

FINANCIAL MANAGEMENT POLICIES

STATEMENT OF PURPOSE

The County of Albemarle has a responsibility to its taxpayers to account for public funds, to manage its finances wisely, and to allocate its resources efficiently, effectively, and equitably, in order to provide the 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 betterment and stability of Albemarle County.

POLICY GOALS

A fiscal policy that is adopted, adhered to, and regularly reviewed is recognized as the cornerstone of sound financial management. An effective fiscal policy should:

- Insulate the County from fiscal crises;
- Enhance the County's ability to obtain short-term and long-term financial credit by helping to achieve the highest credit rating and bond rating possible;
- Promote long-term financial stability by establishing clear and consistent guidelines;
- Provide the total financial picture of the County rather than concentrating on single issue areas;
- Provide a link between long-range financial planning and current operations; and
- Provide a framework for measuring the fiscal impact of government services against established fiscal parameters and guidelines.

Explanation of Change: *The following sections have been reordered alphabetically and labeled to assist the reader.*

1. ACCOUNTING, AUDITING, AND FINANCIAL REPORTING POLICIES

- A. The County will establish and maintain a high standard of internal controls and 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.
- B. 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 hold a request for proposal process for audit services every five years.~~

Explanation of Change: *This statement is moved to the Procurement Policies section. The word "regularly" is recommended in place of "every five years" to be written as a policy statement rather than a more specific procedure statement.*

- C. The County will maintain an audit committee comprised of the County Executive, or designee, the Superintendent of Schools, or designee, the Chief Financial Officer, two Board of Supervisors members and one School Board member. The committee's responsibility will be to review the financial statements and results of the independent audit and to communicate those results to the Board of Supervisors.

- D. The County will annually seek the Government Finance Officers Association (GFOA) Certificate of Achievement for Excellence in Financial Reporting. The intent of seeking this is to receive external, independent feedback and demonstrate that the Annual Comprehensive Financial Report document reflects best practices.

Explanation of Change: A statement is added to clarify for the reader why this is done.

The County will provide the Board of Supervisors with quarterly General Fund and School Fund financial reports.

2. **OPERATING** BUDGET POLICIES

Explanation of Change: "Operating" is removed because this statement applies to the entire budget.

- A. The annual budget will be prepared consistent with requirements established by the Virginia Code, guidelines established by the GFOA and in accordance with budgeting best practices.
- B. The budget must be structured so that the Board and the public can understand the relationship between revenues, expenditures, and the achievement of service objectives.
- C. The budget will be structurally balanced, where ongoing revenues equal or exceed ongoing expenditures. The goal of the County is to fund all ~~recurring~~ ongoing expenditures with ongoing revenues, not one-time revenues.

Explanation of Change: This change is to consistently reflect terminology used by the County of "ongoing" rather than "recurring."

- D. The County will develop and annually update a long-range five-year Financial Plan. The Financial Plan will include a review of revenue trends and expenditures from the prior years' projections of revenues and expenditures, as well as future costs and the financing of the Capital Improvement Plan.
- E. When revenue shortfalls are anticipated in a fiscal year, spending during that fiscal year must be reduced sufficiently to offset the projected revenue shortfalls.
- F. The County shares the increase or decrease in available shared revenues among the County Government and Public Schools operating, debt service, and capital budgets.
- When developing the budget, the County calculates the increase or decrease in General Fund local tax and State non-categorical aid revenues.
 - This amount is adjusted for changes in expenses that reduce available shared revenue: City of Charlottesville revenue sharing, Tax Relief programs, Economic Development Authority tax-related performance agreements, and the designated transfers to the Water Resources Fund and Affordable Housing Investment Fund.
 - The remaining amount is allocated 54% to the Public Schools operating budget, 36% to the County Government operating budget, and 10% for the joint County Government and Public Schools debt service and capital budgets.

- This guideline may be reviewed annually with Board of Supervisors approval.

Explanation of Change: The addition of "Affordable Housing Investment Fund" is consistent with the Board's direction during the FY 26 budget development process, where an amount and the future change in the value of that amount is dedicated to the Affordable Housing Investment Fund.

During the FY 26 budget development process, the Board discussed similarly dedicating the change in the value of the 3.2 cents increase in real estate tax rate increase dedicated to public safety. A majority of the Board did not direct a change to how that revenue would be shared. Therefore, language for such a change is not included in the proposed updated policy language at this time. However, the Board may direct a change in the future either by policy or as stated in the current policy (annually in the budget development process). During the upcoming annual budget process, the Board will have additional information about the specific service and funding circumstances for County Government and Public Schools. Further analysis is discussed in Attachment B.

- G. 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.

Explanation of Change: "Operating" is removed because this statement applies to the entire budget.

- H. The County Government **operating** budget is approved and appropriated by the County Board of Supervisors. Each year the County Board of Supervisors' annual resolution of appropriations dictates the level of appropriation authority for all funds. Total expenditures cannot exceed total appropriations of any department within the General Fund. The annual resolution of appropriations will also establish how the budget may be amended.

Explanation of Change: "Operating" is removed because this statement applies to the entire budget.

- I. The Board of Supervisors appropriates Public Schools funding in accordance with Virginia Code § 22.1-115.
- J. The Board of Supervisors will adopt and appropriate the budget in accordance with Virginia Code requirements and the Board of Supervisors' annual budget calendar.
- K. The County will annually seek the GFOA Distinguished Budget Presentation Award. The intent of seeking this is to receive external, independent feedback and demonstrate that the annual budget document reflects best practices.

Explanation of Change: A statement is added to clarify for the reader why this is done.

3. CAPITAL BUDGET AND ASSET POLICIES

- A. The County will approve a Capital Improvement Plan (CIP), which is a five-year forecast for all anticipated capital projects and is considered to be a link between the County's Comprehensive Plan, Strategic Plan, and its financial planning process. The County will approve a one-year capital budget, which is the first year of the CIP. The second through fifth years of the CIP are refined annually to guide future planning.

Explanation of Change: Statements are added to clarify what the CIP is and to distinguish the difference in the one-year capital budget vs the five-year CIP, which reflects current practices with language commonly in the County's budget communications.

- B. County Government will collaborate with the Public Schools and Planning Commission regarding the development and coordination of the capital budget and Capital Improvement Plan. The processes and procedures related to this collaboration, whether joint Board meetings, designated committees, or other activities will be determined as part of the annual budget calendar or as otherwise directed by the Board of Supervisors.
- C. The County will coordinate the development of the capital budget with the development of the operating budget so that future operating costs, including annual debt service associated with new capital projects, will be projected and included in operating budget forecasts.
- D. The County believes in funding an appropriate portion of its capital improvements on a cash basis to provide budgetary flexibility, to support those capital expenses not eligible for debt financing, and to reflect useful life considerations. The appropriate level and funding goal of ongoing and one-time cash provided to the capital budget in a fiscal year will be determined in the context of the budget processes.

~~Financing plans for the five-year capital program will be developed based upon a five-year forecast of revenues and expenditures.~~

Explanation of Change: This statement is redundant with statement D in the Budget Policies section.

- E. The County maintains a capital assets inventory and estimates remaining useful life and replacement costs.
- F. The County will maintain a system for maintenance, replacement, and enhancement of the County Government's and Public Schools' physical plant. This system will protect the County's capital investment and minimize future maintenance and replacement costs:
 - The operating budget will provide for minor and preventive maintenance;
 - Within the Capital Improvement Plan, the County will maintain a capital plant 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 Government's and Public Schools' plant.

4. DEBT POLICIES

- A. The County will not fund current operations from the proceeds of borrowed funds.
- B. The County's debt offering documents 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 for similar issues.

- C. Recognizing the importance of long-term financial obligations, including total tax-supported debt, lease, and financing payments, to its overall financial condition, the County will set target debt ratios, which will be calculated annually and published as part of the budget and bond issuance processes
- Total long-term obligations, as defined above, as a percentage of the estimated market value of taxable property should not exceed 2%; and
 - The ratio of debt service expenditures to General Fund and School Fund revenues, less General Fund transfers to the School Fund, should not exceed 10%.
- D. The County intends to maintain a 10-year payout ratio at or above 60% at the end of each adopted five-year Capital Improvement Plan for tax-supported debt and lease 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.
- E. The County shall ensure compliance with federal arbitrage rebate requirements by maintaining accurate records of bond proceeds, investment earnings, and expenditures, and by conducting timely rebate calculations and filings. Interest earnings on bond proceeds and payments will be recorded and restricted in the Debt Service funds.

Explanation of Change: This change is to add a best practice for arbitrage requirements and management. In the municipal bond context, arbitrage generally refers to the earnings from borrowing funds in the tax-exempt market (through a bond issue) and investing them in the taxable market.

- F. The County will not entertain the use of derivatives as a method of financing debt unless and until such time as the Board of Supervisors adopts a specific derivatives-related policy.

5. FUND BALANCE OR RESERVE POLICIES

- A. The fund balance is built over years from 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 anticipation borrowing.
- B. At the close of each fiscal year, the unassigned General Fund's fund balance, plus the committed fund balance available for fiscal cash liquidity purposes, should be equal to no less than 10% of the County's total operating revenues, which includes the General Fund plus the School Fund, less the General Fund transfer to the School Fund.
- C. The County does not intend, as a common practice, to use General Fund equity (unassigned fund balance) to finance current operations. If circumstances require the use of the unassigned fund balance that causes the balance to fall to a point below the 10% target level, the County will develop a plan during the annual budget adoption process to replenish the ~~unrestricted~~ unassigned fund balance to the 10% target level as quickly as reasonably possible.

Explanation of Change: *This change is to consistently reflect terminology used throughout the policy of "unassigned" rather than "unrestricted."*

- D. In addition to maintaining the 10% target level as described above, at the close of each fiscal year, a target amount equal to 2% of the County's total operating revenues, which includes the General Fund plus the School Fund, less the General Fund transfer to the School Fund, shall be reserved as an unassigned Budget Stabilization Reserve. The Budget Stabilization Reserve is intended to be among the strategies available in a difficult budget year or unanticipated situation. This reserve may be used from time to time as necessary to meet unanticipated one-time emergencies and unanticipated expenditures required to pay costs necessary to maintain the quality or level of current services or to smooth/offset revenue fluctuations occurring within a fiscal year. The Budget Stabilization Reserve is not meant to be an ongoing source of funding for the operating budget and balances utilized should be replenished as quickly as reasonably possible.
- E. The Board of Supervisors may appropriate funds in excess of the unassigned 10% General Fund's fund balance policy level and the Budget Stabilization Reserve to the Capital Improvement Plan in support of "pay-as-you-go" funding; or for other one-time uses. Appropriations to the Capital Improvement Plan are intended to provide flexibility in meeting debt service and capital requirements and to mitigate tax rate increases related to future capital projects
- F. At the close of each fiscal year before the County's audit is complete, all non-appropriated School Operating Fund's fund balance will be transferred into the General Fund-School Reserve Fund. The Board of Supervisors will maintain in the General Fund-School Reserve Fund an amount not greater than 2% of the current year's Public Schools adopted operating revenues. These funds will be available for Public Schools' purposes subject to appropriation by the Board of Supervisors. The Board of Supervisors will transfer any funds in excess of that 2% to the CIP on an annual basis unless otherwise determined by the Board of Supervisors.
- G. The County will also establish targeted fund balances for other County funds where year-to-year expenses or revenues may be more volatile, such as the Healthcare Fund and the Children's Services Act Fund (CSA), to insulate the General Fund from risk, meet cash flow needs, and to address unexpected expenditure or revenue shortfalls.

Explanation of Change: *This change is to clarify the intent of the circumstances for when it is appropriate to have a balance in a fund outside of the General Fund.*

6. GRANTS POLICIES

- A. The County will pursue grant funding for projects that align with its core values and strategic goals and administer grants in a manner that ensures regulatory compliance and upholds fiscal responsibility to preserve eligibility for current and future funding opportunities.

~~The County shall seek to obtain grants that are consistent with County priorities.~~

~~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 and the County will work with Grantees to fully offset administrative costs when possible.~~

Explanation of Change: This single statement more concisely and comprehensively replaces the two that follow. The discussion of cost recovery is moved from here to the final statement of the Grants Policies section.

- B. ~~Pursuant to the Board of Supervisors' resolution dated May 6, 2009, which delegated authority to the County Executive to act on behalf of the County in approving grant applications and awards, County Departments must obtain approval from the County Executive prior to submitting any grant application or accepting any grant award.~~

Explanation of Change: This statement is added to incorporate prior Board of Supervisors' action.

- C. ~~To execute this Board of Supervisors' grant policy, the County will adhere to the procedures and standards articulated in the Grant Handbook that is managed by the Department of Finance and Budget. The County will review and update the Grants Administrative Policy on a regular basis, and departments shall follow the procedures contained therein. The purpose of the Grants Administrative Policy is to ensure the efficient administration, operation, and financial management of grant programs, including related systems, internal controls, sub-recipient monitoring, communications, reporting, and auditing.~~

Explanation of Change: This statement is rewritten to distinguish the Board's policy intent and expectations of County staff from administrative procedures.

- D. The County will attempt to recover all allowable costs – direct and indirect – associated with the administration and implementation of programs and/or projects funded by grants 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. The County must ensure that grant budgets reflect full cost recovery where permitted.~~

Explanation of Change: These changes are to 1) add the word "projects" for clarity, 2) clarify this statement applies to grants regardless of whether provided through inter-governmental aid., and 3) more simply state the importance of cost recovery.

7. INVESTMENT POLICIES

- A. The County will invest County ~~revenue held funds, such as operating cash, reserves, bond proceeds, and other financial assets~~, in accordance with the County's Investment Policy ~~Document, which is approved by the Board of Supervisors, and which is overseen by a staff investment committee, to maximize the rate of return while maintaining a low level of risk~~. The County will invest in conformance with the ~~Virginia Security for Public Deposits Act Code of Virginia, GFOA best practices~~, and all other applicable laws and regulations. The County will adhere to the following investment priorities in order of importance: safety, liquidity, and yield.

Explanation of Change: Updated to a) better define what the County invests, b) clarify the Investment Policy is approved by the Board and that policy defines the staff committee, c) more

broadly reference the Virginia Code than a specific Act and note GFOA best practices, and d) clarify investment priorities among safety, liquidity, and yield.

- B. The Chief Financial Officer ~~will oversee the day-to-day management and will shall~~ maintain a system of internal controls for investments, which shall be documented in writing and ~~subject to~~ available for review by the County's independent auditor.

Explanation of Change: *This statement is edited to distinguish the Board's policy intent and expectations of County staff from administrative procedures.*

- C. Investment performance shall be measured against appropriate benchmarks (e.g., Local Government Investment Pool, Treasury indices). Quarterly reports will be provided to the Board of Supervisors, including holdings, returns, and compliance metrics.

Explanation of Change: *This statement is added to emphasize the quarterly reports prepared for the Board under the "Accounting, Audit, and Financial Reporting" section will include this content.*

- D. The County will conduct ~~an analysis of a comprehensive~~ cash flow ~~analysis needs~~ at least ~~annually on an annual basis~~. Disbursements, collections, and deposits of all funds will be scheduled to ensure maximum cash availability and investment potential.

Explanation of Change: *Updated to be more concise.*

8. PROCUREMENT POLICIES

- A. The County will adhere to the procurement policies articulated in the County's Purchasing Manual, which is approved by the Board of Supervisors and informed by the Virginia Public Procurement Act.

Explanation of Change: *This statement is to clarify the Board approves the Purchasing Manual.*

B. Financial services and systems, such as, but not limited to, contractual consolidated banking, independent audit, financial advisors, bond counsel, and actuarial services, will be reviewed regularly and procured in accordance with the Virginia Public Procurement Act.

Explanation of Change: *This statement is to broaden the language beyond banking services to include other notable financial services and reflect the GFOA's best practices.*

9. REAL ESTATE ASSESSMENT POLICIES

Explanation of Change: *This section is newly created by moving two statements from Revenue Policies section to reflect the distinctly different functions of reassessing real estate and the administration of revenues.*

- A. Re-assessment of real property will be made every year and will be performed in accordance with Generally Accepted Appraisal Practices and guidelines established by the International Association of Assessing Officers (IAAO).

- B. The County will maintain sound appraisal procedures to keep property values current. The County's goal is to achieve a 100% median assessment to sales ratio using valid sales from the calendar year prior to the tax year in question. This percentage varies from the Virginia State ratio study analysis that uses sales within the year after the assessment is determined.

10. REVENUE POLICIES

- A. The County will maintain a diversified and stable revenue structure to shelter it from short-term fluctuations in any one year. To the extent possible, the County shall attempt to decrease its dependency on real estate taxes to finance the County's operating budget.
- B. The County will project its annual revenues and generate its five-year forecasts by using an objective, analytical process that is consistent with Government Finance Officers Association (GFOA) best practices.
- C. The County will monitor all taxes to ensure that they are equitably administered and that collections are timely and accurate.
- D. The County will follow ~~an aggressive~~ a comprehensive policy of collecting tax ~~and related penalty and interest~~ revenues as authorized by the Code of Virginia. The annual level of collected current property taxes should be at least 96%, unless caused by conditions beyond the County's control.

Explanation of Change: This edit replaces the word "aggressive" with a statement referencing the Code of Virginia.

- E. 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 and considering the equitable access to services with a goal to review user fee charges at least every three years.
- F. 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.

Policies Adopted: October 5, 1994 Amended: October 11, 2000; August 1, 2012; March 13, 2013; September 6, 2017, November 1, 2017, January 6, 2021, ~~and~~ September 7, 2022, and November 19, 2025.