



COUNTY OF PRINCE GEORGE

Finance Department

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Betsy Drewry
Director of Finance

August 15, 2017

To: Mr. Percy C. Ashcraft
County Administrator

From: Betsy Drewry, Director of Finance

Re: Fund Balance Policy Update

On May 13, 2014, the Financial Policies for Prince George County were revised to reduce the required percentage of Unassigned Fund Balance of General, Debt and School Fund Expenditures from 15% to 12.5%. The percentage was reduced to accommodate completion of certain capital projects.

The Fund Balance at June 30, 2016 was \$19,499,501, 19.8 percent of General, Debt and School Fund Expenditures. Compliance is measured once annually in conjunction with completion of the audited financial statements / CAFR.

FY2017 and FY2018 Fund Balance levels are expected to exceed 15% of operating and debt expenditures, and conservative projections are \$16,929,000; 15.89% for FY2017 and \$17,406,000; 15.97% for FY2018. FY2017 transactions are still in progress and the final fund balance figure for June 30, 2017 will be determined by November 30, 2017.

At least one Board Member has expressed interest in raising the required percentage from 12.5% to 14%.

Information on General, Debt and School Expenditures, net of School Transfer, is shown below:

Fiscal Year	Operating & Debt Expenditures	1% of Expenditures	12.5% of Expenditure	14% of Expenditures	15% of Expenditures
FY2016 Actual	98,573,681	985,737	12,321,710	13,800,315	14,786,052
FY2017 Budgeted	106,520,689	1,065,207	13,315,086	14,912,896	15,978,103
FY2018 Budgeted	108,961,658	1,089,617	13,620,207	15,254,632	16,344,249

Actual and Projected Fund Balance information is shown below:

Fiscal Year	Fund Balance	As a % of Expenditures	\$ Excess over 12.5%	\$ Excess over 14%	\$ Excess over 15%
FY2016 Actual	\$ 19,499,501	19.78%	\$ 7,177,791	\$ 5,699,186	\$ 4,713,449
FY2017 Projected	\$ 16,929,000	15.89%	\$ 3,613,914	\$ 2,016,104	\$ 950,897
FY2018 Projected	\$ 17,406,000	15.97%	\$ 3,785,793	\$ 2,151,368	\$ 1,061,751

A copy of the current Financial Policies is attached with proposed changes shown in red and with strike-through notations. Please place discussion and possible approval the policy change on the Board of Supervisors agenda. I am available should you require further information.

Board of Supervisors
County of Prince George, Virginia

Resolution

At a regular meeting of the Board of Supervisors of the County of Prince George held in the Boardroom, Third Floor, County Administration Building, 6602 Courts Drive, Prince George, Virginia this 12th day of September, 2017:

<u>Present:</u>	<u>Vote:</u>
William A. Robertson, Jr., Chairman	
Donald R. Hunter, Vice-Chairman	
Alan R. Carmichael	
Hugh G. Mumford	
T. J. Webb	

A-5

On motion of _____, seconded by _____, which carried unanimously, the following Resolution was adopted:

RESOLUTION; PROPOSED REVISIONS PRINCE GEORGE COUNTY FINANCIAL POLICY GUIDELINES – FUND BALANCE POLICIES

WHEREAS the Prince George County Board of Supervisors has expressed interest in updating the County’s Financial Policy Guidelines – Fund Balance Policies to increase the amount of unassigned fund balance as a percentage of general, debt and school operating expenditures from 12.5% to 14% to handle unforeseen emergencies and meet unexpected increases in service delivery costs;

NOW, THEREFORE, BE IT RESOLVED, That the Board of Supervisors of the County of Prince George this 12th day of September, 2017, does hereby amend the Prince George County Financial Policy Guidelines, Fund Balance Policies increasing the amount of unassigned fund balance as a percentage of general, debt and school operating expenditures from 12.5% to 14%.

A Copy Teste:

Percy C. Ashcraft
County Administrator

Financial Policy Guidelines

For:

PRINCE GEORGE COUNTY VIRGINIA

Adopted: November 7, 2006

Revised: July 12, 2011

Revised: May 13, 2014

Revised: September 12, 2017



FINANCIAL POLICY GUIDELINES

County of Prince George, Virginia

~~May, 2014~~ September, 2017

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FINANCIAL POLICY GUIDELINES

County of Prince George, Virginia

~~May, 2014~~ September, 2017

FISCAL POLICY GUIDELINES - OBJECTIVES

This fiscal policy is a statement of the guidelines and goals that will influence and guide the financial management practice of the County of Prince George. A fiscal policy that is adopted, adhered to, and regularly reviewed is recognized as the cornerstone of sound financial management.

The County's existing Financial Policy was adopted in November of 2006. Since this time, the Governmental Accounting Standards Board released Statement No. 54 which deals with the classification of fund balance. This policy, as presented, is revised per the requirements of GASB 54.

Effective fiscal policy:

- Contributes significantly to the County's ability to insulate itself from fiscal crisis,
- Enhances short term and long term financial credit ability by helping to achieve the highest credit and bond ratings possible,
- Promotes long-term financial stability by establishing clear and consistent guidelines,
- Directs attention to the total financial picture of the County rather than single issue areas,
- Promotes the view of linking long-run financial planning with day to day operations, and
- Provides the Board of Supervisors and the citizens a framework for measuring the fiscal impact of government services against established fiscal parameters and guidelines.

To these ends, the following fiscal policy statements are presented.

FINANCIAL POLICY GUIDELINES - *Continued*

County of Prince George, Virginia

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CAPITAL IMPROVEMENT BUDGET POLICIES

1. The County will consider all capital improvements in accordance with an adopted capital improvement program.
2. The County will develop a five-year plan for capital improvements and review and update the plan annually.
3. The County will enact an annual capital budget based on the five-year capital improvement plan. Future capital expenditures necessitated by changes in population, changes in real estate development, or changes in economic base will be included in capital budget projections.
4. The County will coordinate development of the capital improvement budget with development of the operating budget. Future operating costs associated with new capital improvements will be projected and included in operating budget forecasts.
5. The County will maintain all its assets at a level adequate to protect the County's capital investment and to minimize future maintenance and replacement costs.
6. The County will project its equipment replacement needs as part of the capital improvement process. From this projection a replacement schedule will be developed and followed.
7. The County will identify the estimated costs and potential funding sources for each capital project proposal before it is submitted for approval.
8. The County will attempt to determine the least costly and most flexible financing method for all new projects.

FINANCIAL POLICY GUIDELINES - *Continued*

County of Prince George, Virginia

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DEBT POLICIES

1. The County will confine long-term borrowing to capital improvement or projects that cannot be financed from current revenues except where approved justification is provided.
2. The County will utilize a balanced approach to capital funding utilizing debt financing, draws on capital reserves and/or fund balances in excess of policy targets, and current-year (pay-as-you-go) appropriations.
3. When the County finances capital improvements or other projects by issuing bonds or entering into capital leases, it will repay the debt within a period not to exceed the expected useful life of the project. Target debt ratios will be annually calculated and included in the review of financial trends.
4. Direct net debt as a percentage of estimated market value of taxable property should not exceed 3.5%. Direct net debt is defined as any and all debt that is tax-supported. This ratio will be measured annually.
5. The ratio of direct debt service expenditures as a percent of the total annual general fund expenditures net of interfund transfers and inclusive of the Prince George County School Board's expenditures should not exceed 10.0% with a targeted direct debt aggregate ten-year principal payout ratio of 55.0% or better for all tax supported debt. These ratios will be measured annually.
6. The County recognizes the importance of underlying and overlapping debt in analyzing financial condition. The County will regularly analyze total indebtedness including underlying and overlapping debt.
7. Where feasible, the County will explore the usage of special assessment, revenue, or other self-supporting bonds instead of general obligation bonds.
8. The County will only issue tax anticipation debt due to unforeseen circumstances and where cash flow projections identify an absolute need, and will retire any such tax anticipation debt annually. Bond anticipation debt will be retired within six months after completion of the project or upon availability of permanent financing.

FINANCIAL POLICY GUIDELINES - *Continued*

County of Prince George, Virginia

~~May, 2014~~ September, 2017

BUDGET DEVELOPMENT POLICIES

1. One-time or other special revenues will not be used to finance continuing County operations, but instead will be used for funding special projects.

FINANCIAL POLICY GUIDELINES - *Continued*

County of Prince George, Virginia

~~May, 2014~~ September, 2017

FUND BALANCE POLICIES

Fund Balance is the difference between assets and liabilities reported in governmental funds. It serves as a measure of financial resources available for current operations. The Governmental Accounting Standards Board prescribes the classification scheme for components of fund balance. The types of fund balance components are non-spendable, restricted, committed, assigned and unassigned. The policy will focus on the amount remaining after accounting for non-spendable and restricted fund balance, which is comprised of three elements; committed, assigned and unassigned fund balance.

	Definition	Example
Non-spendable	Net resources that cannot be spent because of their form or they must be maintained intact	<ul style="list-style-type: none"> • Inventory • Prepaid Asset • Long-Term Receivables
Restricted	Limitations imposed by creditors, grantors, contributors, or laws and regulations of other governments	<ul style="list-style-type: none"> • Federal Grants • Unspent bond proceeds • Bond covenants • Taxes raised for a specific purpose
<p>This policy will focus on the amount remaining after accounting for non-spendable and restricted fund balance, which is comprised of the following three types:</p>		
Committed	Limitations imposed by the Board of Supervisors that requires a resolution to remove	<ul style="list-style-type: none"> • Encumbrances (formal action) • Limitation imposed no later than the close of the reporting period
Assigned	Intended use established by the County Administrator of his/her designee	<ul style="list-style-type: none"> • Encumbrances (informal action) • Recommended use of fund balance at year-end
Unassigned	Total fund balance in the general fund in excess of non-spendable, restricted, committed and assigned fund balance	<ul style="list-style-type: none"> • 12.5% 14% set aside for emergency needs as approved by Board of Supervisors

FINANCIAL POLICY GUIDELINES - *Continued*

County of Prince George, Virginia

May, 2014 September, 2017

FUND BALANCE POLICIES *Continued*

1. The County will establish a contingency fund to pay for needs caused by unforeseen emergencies, including unanticipated expenditures of a nonrecurring nature, or to meet unexpected small increases in service delivery costs. The County will target a contingency fund balance equal to 0.5% of the general fund budget.
2. Unassigned fund balances at the close of each fiscal year should be at least ~~12.5%~~ 14% of the total annual general fund expenditures net of interfund transfers and inclusive of the Prince George County School Board's expenditures.
3. The County Board may, from time-to-time, appropriate unassigned fund balances that will reduce available fund balances below the ~~12.5%~~ 14% policy for the purposes of a declared fiscal emergency or other such global purpose as to protect the long-term fiscal security of the County. In such circumstances, the Board will adopt a plan to restore the available fund balances to the policy level within 36 months from the date of the appropriation. If restoration cannot be accomplished within such time period without severe hardship to the County, then the Board will establish a different but appropriate time period.
4. The County considers restricted fund balance to be spent when expenditure is incurred for purposes for which restricted and unrestricted fund balance are available unless prohibited by legal documents or contracts. When expenditure is incurred for purposes for which committed, assigned or unassigned amounts are available, the

County considers committed fund balance to be spent first, then assigned fund balance, and lastly unassigned fund balance.
5. In recognition of the incremental costs of capital improvements and their future maintenance and replacement costs, the County will establish a Capital Improvements Reserve Fund. The level of the Fund will be determined on an annual basis and incorporated into the County's Annual Operating Budget. This Fund will be initially established at some minimum level based upon a further evaluation of future capital improvement needs (inclusive of pay-go capital).

FINANCIAL POLICY GUIDELINES - *Continued*

County of Prince George, Virginia

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DEFINITIONS

- **Assigned Fund Balance:** Amounts that are constrained by the government's *intent* to be used for specific purposes but are neither restricted nor committed. Fund Balance may be assigned either through the encumbrance process as a result of normal purchasing activity (which includes the issuance of a purchase order), or by the County Administrator or his/her designee.
- **Capital Projects Funds:** Fund used to account for and report financial resources that are restricted, committed or assigned to expenditure for capital outlays including the acquisition to expenditure for capital outlays including the acquisition or construction of capital facilities and other capital assets. Capital project funds exclude those types of capital-related outflows financed by proprietary funds or for assets that will be held in trust for individuals, private organizations, or other governments.
- **Cash Balance:** The sum of cash and investments of an accounting fund.
- **Committed Fund Balance:** Amounts that can only be used for specific purposes pursuant to constraints imposed by resolution of the Board of Supervisors. Formal Board action includes designations of funds to be held for a specific purpose in future fiscal years and budget amendments to carry forward appropriations that were unexpended at fiscal year-end.
- **Debt Service Funds:** Funds used to account for and report financial resources that are restricted, committed or assigned to expenditure for principal or interest. Debt service funds should be used to report resources if legally mandated. Financial resources that are being accumulated for principal and interest maturing in future years also should be reported in debt service funds.
- **Enterprise Fund:** Account for activities for which a fee is charged to external users for goods and services. The Water & Sewer Fund is an enterprise fund.
- **General Fund:** The County's primary operating fund that accounts for County services not otherwise accounted for in a separate fund.
- **Non-spendable Fund Balance:** Portion of fund balance that includes amounts that cannot be spent because they are either a) not in spendable form (i.e. inventories, prepaids) or b) legally or contractually required to be maintained intact.

FINANCIAL POLICY GUIDELINES - *Continued*

County of Prince George, Virginia

~~May, 2014~~ September, 2017

DEFINITIONS *Continued*

- **Restricted Fund Balance:** Portion of fund balance that reflects constraints placed on the use of resources that are either external sources such as creditors, grantors, contributors, laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation.
- **Special Revenue Fund:** Funds used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specific purposes other than debt service or capital projects.
- **Temporary Borrowing:** Loan from one fund to another fund due to temporary cash shortage with the expectation of repayment within 12 months. Not considered legal debt.
- **Unassigned Fund Balance:** Fund Balance that has not been assigned to other funds and that has not been restricted, committed or assigned to specific purposes within the general fund. The general fund should be the only fund that reports a positive unassigned fund balance amount.
- **Unrestricted Fund Balance:** The total of committed fund balance, assigned fund balance and unassigned fund balance.