

BOARD OF SUPERVISORS
Agenda Item



Meeting Date:	June 5, 2012
Title:	Amend The Principles Of High Performance Financial Management
Department:	Finance and Budget
Staff Contact:	Maria J. Perrotte Chief Financial Officer
Board Committee/ Other BACC:	Finance, Audit and Budget Committee
Staff Recommendation:	Approval
Budget Impact:	N/A
Time Sensitivity:	N/A

ATTACHMENTS:

1.	Background Report		
2.	Proposed Resolution R12-167		

<input type="checkbox"/>	Consent Agenda	<input type="checkbox"/>	Other Business	<input checked="" type="checkbox"/>	Unfinished Business
<input type="checkbox"/>	Discussion	<input type="checkbox"/>	Presentation	<input type="checkbox"/>	Work Session
<input type="checkbox"/>	New Business	<input type="checkbox"/>	Public Hearing	<input type="checkbox"/>	Add-On

REVIEW:

X	County Administrator	
X	County Attorney	

DISTRICT:	N/A
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BACKGROUND REPORT

The Finance, Audit and Budget Committee worked with staff to revise the County's financial guidelines. The revisions are designed to improve debt ratios and reserves, and to further define and clarify practices and policies.

DEBT LIMITATIONS

The first changes, under the heading "Debt Limitations," recognize that the adopted CIP meets the improved debt ratios in 2015. They also add clarification regarding calculation of the ratios.

CIP AND BONDED DEBT SERVICE AFFORDABILITY GUIDELINES

Adding the word "maximum" to the CIP section is to underscore the fact that limits provide a maximum amount rather than setting a target amount.

UNASSIGNED FUND BALANCE

The first change in the Fund Balance section recognizes that the County has achieved a 12% unassigned fund balance.

The next change spells out the desired health insurance reserve amounts for both the County and Schools.

The section on the Revenue Stabilization Reserve defines and constrains the use of this Reserve.

The Capital Projects Reserve language notes allowable uses of the Reserve.

The next change identifies how Positive Results of Operation will be allocated when all minimum Reserve levels are funded.

The current treatment of rollback taxes is added to the policy so it wouldn't need to appear in the budget resolutions each year.

The last change in this section notes that appropriation of prior year savings for Schools is done after the audit. Again this is adding current practices into the policy.

BUDGET GUIDELINES

County cash capital guidelines are in the current policy. This revision adds guidelines for Schools. Also, use of cash capital is defined.

FUND BALANCE REPORTING

This section is added to explain and comply with new accounting standards.

Staff recommends approval of proposed Resolution R12-167.

PROPOSED

BOARD OF SUPERVISORS
COUNTY OF STAFFORD
STAFFORD, VIRGINIA

RESOLUTION

At a regular meeting of the Stafford County Board of Supervisors (the Board) held in the Board Chambers, Stafford County Administration Center, Stafford, Virginia, on the 5th day of June, 2012:

MEMBERS:

- Susan B. Stimpson, Chairman
- Cord A. Sterling, Vice-Chairman
- Jack R. Cavalier
- Paul V. Milde III
- Ty A. Schieber
- Gary F. Snellings
- Robert "Bob" Thomas, Jr.

VOTE:

On motion of , seconded by , which carried by a vote of , the following was adopted:

A RESOLUTION TO AMEND THE PRINCIPLES OF HIGH PERFORMANCE FINANCIAL MANAGEMENT

WHEREAS, it is the desire of the Board to prudently manage the County's resources and the "Principles of High Performance Management" shall serve as a guideline; and

WHEREAS, the Board reviewed and updated the "Principles of High Performance Financial Management" to reflect current County needs;

NOW, THEREFORE, BE IT RESOLVED by the Stafford County Board of Supervisors on this the 5th day of June, 2012, that the "Principles of High Performance Financial Management," as contained herein, be and they hereby are adopted.

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 3.5% of the assessed valuation of taxable real property, ~~with a goal to~~ and shall not exceed 3% by July 1, 2015.
- General fund debt service expenditures (County and Schools) shall not exceed 11% of the general government and schools operating budgets, ~~with a goal to~~ and shall not exceed 10% by July 1, 2015.
- 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 five-year CIP allocating capital improvement funds 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 should have a total cost of \$500,000 or more. ~~Like projects can be combined when appropriate to meet the cost criteria.~~ Scope of project includes all professional services (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.

UNASSIGNED FUND BALANCE

- The County shall maintain an unassigned fund balance that is not less than ~~11% of annual general fund revenues by July 1, 2010, with the goal that it will be increased to 12% of annual general fund revenues, not including transfers, reserves and grants, by July 1, 2015.~~ 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 ½ of 1% 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 remaining monies available after the reserves-minimums are fully funded will go to the Capital Projects Reserve.

- Rollback Tax Revenue in excess of \$80,000 will be dedicated to the County's Purchase of Development Rights program.
- 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 ~~may allocate amounts in excess of the minimum unassigned fund balance for encumbrances and commitments.~~ 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.
- 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.
- An amount equivalent to 1% of general fund expenditures will be set aside for pay-as-you-go capital projects. An amount equal to 1% of the school's operating budget will also be set aside for pay-as-you-go capital projects by July 1, 2015. Cash capital will be used for only 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 Chairman of 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 meetings of the Board of Supervisors.

TAXTRIGGER 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.

<u>Old Classification</u>	<u>New GASB 54 Classification</u>
<u>Reserved</u>	<u>Nonspendable</u>
	<u>Restricted</u>
<u>Designated</u>	<u>Committed</u>
	<u>Assigned</u>
<u>Undesignated</u>	<u>Unassigned</u>

- Nonspendable – 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.
- 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.

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

BUDGET PROCEDURES/CALENDAR

MONTH	PROCEDURE
October	Work Session <ul style="list-style-type: none">• Preliminary prior year balances• 1st quarter review of fiscal year• Preliminary budget overview to include:<ul style="list-style-type: none">○ Revenue projection with no increase in equalized tax○ Expenditures with no new initiatives other than required○ Information on new revenues and expenditures○ Budget calendar BOS/School Board Joint work session
November	Feedback/Consensus/Guidance from the Board Board priorities/Performance standards Proposed CIP work session
December	Public Hearing and adoption of CIP Audit Report
January	Work Session <ul style="list-style-type: none">• Final prior year balances• Mid-year review• Revenue trends for upcoming budget• Feedback from Board
February	Receive Superintendent's Recommended Budget
March	Receive School Board's Budget by March 7th
March, 1 st meeting March, 2 nd meeting	County Administrator presents Proposed Budget Budget work session
April, 1 st meeting April, 2 nd meeting April, 3 rd meeting	Budget work session Budget work session & public hearing Adopt budget