Rockbridge County, Virginia

Financial Management Policies and Best Practice Financial Guidelines

Adopted as of July 14, 2014

Rockbridge County, Virginia

Financial Management Policies

Adopted July 14, 2014

Financial Management Policies – Goals and Objectives

The County of Rockbridge has a responsibility to its citizens to account for public funds, to manage its finances wisely, and to allocate its resources efficiently and effectively in order to provide the governmental services desired by the public. The primary objective of establishing Financial Management Policies is to provide a framework wherein sound financial decisions may be made for the long-term development and stability of Rockbridge County.

A set of effective financial management policies should support the following goals:

- Contribute significantly to the County's ability to insulate itself from fiscal crisis;
- Enhance the County's ability to obtain short-term and long-term financial credit by helping to achieve the strongest credit profile and the highest credit/bond ratings possible;
- Promote long-term financial stability by establishing clear and consistent guidelines;
- Direct attention to the total financial standing of the County, rather than single issue areas;
- Promote the view of linking long-term financial planning with day-to-day operations; and,
- Provide the Board of Supervisors, County Staff and citizens a framework for measuring the fiscal impact of governmental services against established fiscal parameters and guidelines.

The purpose of this document is to clearly define and present Financial Management Policies related to the County's **Operating Budget**, **Capital Budget**, **Asset Maintenance and Replacement**, **Revenue**, **Financial Reporting, Debt, Fund Balance/Reserves, and Review and Revision**, for the sake of all key stakeholders in the financial well-being of Rockbridge County.

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Operating Budget Policies

The budget must be structured so that the Board and the public can understand the relationship between revenues, expenditures, and the services each department and/or program provides to our citizens.

The goal of the County is to fund all recurring expenditures with recurring revenues and to use non-recurring revenues for non-recurring expenses.

When revenue shortfalls are anticipated in a fiscal year, spending during that fiscal year should be reduced sufficiently to offset the projected revenue shortfalls.

The County will prepare the capital improvement program (CIP) document in conjunction with the development of the operating budget in order to assure that the estimated costs and future impact of a capital project on the operating budget will be considered prior to its inclusion.

The operating budget preparation process is conducted to allow decisions to be made regarding anticipated resource levels and expenditure requirements for the levels and types of services to be provided in the upcoming fiscal year. The following budget procedures will ensure the orderly and equitable appropriation of those resources:

> The General Government operating budget requests are initiated at the department and division levels within the guidelines of the funding priorities set by the Board of Supervisors and implemented by the County Administrator. In formulating budget requests, priority will be given to maintaining the current level of services. New services will be funded through the identification of new resources or the reallocation of existing resources.
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> Proposed program expansions above existing service levels must be submitted as a budget initiative requiring detailed justification. Every proposed expansion will be analyzed on the basis of its relationship to the health, safety and welfare of our community, among other factors. Consideration of program expansion will also be evaluated through the Board's funding priorities and the analysis of long-term fiscal impacts.
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> Proposed new programs must also be submitted as budget initiatives requiring detailed justification. New programs will be evaluated on the same basis as program expansions, to include analysis of long term fiscal impacts.

The Board of Supervisors will adopt the operating budget for the upcoming fiscal year no later than May 1 of each year, unless events beyond its control preclude such action.

The Board of Supervisors will appropriate School Division funding in accordance with Virginia Code § 22.1-115.

Capital Budget Policies

The Board of Supervisors will accept recommendations from the Planning Commission for the five-year Capital Improvements Program that are consistent with identified needs in the adopted Comprehensive Plan.

The County will coordinate the development of the CIP budget requests with the development of the operating budget so that future operating costs, including annual debt service associated with the potential capital projects, will be projected and included in operating budget submissions.

Capital Budget Policies (cont'd)

Emphasis will be placed upon a viable level of "pay-as-you-go" capital construction to fulfill needs in a Board-approved Capital Improvements Program.

Financing plans for the five-year CIP program will be developed based upon the County's forecast of revenues and expenditures.

The County will collaborate with the School Board regarding the development and coordination of the County's Capital Improvement Program. Collaboration includes the following: a) planning for required capital improvements; b) debt ratio targets; and c) debt issuance schedules.

Asset Maintenance, Replacement and Enhancement Policies

The County will maintain a system for maintenance, replacement, and enhancement of the County's tangible assets. The system will protect the County's capital investment and minimize future maintenance and replacement costs using the following guidelines:

- The operating budget will provide for minor and preventive maintenance;
- Within the CIP, the County will develop and maintain a facility and equipment maintenance/replacement schedule, which will provide a five-year estimate of the funds necessary to provide for the structural, site, major mechanical/electrical rehabilitation or replacement of the County-owned assets requiring a total expenditure of $10,000 or more with a useful life of five years or more; and,
- To provide for the adequate maintenance of the County's facilities and equipment, the County intends to accurately account for and appropriately fund the maintenance/repair and replacement capital improvements financed through current revenues.

Revenue Policies

Reassessment of real property will be made every six years.

The County will maintain a diversified and stable revenue structure to shelter it from short-term fluctuations in any one revenue year.

The County will estimate its annual revenues by an objective, analytical process.

The County will monitor all taxes to insure that they are equitably administered and that collections are timely and accurate.

The County will follow an aggressive policy of collecting tax revenues. The annual level of uncollected current property taxes should not exceed 4%, unless caused by conditions beyond the County's control.

The County will identify all inter-governmental aid funding possibilities. However, before applying for or accepting either state or federal funding, the County will assess the merits of the program as if it were to be funded with local dollars. No grant will be accepted that will incur management and reporting costs greater than the grant.

Revenue Policies (cont'd)

Local tax dollars will not be used to make up for losses of inter-governmental aid without first reviewing the program and its merits as a budgetary increment.

The County will attempt to recover all allowable costs – direct and indirect – associated with the administration and implementation of programs funded through inter-governmental aid. In the case of state and federally mandated programs, the County will attempt to obtain full funding for the service from the governmental entity requiring that the service be provided.

Accounting, Auditing and Financial Reporting Policies

The County will establish and maintain a high standard of accounting practices in conformance with the Uniform Financial Reporting Manual of Virginia and Generally Accepted Accounting Principles (GAAP) for governmental entities as promulgated by the Governmental Accounting Standards Board.

An independent firm of certified public accountants will perform an annual financial and compliance audit according to generally accepted auditing standards; Government Auditing Standards issued by the Comptroller General of the United States; and Specifications for Audit of Counties, Cities and Towns issued by the Auditor of Public Accounts of the Commonwealth of Virginia.

The County will competitively procure audit services every five years to select a firm to complete the Comprehensive Annual Financial Report. The firm will be chosen in accordance with the Virginia Public Procurement Act and the County's Procurement Policy. In addition, the audit firm will communicate the audit results to the Board no later than January 31 each year.

The County will annually seek the GFOA Certificate of Achievement for Excellence in Financial Reporting.

The Fiscal Services Director will prepare financial reports and present the results to the Board on a monthly basis.

The County will maintain a Finance Committee consisting of two members of the Board of Supervisors appointed to the Committee by the Board as a whole, the County Administrator, and the Fiscal Services Director. In addition to the monthly financial reporting to the Board of Supervisors, the County's Finance Committee will meet monthly to provide further oversight for the County.

Debt Policies

The County will not fund operations from the proceeds of long-term bonds.

The County will manage its financial resources in a way that prevents the need to borrow on a short-term basis to meet normal operating budget expenses.

The County will confine long-term borrowing and capital leases to capital improvements or projects that cannot be financed by current revenues.

To the extent feasible, any year that the debt service payment falls below its current level, those savings will be used to finance one-time capital needs or returned to the Capital Budget.

Debt Policies (cont'd)

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.

Recognizing the importance of debt to its overall financial condition, the County will set target debt ratios which will be calculated annually and reported to the Board of Supervisors:

- Annual tax-supported debt service as a percent of the County's total General Fund expenditures (i.e. General Fund expenditures plus School Fund operating expenditures less County contribution to Schools) will not exceed 12%; and,
- Total outstanding tax-supported debt as a percent of total taxable Assessed Value will not exceed 3%.

The County intends to maintain a 10-year payout ratio at or above 50% at the end of each adopted five-year CIP for all tax-supported debt.

The County's public debt offering documents, to the extent the County issues such debt, will provide full and complete public disclosure of financial condition and operating results and other pertinent credit information in compliance with municipal finance industry standards.

The County will regularly communicate with its Financial Advisor and Bond Counsel to stay abreast of all applicable regulatory developments pertaining to municipal finance. As necessary, the County will adopt processes and procedures to maintain compliance with IRS tax-exempt bond regulations, municipal disclosure rules and practices, and any other regulatory requirements currently in effect or adopted in the future.

Fund Balance/Reserve Policies

The GFOA recommends a minimum of the total of committed, assigned, and unassigned fund balance, in the General Fund, of not less than two months of operating revenues or expenditures.

The County's fund balance and reserves are built up from prior year surpluses and savings to provide the County with working capital to enable it to finance unforeseen emergencies without borrowing.

The County will maintain a fund balance for cash liquidity purposes that will provide sufficient cash flow to minimize the possibility of short-term tax/revenue anticipation borrowing.

The County will continue to calculate its Unencumbered Cash Reserve level on a semi-annual basis using its Operating Cash Balance and making adjustments, such as six months of real estate tax collections and cash contributions to capital, as necessary.

At the close of each fiscal year, the County's unassigned General Fund balance should be equal to at least 20% of the County's total General Fund expenditures (i.e. General Fund expenditures plus School Fund operating expenditures less County contribution to Schools).

Fund Balance/Reserve Policies (cont'd)

The County's Fiscal Services Director, in coordination with the annual close of its accounting records, will report to the Finance Committee the County's compliance with the fund balance policy upon completion of the audit. If the County does not meet its target, the County will develop a plan during the annual budget adoption process to replenish the unassigned fund balance to the 20% target level over a period of not more than three (3) years.

The County should contribute to a Capital Reserve Fund periodically to provide flexibility in meeting debt service and capital requirements and to mitigate tax rate increases related to future capital projects.

The County shall demonstrate compliance with the Fund Balance/Reserve Policy in its annually adopted budget.

Review and Revision Policies

The County will formally review the financial management policies at least every three years to consider potential revisions.

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Rockbridge County, Virginia

Best Practice Financial Guidelines

Adopted July 14, 2014

Best Practice Financial Guidelines – Goals and Objectives

The County of Rockbridge has a responsibility to its citizens to account for public funds, to manage its finances wisely, and to allocate its resources efficiently and effectively in order to provide the governmental services desired by the public. The primary objective of establishing Financial Best Practices Guidelines is to identify those practices and procedures that, if implemented, would support sound long-term fiscal planning and decision making. These guidelines are not to be confused with the County's adopted financial management policies. Rather, the guidelines are meant to be forward looking with respect to practices that the County may not currently employ, but may wish to implement in the future. Once a guideline is reviewed and tested by Staff and revised as desired by the Board of Supervisors, it becomes eligible for inclusion in the County's adopted Financial Management Policies.

Operating Budget Policy Guidelines

The annual budget will be prepared consistent with guidelines established by the Government Finance Officers Association (GFOA).

The County will develop and annually update a long range (five-year) Financial Plan, which will include projections of revenues and expenditures, as well as future costs and the financing of capital improvements and other projects that are included in the capital budget.

Performance measurement and productivity indicators will be integrated into the budget process as appropriate.

Capital Budget Policies

The County will approve a multi-year capital budget in accordance with an approved Capital Improvements Program. All unspent and unencumbered appropriations allocated for capital projects shall be re-appropriated for completion of the projects. Upon completion of a capital project, the County Administrator is authorized to close out the project and transfer any unencumbered and unexpended residual funds to the fund balance of the Capital Improvement Fund.

The County will maintain a capital facilities inventory and estimates for remaining useful life and replacement costs.

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Revenue Policies

The County will, where possible, institute user fees and charges for specialized County programs and services based on benefits and/or privileges granted by the County or based on the cost of a particular service. Rates will be established to recover operational as well as capital or debt service costs.

The County will regularly (at least every three (3) years) review user fee charges and related expenditures to determine if pre-established recovery goals are being met.

Investment Policy Guidelines

The County's elected Treasurer has constitutional responsibility under Virginia law to invest County revenue. The Treasurer will seek to maximize the rate of return while maintaining a low level of risk. The Treasurer will invest in compliance with the Virginia Security for Public Deposits and Virginia Investment of Public Funds Acts.

The Treasurer and County staff will coordinate on a regular basis, on a frequency they deem necessary, regarding the cash flow of the County. Disbursements, collections, and deposits of major funds will be scheduled to insure maximum cash availability and investment potential.

The Treasurer shall maintain a system of internal controls for investments, which shall be documented in writing and subject to review by the County's independent auditor.

Contractual consolidated banking services will be reviewed regularly and procured in accordance with the Virginia Public Procurement Act and the County Procurement Policy.

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