

Issue Analysis Form



Date: February 7, 2018
Discussion and Possible
Action – Revision of Fund
Balance Policy

Item:

Lead Department(s): Finance

Contact Person(s): Betsy Drewry

Description and Current Status

In May of 2014 the Prince George County Board of Supervisors voted to revise the County's financial policy related to required fund balance as a percentage of General Fund, School and Debt expenditures. The required percentage threshold was lowered from 15% to 12.5%. This action was taken to allow for the completion of certain capital projects through fund balance appropriation.

A listing of those projects is included as **Attachment A**.

A Fund Balance Update was provided to Board members at the February 6, 2018 pre-budget work session. The Fund Balance as of June 30, 2017 was \$24,972,020 and represented 25.88% of FY2017 expenditures. See **Attachment B** outlining existing and potential obligations of Fund Balance that amount to \$6,860,341.69 (6.3% of Expenditures).

The estimated Fund Balance at June 30, 2018 is \$18,100,000 or 16.6% of budgeted FY18 expenditures ***if there are no more obligations/appropriations for use of Fund Balance***. An additional appropriation for CSA local match is currently an unknown.

See **Attachment C** for comparative information of some other County/City policies on Fund Balance requirements. Dinwiddie is the only comparison county who has a higher percentage requirement, but **Dinwiddie's calculation excludes debt service expenditures** (where ours includes debt service; ***ours is more stringent***).

A revised policy with a blank percentage is attached in the event board members would like to change the policy to a higher percent. A resolution is also included for approval if action is taken.

Government Path

Does this require IDA action?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Does this require BZA action?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Does This require Planning Commission Action?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Does this require Board of Supervisors action?	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No

Does this require a public hearing?

☐ Yes ☒ No

If so, before what date?

☐ Yes ☐ No

Fiscal Impact Statement

Failure to meet Fund Balance Policy Requirement could have a negative impact on bond rating when updated (an impact interest rates for borrowing). The 2014 revision to the policy has not had a negative impact on the County's AA+ bond rating.

County Impact

Notes

FY15 Projects Planned with Fund Balance Appropriation with Outcome

#	Project Description	Amount Per FY15 Proposal	Approp from Fund Balance?	Note	Actual Amount Appropriated	Date of Appropriation	Resolution #
1	Courthouse HVAC	\$ 600,000	No	Bond Issuance of \$1,200,000 (additional \$316,587 transferred in from Basement Reno budget)	\$ 1,200,000	12/9/2014	R-14-095
2	Buren Field Upgrades	\$ 340,000	Yes	Phase In / Partial with Available Funds	\$ 340,000	4/14/2015	R-15-035
3	Burrowsville VFD	\$ 285,000	Yes		\$ 312,681	11/12/2015	R-15-097
4	Vehicles	\$ 208,000	Yes		\$ 210,000	12/9/2014	R-14-097
5	HVAC Old Moore	\$ 150,000	Yes		\$ 150,000	5/26/2015	R-15-051
6	21 MDTs	\$ 100,044	Yes		\$ 100,044	8/12/2014	R-14-059B
7	Board Room Upgrades	\$ 60,000	Yes		\$ 50,000	12/8/2015	R-15-108B
8	Temple Lights	\$ 41,000	Yes		\$ 41,000	8/12/2014	R-14-059G
9	Courthouse Security Upgrades	\$ 40,000	Yes	SHERIFF LIVESCAN EQUIPMENT	\$ 37,643	4/14/2015	R-15-031A
10	IT Infrastructure	\$ 35,000	Yes		\$ 35,000	9/9/2014	R-14-064A
11	Munis Server Move In-House	\$ 30,000	Yes		\$ 36,900	4/14/2015	R-15-031B
12	Old Moore Repairs/Maint	\$ 25,000	Yes	Restrooms & Painting	\$ 25,000	8/12/2014	R-14-059A
13	Social Services Vehicle	\$ 22,000	Yes		\$ 21,500	11/12/2014	R-14-081
14	Fire/EMS Radio	\$ 15,000	Yes		\$ 15,000	8/12/2014	R-14-059C
15	Crime Analysis Module	\$ 12,900	Yes	Property Evidence Module	\$ 12,900	12/9/2014	R-14-096
16	Mower - Parks & Recreation	\$ 11,000	Yes		\$ 9,500	3/24/2015	R-15-029B
17	Animal Services - Tranquilizer Gun	\$ 4,100	No	No Record of This Purchase			
TOTAL		\$ 1,979,044		TOTAL	\$ 2,597,168		
				Fund Balance Amount	\$ 1,397,168		
				Bond Amount	\$ 1,200,000		

Prince George County
Fund Balance Information

Fiscal Year	Operating & Debt Expenditures	1% of Expenditures	12.5% of Expenditures	14% of Expenditures	15% of Expenditures
FY2016 Actual	\$ 98,573,681	\$ 985,737	\$ 12,321,710	\$ 13,800,315	\$ 14,786,052
FY2017 Actual	\$ 96,479,586	\$ 964,796	\$ 12,059,948	\$ 13,507,142	\$ 14,471,938
FY2018 Budgeted	\$ 108,961,658	\$ 1,089,617	\$ 13,620,207	\$ 15,254,632	\$ 16,344,249

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 Actual	\$ 24,972,020	25.88%	\$ 12,912,072	\$ 11,464,878	\$ 10,500,082
FY2018 Projected	\$ 18,100,000	16.61%	\$ 4,479,793	\$ 2,845,368	\$ 1,755,751

Board expressed desire to use Fund Balance to increase budget for Route 10 Fire Station.

School Fund Balance Appropriation / Carryover request pending;
Request could be as much as \$2,725,326 (difference between budgeted and actual local contribution net of \$125,757 Utility Transfer)

Fund Balance Projection

Fund Balance 6/30/2017 \$ 24,972,020

<u>Re-Appropriated & Reserved to Date:</u>		<u>% of Budget Exp FY18</u>
Stormwater Debt Proceeds 9/12/17	(1,666,576.10)	-1.53%
General Fund Grants Carried Forward 9/26/17 & 10/24/17	(342,024.37)	-0.31%
Gen Fund Purchase Orders Carried Forward	(38,933.70)	-0.04%
Stormwater Purchase Orders Carried Forward	(24,962.52)	-0.02%
Bonus Appropriation approved 9/29/17	(299,404.00)	-0.27%
Total	(2,371,900.69)	-2.18%

Unreserved Fund Balance to Date 22,600,119.31

<u>Future Considerations:</u>		<u>% of Budget Exp FY18</u>
School Request - POSSIBLE	(2,725,326.00)	-2.50%
Fire Station - Rt 10 - POSSIBLE	(1,500,000.00)	-1.38%
Grant Match - RSAF* - Permission to apply for grant approved 1/23/18	(123,115.00)	-0.11%
Grant Match - SCBA - Permission to apply for grant approved 1/23/18	(140,000.00)	-0.13%
CSA Increase - Possible for FY2018	UNKNOWN	
Potential Future Uses	(4,488,441.00)	-4.12%

Total Less Utility Cash Transfer; School Request Unknown

Rough Estimate; Actual Unknown

Permission to apply for grant 1/23/18; Actual Award Unknown; may recommend use of Proffer funds

Permission to apply for grant 1/23/18; Actual Award Unknown

TOTAL POSSIBLE OBLIGATIONS (6,860,341.69) -6.30%

Fund Balance Net of Potential Considerations 18,111,678.31 16.62%

FUND BALANCE POLICIES COMPARISON				
Prince George	Colonial Heights	Dinwiddie	Chesterfield	Isle of Wight
<p>Unassigned fund balances at the close of the fiscal year should be 12.5% of General Fund expenditures (net of interfund transfers) PLUS PG County School Board expenditures</p>	<p>The City will establish and maintain a minimum unassigned fund balance of 10% of the City's General Fund budget with the desired goal of 12%. Any excess amount will be considered for one-time capital expenditures or for the use of maintaining a rainy day fund.</p>	<p>County has established an unassigned general fund balance target of 15% of total budgeted expenditures less annual debt service payments and bonds proceeds expenditures. Funds in excess of the targeted 15% may be considered to supplement "pay as you go" capital outlay expenditures.</p>	<p>Unassigned General Fund Balance as a Percentage of General Fund Expenditures - County has an established target ratio of 8% with a floor of 6%. [Ratio indicates the ability of the County to cope with financial emergencies and fluctuations in revenue cycles].</p>	<p>Fund Balance Levels - County shall establish an unassigned general fund balance sufficient to maintain required working capital and provide a reserve for unanticipated expenditures or emergencies, revenue shortfalls, and other non-recurring uses. Target rate of 10% at the close of each fiscal year as computed for the upcoming budget year (ratio of unassigned GF balance as a percentage of budgeted governmental fund expenditures - net of GF contribution to schools, transfer to other governmental funds, and capital projects fund expenditures)</p>
<p>Available fund balances may be reduced below 12.5% from time-to-time due to a declared fiscal emergency or such global purposes to protect long-term fiscal security of County. If reduced below 12.5%, fund balances will be restored to policy level in 36 months.</p>	<p>In the event that amounts designated for unassigned fund balance fall above or below the desired range, the City Administrator shall report such amounts to the City Council as soon as practical after the end of the fiscal year. Should the actual amount designated for Cash Flow fall below the desired range, the City shall create a plan to restore the appropriate levels. Should the actual amount rise above the desired range, any excess funds will remain undesignated pending the Council's final decision concerning their use. It is the policy of the City that such excess funds will be, by council action, reported in the spendable unassigned category of this policy.</p>	<p>The Board may from time to time assign available fund balance which will reduce unassigned balances below 15% in the case of a declared fiscal emergency or such global purpose as to protect the long term fiscal security of the County. In such cases, a plan will be established to restore to 15% within 36 months.</p>		<p>Fund Balance Levels - in the event unassigned fund balance is required to be drawn below 10% target rate due to an emergency or severe economic circumstances, County will develop a plan to restore the Unassigned Fund Balance over the ensuing two fiscal years. Compliance will be reviewed and reported to BOS annually in conjunction with operating budget development.</p>
			<p>Fund Balance Levels - Unassigned fund balance target is funded for the upcoming year from prior year surpluses and budgeted additions. Both general government and school system share in maintaining the County's fund balance.</p>	

Financial Policy Guidelines

For:

PRINCE GEORGE COUNTY VIRGINIA

Adopted: November 7, 2006

Revised: July 12, 2011

Revised: May 13, 2014

Revised: February 13, 2018



FINANCIAL POLICY GUIDELINES

County of Prince George, Virginia

May, 2014 February 13, 2018

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FINANCIAL POLICY GUIDELINES

County of Prince George, Virginia

May, 2014 February 13, 2018

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

~~May, 2014~~ February 13, 2018

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

~~May, 2014~~ February 13, 2018

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~~ February 13, 2018

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~~ February 13, 2018

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
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:		
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% ___% set aside for emergency needs as approved by Board of Supervisors

FINANCIAL POLICY GUIDELINES - *Continued*

County of Prince George, Virginia

~~May, 2014~~ February 13, 2018

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%~~ ____% 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%~~ ____% 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

~~May, 2014~~ February 13, 2018

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 aslo 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 February 13, 2018

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.

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 13th day of February, 2018:

Present:

Vote:

Alan R. Carmichael, Chairman
Donald R. Hunter, Vice-Chairman
Floyd M. Brown, Jr.
Marlene J. Waymack
T. J. Webb

A-3

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 ____% 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 13th day of February, 2018, 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 ____%.

A Copy Teste:

Percy C. Ashcraft
County Administrator