cornerstone will include the following components and functionality:

- Performance Management - The full cycle of Stafford's performance management process will become electronic, including goal setting, progress updates, competency evaluation, periodic check-ins, and the annual evaluation.
- Learning Management - This component will be a central place to coordinate and manage learning/training opportunities. Online training content can be integrated into the system in addition to the ability to create our own training content. This system will also streamline compliance or safety based training for the entire organization.
- Succession Planning - Departments and HR staff will be able to identify key positions and evaluate potential candidates to establish a pool of candidates ready to move into new roles. Employees will also be able to explore career paths and understand the training/education/experience that will be required to move into a new role.

- Reporting and Analytics - The system's reporting capabilities will enhance the organization's ability to support business decisions and identify workforce trends.

Staff are also considering a social collaboration component which would support communication and teamwork across the organization.

Each of these components are integrated together to fully leverage talent management within the organization. As more data is connected across functions, departments and managers will be able to make better business decisions and employees will have easier access and input into those processes.

