

# PRINCIPLES OF HIGH PERFORMANCE FINANCIAL MANAGEMENT

Last revision: Resolution R19-182, 06/04/2019

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 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)

- A 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. A projection of changes to the tax rate will be included to help inform the Board of possible impacts of decisions.
- CIP projects for County and Schools are items for which the purchase, construction, renovation, non-recurring replacement, expansion, or the acquisition represent 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. Bond funded expenses include land acquisition, legal, planning, design and construction costs.

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- 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 CIP criteria and process.
- To provide oversight over project budgets, the Board will generally and periodically appropriate with consideration given by project phases (e.g. design, construction, FF&E) and the Board may withhold from appropriation a portion of contingency funds until such time as the need for them is requested and ascertained.

## Unassigned Fund Balance

- The County shall maintain an unassigned fund balance of no 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 2% of General Fund revenues:
    - 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.

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5. Rollback Tax Revenue will be dedicated to the County's Purchase of Development Rights and land conservation programs. Local PDR funds will be used to match other sources of funding at a rate no more than 50% local dollars.
  6. 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.
  7. Any remaining monies available after the above reserve minimums are fully funded will go to the Capital Projects Reserve.
  8. 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.
- o 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 re-appropriation of Schools' unspent prior year funds.

### General Fund Budget Guidelines

- o 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.
- o Each year as part of the budget process, five year projections of revenues and expenditures will be prepared and reviewed by the Board of Supervisors through one or more work sessions. This five year outlook will guide the preparation of the annual budget.
- o 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.
- o The Board shall consider withhold 5% of the appropriation for Schools' Operating Fund and the County's General Fund, excluding debt service, to be considered for appropriation at mid-year and/or at the third-quarter review.
- o An amount equivalent to 3% of general government expenditures will be set aside for pay-as-you-go capital projects. This funding will be used for small capital projects and infrastructure needs.

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- An amount equivalent to ½% of general government expenses will be set aside for the operating budget contingency reserve.

## School Fund Budget Guidelines

- The Schools' 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 Schools Operating Transfer will be the difference between the Schools' share of general government revenues and school-related bonded and lease debt service.

The Board recommends that the School Board adopt policies which support repair, replacement and rehabilitation of current assets by annually budgeting an amount equal to 2% of the Schools' Operating Transfer. The Board is committed to this practice and annually will identify funding specifically dedicated to repair, replacement and rehabilitation of current assets in the Adopted Budget.

Generally, the Board is committed to appropriating Schools' funds in a lump sum, provided the Board is satisfied that the following communication and transparency conditions are met. If unsatisfied, the Board may consider categorical appropriation in subsequent fiscal years.

- Monthly, the School Board provides a financial report for the Schools' Operating Fund that provides the original budget, the amended budget, revenues received, current expenditures and encumbrances and balances; and
  - Quarterly, as a part of the County's quarterly report, the School Board provides a report to the Board which includes its revenue and expenditure projections, changes in personnel, and current student counts; and specifically, for the third quarter report, the School Board provides a projected list of year-end spending items along with a report on transfers between categories.
- When the Schools desire an amendment to the adopted budget or appropriation, the School Board shall pass a resolution for consideration by the Board.
  - The Schools and County will provide a report of year end encumbrances which are requested to be re-appropriated in the next fiscal year. The report should provide sufficient detail and individual reporting on encumbrances over \$50,000 for the Board to consider the request for re-appropriation. This is intended to be presented with the year end results, typically provided the second meeting in September.
  - County staff is directed to bring to the Board's attention any financial issue that may present current or future financial difficulties and/or are not aligned with policies.

## 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).
- 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.

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- Assigned – management’s intentions/specific purposes, such as set asides we have for 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.

<b>Committed Fund Balance</b>	Highest level of decision making authority.
	Formal action required to establish (and modify or rescind) a fund balance commitment.
<b>Assigned Fund Balance</b>	Official authorized to assign amounts to a specific purpose.
	Policy establishing that authorization.
<b>Spending Policy</b>	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.

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## Budget Procedures/Calendar

MONTH	PROCEDURE
October	Work Session <ul style="list-style-type: none"><li>• Preliminary prior year balances</li><li>• 1st quarter review of fiscal year</li><li>• Preliminary budget overview to include:<ul style="list-style-type: none"><li>○ Revenue projection with no increase in equalized tax</li><li>○ Expenditures with no new initiatives other than required</li><li>○ Information on new revenues and expenditures</li><li>○ Budget calendar</li></ul></li></ul> BOS/School Board Joint work session
November	Feedback/Consensus/Guidance from the Board Board priorities/Performance standards CIP/Debt capacity work session
December	Audit Report
January	Work Session <ul style="list-style-type: none"><li>• Final prior year balances</li><li>• Mid-year review</li><li>• Revenue trends for upcoming budget</li><li>• Feedback from Board</li></ul>
February	Receive School Budget
March	County Administrator presents Proposed Budget and CIP Budget work session
April	Budget work session Budget work session & public hearing Adopt budget and CIP Annual appropriation Set tax rates