

FINANCIAL MANAGEMENT POLICIES

STATEMENT OF PURPOSE

The County of Albemarle 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 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. These financial policies also provide guidelines and goals to guide the short- and long-term financial practices 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.

OPERATING BUDGET POLICIES

The annual budget will be prepared consistent with guidelines established by the Government Finance Officers Association (GFOA) and in accordance with the principles of priority-based budgeting.

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.

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

The County will maintain an updated fiscal impact model to assess the impact of new development on the future costs of associated County services.

The County will develop and annually update a two (2) year balanced Fiscal Plan and a long range (five-year) Financial Plan. The Financial Plan will include a review of revenue trends and expenditures from the preceding three (3) years, 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.

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

The County will prepare the capital improvement budget 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 in the CIP.

~~The County will annually update and review the Five-Year Financial Plan, which includes a review of revenue trends and expenditures from the preceding three (3) years.~~

The County shares 60% of the increase or decrease in available shared local tax revenues with the School Board. Available shared local tax revenues are additional or reduced tax revenues that can be used for County and School Division operations after subtracting any increases and adding any decreases in debt service, capital improvement program funding, City of Charlottesville revenue sharing, tax relief for the elderly and disabled, tax refunds and any shared reserves for contingencies. This guideline may be reviewed annually.

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 level within target guidelines set by the County Executive. Priorities of resource allocation of divisions within a department are managed at the department level. 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.

Proposed program expansions above existing service levels must be submitted as a budget initiative requiring detailed justification. Every proposed program expansion will be scrutinized on the basis of based on its relationship to the health, safety and welfare of the community, among other factors, and will include analysis of long-term fiscal impacts.

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.

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

The General Government operating budget is approved and appropriated by the County Board of Supervisors at the department level. Total expenditures cannot exceed total appropriations of any department within the General Fund. Changes to the approved operating budget during the fiscal year can be accomplished in any of the following ways:

Transfers between divisions and non-salary line-item expenditures within General Government departments are approved by the heads of the departments.

Transfers between expenditure accounts in different departments are approved by the Board of Supervisors or, if specifically delegated by the Board of Supervisors, by the County Executive

Encumbered funds for active operational purchase orders will be carried forward into the next fiscal year subject to the approval of the Board of Supervisors.

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

The Board of Supervisors will adopt the operating budget no later than April 30 and will appropriate the budget no later than the first Board meeting in June.

FINANCIAL REPORTING POLICY

The County will prepare provide the Board of Supervisors with quarterly General Fund and School Fund financial reports to include budget-to-actual comparisons, with explanations of general fund variances that are equal to or greater than 2% and \$200,000 in each major revenue and expenditure category; quarterly reports on investments held; quarterly revised General Fund revenue projections reports, quarterly reports of transfers authorized by the County Executive, and a quarterly economic indicators report, monthly financial statements, and annual financial reports. The audited Comprehensive Annual Financial Report (CAFR) will be provided to to the Board of Supervisors annually before December 31.

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 Executive is authorized to close out the project and transfer any unencumbered unexpended residual funds to the Capital Improvement Fund fund balance.

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 and Capital Facilities Plan.

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.

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

The County believes in funding a significant portion of capital improvements on a cash basis. The County’s goal is that the budgeted net transfer to Capital after debt service would be 3% of General Fund Revenues.

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

The County maintains a capital facilities inventory and estimates remaining useful life and replacement costs.

Upon completion of any capital project, remaining appropriated funds in that project will be returned to the unassigned capital project fund. Any transfer of remaining funds from one project to another must be approved by the Board of Supervisors, or if authorized by the Board of Supervisors, by the County Executive.

The County collaborates 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 and School Division's 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 Program, 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's and School Division's plant requiring a total expenditure of \$10,000 \$20,000 or more per project with a useful life of ten five years or more;
- To provide for the adequate maintenance of the County's capital plant and equipment, the County intends to increase the percentage of maintain a proper ratio of equity to loan funding, as recommended by the County's Financial Advisor, for the maintenance/repair and replacement capital improvements that are financed with current revenues. The County's desire is to fund the majority of capital maintenance expenses that have an estimated useful life of less than seven years with current revenue.

REVENUE POLICIES

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).

The County will maintain sound appraisal procedures to keep property values current. The County's goal is to achieve an annual assessment to sales ratio of at least 95% under current real estate market conditions, when the January 1st assessment is compared to sales in the succeeding calendar year.

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 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.

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.

To the extent possible, the County shall attempt to decrease its dependency on real estate taxes to finance the County's operating budget.

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.

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.

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.

INVESTMENT POLICIES

The County will invest County revenue in accordance with the Finance Department Investment Policy 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 and all other applicable laws and regulations.

The County will conduct an analysis of cash flow needs at least on an annual basis. Disbursements, collections, and deposits of all funds will be scheduled to insure maximum cash availability and investment potential.

The Director of Finance 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.

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.

Regular quarterly financial statements and annual financial reports will present a summary of financial activity by governmental funds.

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 maintain an audit committee comprised of the County Executive, or designee, the Superintendent of Schools, or designee, the Director of Finance, 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.

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

DEBT POLICIES

The County will not fund current operations from the proceeds of borrowed funds.

The County will manage its financial resources in a way that prevents borrowing to meet working capital needs.

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.

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.

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.

Recognizing the importance of underlying debt to its overall financial condition, the County will set target debt ratios, which will be calculated annually and included in the annual review of fiscal trends:

- Net debt 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 should not exceed 10%

The County intends to maintain a 10 year payout ratio at or above 60% at the end of each adopted five-year CIP 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.

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.

FUND BALANCE OR RESERVE POLICIES

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.

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 fund balance to the 10% target level over a period of not more than three (3) years.

At the close of each fiscal year, the unassigned General Fund 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. Funds in excess of the required unassigned fund balance may be considered to supplement "pay-as-you-go" capital expenditures or as additions to the fund balance.

In addition to maintaining the 10% target level as described above, at the close of each year, a target amount equal to 1% of the County's General Fund revenues shall be reserved as an unassigned Budget Stabilization Reserve. The Budget Stabilization Reserve may be used from time to time as necessary to meet unexpected needs, such as providing additional funds for limited unexpected expenses and/or to provide limited funds to smooth revenue fluctuations caused by unanticipated changes in economic conditions. If circumstances require the use of the Budget Stabilization Reserve that causes the balance to fall below the target range, the County will develop a plan during the annual budget adoption process to replenish the Reserve to within the established target level over a period of not more than three (3) years.

Funds in excess of the unassigned 10% General Fund fund balance policy level and the Budget Stabilization Reserve may be considered to supplement "pay-as-you-go" capital expenditures or as additions to the fund balance or other one time uses.

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

The County will also establish targeted fund balances for other County funds, such as the Health Care Fund and the Children's Services Act Fund (CSA) to meet cash flow needs and to address unexpected expenditure or revenue shortfalls.

At the close of each fiscal year before the County's audit is complete, all non-appropriated School Operating Fund 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 School Division adopted operating budget. These funds will be available for School Division 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.

GRANTS POLICIES

The County shall seek to obtain grants that are consistent with County priorities. The County will review and update the Grants Administrative Policy on a regular basis, and departments shall follow the procedures contained therein.

Policies Adopted: October 5, 1994 Amended: October 11, 2000; August 1, 2012; March 13, 2013