

COUNTY OF MADISON, VIRGINIA

Financial Policies

April 27, 2021

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A. Policy Objective and Goals

The County of Madison has a responsibility to carefully account for public funds, to manage its finances prudently, and to diligently and effectively allocate its resources to provide to its citizens the governmental services they desire. Fiscal integrity is critical and should form the basis of the County's management and decision-making processes of its fiscal affairs. The primary objective of establishing Financial Policies is to provide a framework within which sound financial decisions may be made for the long-term betterment and stability of the County. The County's financial policies will provide guidelines and goals to guide its financial practices.

The goals of the Financial Policies are to:

- Guide the Madison County Board of Supervisors in reaching a consensus on the financial condition it wants for the County.
- Provide a link between long-range financial planning and current operations.
- Promote long-term financial stability by establishing clear and consistent guidelines.
- Provide a framework for evaluating the fiscal impact of budgetary decisions related to providing government services and programs.
- Reduce the risks to the County of experiencing fiscal crises.

The Financial Policies shall be reviewed periodically by the Board of Supervisors.

B. Operating Budget Policies

1. The annual Madison County operating budget will be prepared consistent with guidelines established by the Code of Virginia.
2. The operating budget will be structured so that the Board of Supervisors and the public can understand the relationship between revenues and expenditures.
3. The goal of the County is to fund all recurring expenditures with recurring revenues and to use non-recurring revenues only for non-recurring expenses.
4. The unassigned General Fund Balance in excess of the 18% target may be used for various expenditures as described in the Fund Balance Policies section below. *The General Fund as used in this Financial Policies document has the same meaning as it does in the County's audited financial statements. It includes primary governmental activities; unless otherwise noted, it does not include the County's component units, i.e., the School Board and the Parks and Recreation Authority.*
5. Revenues will be projected conservatively, but realistically, considering:
 - Past experience;
 - The volatility of the revenue source;

- o Inflation and other economic conditions; and,
- o The costs of providing directly associated services.

6. When revenue shortfalls are anticipated in a fiscal year, spending during the fiscal year should be reduced sufficiently to offset current year shortfalls. When it is not practical to reduce expenditures in an amount sufficient to offset revenue shortfalls, the unassigned General Fund balance may be used to supplement expenditure reductions.
7. The budget shall be prepared in a manner that reflects the full cost of providing services.
8. Expenditures will be projected conservatively considering:
 - o A conservative, but likely, scenario of events (versus “worst case scenario”);
 - o Specific, identified needs of the program or service;
 - o Historical consumption and trends; and,
 - o Inflation and other economic conditions.
9. An unplanned operating contingency line item shall be included in the annual operating budget to provide the ability to react to unforeseen circumstances in operations that arise during the fiscal year. A minimum of 1% of total General Fund expenditures (excluding expenditures from the Transient Occupancy Tax {TOT}, Virginia Public Assistance {VPA}, and Children’s Services Act {CSA} funds) shall be budgeted in the contingency line item and shall be an annual appropriation that will not accumulate and carry forward from year to year. The County, at its discretion, shall increase the 1% contingency for specific, estimable amounts not included in departmental budgets.
10. The County will prepare the capital improvement budget in conjunction with estimates of available revenues 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 Capital Improvements Plan.
11. The Madison County Board of Supervisors will communicate with the Madison County School Board and Madison County Parks and Recreation Authority as and when appropriate to discuss budget needs.
12. The operating budget preparation process will be conducted in such a manner as 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:
 - o Operating budget requests are initiated at the department level within target guidelines set by the County Administrator.
 - o In formulating budget requests, priority will be given to maintaining the current level of essential services. New services will be funded through identification of new resources, reallocation of existing resources, and defunding nonessential services identified by the Board of Supervisors and County Administration.
 - o Proposed program expansions above existing service levels must be submitted as a

budgetary increment requiring detailed justification. Every proposed program expansion will be scrutinized on the basis of its relationship to the health, safety and welfare of the County and is to include an analysis of long-term fiscal impacts.

- o Proposed new programs must also be submitted as budgetary increments requiring detailed justification. New programs will be evaluated on the same basis as program expansions and are to include an analysis of long-term fiscal impacts.

13. The operating budget is approved and appropriated by the County Board of Supervisors at the department level. The operating budget will be balanced with proposed expenditures not exceeding anticipated revenues.

- o Use of excess unassigned fund balances should be used to balance budgets only after review of the County's reserve and capital needs.
- o The County Administrator will submit a balanced budget to the County Board of Supervisors.
- o The County Board of Supervisors will adopt the budget.

14. Budget adjustments within a department involving transfers from one category – i.e., personnel (pay and benefits), capital and operations - to another shall be approved by the County Administrator.

15. Cash basis actual-to-budget financial reports, including reports from the school and social service departments, will be provided to the Board of Supervisors within 7 days after the end of each calendar month to enable the Board of Supervisors to monitor and control the budget. Check registers for the full month shall be provided concurrently. All reports shall be consolidated into a single organized and consistent package and provided electronically by the Finance Director to the Clerk of the Board of Supervisors for promulgation.

16. Any amendments to the budget “which exceed one percent of total expenditures shown in the current adopted budget must be accomplished by publishing a notice of the meeting and a public hearing once in a newspaper having general circulation” at least seven days prior to the meeting date (State Code Section 15.2-2507).

C. Capital Budget Policies

1. The County will approve an annual capital budget as an integral part of its total County budget. The capital budget will align with a 5-year Capital Improvements Plan (CIP).
2. 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 the new capital projects will be projected and included in operating budget forecasts.
3. The 5-year Capital Improvements Plan will include all new facilities and major improvements to buildings and real estate as well as all projects requiring debt financing. The CIP will include

sources of funding for the capital projects, including operating revenues, excess General Fund balances, capital leases, and debt financing.

4. Emphasis will continue to be placed upon a viable level of “pay-as-you-go” capital construction to fulfill needs in the Board’s approved Capital Improvements Plan.
5. Financing plans for the five-year capital program will be developed based upon a five-year forecast of revenues and expenditures augmented by anticipated grant and loan funds.
6. The County Board of Supervisors will consider recommendations from the Planning Commission for the five-year Capital Improvements Plan that are consistent with identified needs in the adopted comprehensive plan.
7. The acquisition of vehicles, Information Technology, and other depreciable equipment and machinery shall be considered in the capital budget in addition to the Capital Improvements Plan and shall reflect the departments to which they should be charged.
8. Upon completion of a capital project, any remaining appropriated funds in that project will be returned to the original appropriating fund. Any transfer of remaining funds from one project to another must be approved by the Board of Supervisors.
9. The Madison County School Board, Madison County Department of Social Services and Madison Parks and Recreation Authority will be advised of these Madison County financial policies and shall coordinate their requests as elements of Madison County’s Capital Improvements Plan. Requests for funding will address the following areas: a) costs for required capital improvements; b) debt ratio targets; c) debt issuance schedules; d) justification.

D. Asset Maintenance, Replacement and Enhancement Policies

The County will maintain a system for maintenance, replacement and enhancement of the County's physical assets. This system will protect the County's capital investment and minimize future maintenance and replacement costs. The system will include the following:

1. The County will use the straight-line method of depreciation which is the historical cost of an asset divided by the estimated useful life of the asset.
2. The County will use professional judgments, industry standards and other relevant information based on its own past experiences with similar assets when estimating the useful life of assets. The following ranges are to be used as a guideline in setting estimated useful lives for assets:
 - Computers, and related hardware and software: 3-5 years
 - Buildings and improvements: 20-40 years
 - Infrastructure: 30-40 years
 - Machinery and Equipment: 5-20 years
 - School Buses: 12 years
 - Vehicles, excluding buses: 3-5 years

3. Within the CIP, the County will develop a Capital Asset 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 to the County physical assets requiring a total expenditure of \$30,000 or more with a useful life of five years or more.
4. The operating budget will provide for *minor* and *preventive* maintenance of Capital Assets and Equipment.
5. Beginning in the fourth budget year subsequent to the adoption of these policies, the County will provide for *major* maintenance of its facilities each year with a goal of reinvesting, or setting aside for future use, 2.5 percent of the replacement value of County facilities. For purposes of this calculation, net book value of depreciable real property shall be used as an approximation of replacement value. The County will make such a provision by assigning a portion of its prior year available unassigned fund balance (defined as the amount of unassigned fund balance in excess of the 18% target and other items described more fully in Section F, Item 4 of this policy.) To the extent that the major maintenance provision cannot be made from available fund balance, as defined, the County shall make efforts to incorporate a major maintenance contingency expense in its operating budget in amount sufficient to reach the 2.5% annual target. Notwithstanding the above, specific major maintenance projects identified and incorporated into the annual operating budget shall also be considered as contributing to the annual 2.5% target.
6. The County shall maintain a capital budget that includes the Capital Improvements Plan and a plan for the acquisition and replacement of vehicles, Information Technology, and depreciable equipment and machinery.
 - As part of the vehicles, Information Technology (IT), equipment and machinery plan, the County will maintain a schedule of individual capital assets with values in excess of \$1,000 and an estimated useful life in excess of one year. All items with an original value of less than \$1,000, or with an estimated useful life of one year or less, will be recorded as an operating expenditure.
 - The County will provide funding for vehicles, IT, equipment and machinery as part of the annual budget to replace assets at the end of their useful life, or to upgrade capital assets as appropriate.
 - The County's objective is to use pay-as-you-go funding (using cash resources) to acquire vehicles, IT, and depreciable equipment and machinery. Other sources will supplement cash funding such as lease purchase agreements, bonds, and grants, when available.
 - The County shall conduct a periodic physical inventory of all vehicles, computers, and depreciable equipment and machinery.
7. The Madison County School Board is encouraged to develop similar and compatible asset maintenance, replacement and enhancement policies.
8. Notwithstanding other items discussed in Sections C and D of this policy, the County Board (the "Board") of Supervisors shall assign a portion of its available unassigned fund balance, as defined, upon adoption of this policy. This assigned fund balance shall be used to fund capital improvement

projects and other vehicle and equipment needs in the first through third budget years subsequent to the adoption of this policy. Subsequent to adoption of this policy, the Board may elect at its discretion, to assign additional amounts of available unassigned fund balance, as defined, to meet its anticipated capital needs.

E. Debt Policies

1. The County will not fund current operations from the proceeds of borrowed funds.
2. The County will utilize long-term borrowing for capital projects only to the extent that funding from grants and current revenues is not available.
3. When the County finances capital projects through bonds or capital leases, it will repay the debt within a period not to exceed the expected useful life of the projects. To the extent possible, the County will structure its debt to achieve level annual debt service payments.
4. Recognizing the significance of debt to its overall financial condition, the County will set target debt ratios, which will be calculated annually and included in any review of fiscal trends:
 - o Net general bonded debt as a percentage of the assessed value of real taxable property shall not exceed 3%.
 - o Net general bonded debt expenditures as a percentage of General Fund expenditures (including the School Board's operating budget less transfers from the General Fund) shall not exceed 10%.
5. The County's Finance Director is responsible for monitoring the County's outstanding debt to ensure post-issuance compliance with such matters as arbitrage rebate calculations, material event notifications, etc.

F. Fund Balance Policies

1. The Governmental Accounting Standards Board (GASB) classifies fund balances in the following categories:
 - o **Non-spendable fund balance** – amounts not in a spendable form or that are required to be maintained intact;
 - o **Restricted fund balance** – amounts constrained to specific purposes by their providers (such as grantors, bondholders, the state), through constitutional provisions, or by enabling legislation;
 - o **Committed fund balance** – amounts constrained to specific purposes by a government itself, using its highest level of decision-making authority; to be reported as committed,

amounts cannot be used for any other purpose unless the government takes the same highest-level action to remove or change the constraint;

- **Assigned fund balance** – amounts a government intends to use for a specific purpose; intent can be expressed by the governing body or by an official or body to which the governing body delegates the authority;
- **Unassigned fund balance** – amounts that are available for any purpose; these amounts are reported only in the general fund.

Source: GASB Fact Sheet about Fund Balance Reporting and Governmental Fund Type Definitions (GASB Statement 54).

2. The County does not intend, as a common practice, to use its unassigned fund balance to fund current operations. The unassigned fund balance set aside pursuant to these policies is to be used as working capital for unforeseen emergencies, when reducing current expenditures is insufficient, in order to avoid the need to borrow.
3. The County will maintain an unassigned fund balance for cash liquidity purposes that will provide sufficient cash flow to minimize the possibility of short-term tax anticipation borrowing.
4. As a permanent reserve "rainy-day" fund, the unassigned General Fund balance at the close of each fiscal year should be equal to no less than 14% of the County's total General Fund budget (including the School Board's operating budget less transfers from the General Fund). Further, an additional 4% should be available for cash liquidity purposes resulting in a total target amount of 18% of the General Fund budget (including the School Board's operating budget less transfers from the General Fund). Under certain circumstances, the County may elect to maintain unassigned General Fund balance in excess of the 18% target by considering a variety of factors, including the predictability of revenues, the volatility of expenditures, perceived exposure to one-time outlays, and the potential drain upon the General Fund by other funds.
5. In the event that the funds in the unassigned fund balance are utilized as working capital such as for an unforeseen emergency, the unassigned fund balance should be brought to the required minimum balance within two (2) years from the date of the withdrawal.
6. Unassigned fund balance in excess of the 18% target may be used in the following ways:
 - Fund accrued liabilities, including but not limited to debt service, pension, and other postemployment benefits as directed and approved within the long-term financial plan and the annual budget ordinance. Priority will be given to those items that relieve budget or financial operating pressure in future periods;
 - Increase the pay-as-you-go contributions needed to fund capital projects in the Capital Improvements Plan and the acquisition and replacement of vehicles, IT, and equipment and machinery;
 - One-time expenditures that do not increase recurring operating costs that cannot be funded through current revenues;

- Start-up expenditures for new programs, provided that such action is approved by the Board of Supervisors and is considered in the context of multi-year projections of revenue and expenditures; or
- When it is not practical to reduce expenditures in an amount sufficient to offset revenue shortfalls, the unassigned General Fund balance may be used to supplement expenditure reductions.

7. The Board of Supervisors may establish stabilization funds, such as a debt service stabilization fund or a CSA stabilization fund, to mitigate uncertainty of the impact of foreseen issues on future operating budgets.

8. When restricted and unrestricted fund balance is available to fund a particular expenditure, the County will first expend any restricted fund balance that is available and then in the following order if only unrestricted fund balance is available: (1) committed fund balance, (2) assigned fund balance, and (3) unassigned fund balance.

9. Committed fund balance can only be approved, modified or rescinded by formal action of the County Board of Supervisors.

10. An analysis of the County's fund balance position and associated recommendations should be provided as an element of the budget proposal.

G. Summary of Key Financial Policy Ratios*

OPERATING BUDGET	
Allocation to Operating Contingency (as percent of total General Fund budget, as defined)	1%
ASSET MAINTENANCE, REPLACEMENT AND ENHANCEMENT POLICIES	
Allocation from operating budget and other available unassigned fund balance, as defined, to provide for Major Maintenance Contingency (as % of replacement costs of County facilities)	2.5%
DEBT RATIOS	
Net General Bonded Debt as % of Assessed Value of Real Taxable Property	3%
Net General Bonded Debt Expenditures as % of General Fund Expenditures	10%
FUND BALANCE/RESERVE POLICIES	
Unassigned General Fund Balance as % of Total General Fund Budget	14%
Unassigned General Fund Balance for Cash Liquidity as % of GF Budget	4%

* References to Operating Budget and General Fund Budget include the School Board's operating budget less transfers from the General Fund.

OPERATING BUDGET	TARGET	FY2018 Budget	DOCUMENTATION
Allocation to Operating Contingency (as percent of General Fund budget, as defined)	1%	\$227,188	(FY2018 General Fund Budgeted Expenditures of \$22,718,822 * 1%)
Asset Maintenance, Replacement and Enhancement Policies	TARGET	As of FYE2017	DOCUMENTATION
Allocation from operating budget and available unassigned fund balance, as defined, for Major Maintenance Expenses and/or Contingency (as % of replacement costs of County facilities)	2.50%	\$708,676	FY17 Audit pg 32 - Notes to the Financial Statements; Real Property, Net of depreciation (Primary Govt \$21,448,245 + Schools \$6,898,800)*2.5%
DEBT RATIOS	TARGET	As of FYE2017	DOCUMENTATION
Net General Bonded Debt as % of Assessed Value of Real Taxable Property	3%	0.63%	FY17 Audit pg 112 - Supplemental Info Table 8 (Debt \$11,513,000/AV = \$1,831,652,549)
Net General Bonded Debt Expenditures as % of General Fund Expenditures	10%	3.89%	FY17 Audit pg 113 - Supplemental Info Table 9 (DS \$1,453,435/exp = \$37,379,721)
FUND BALANCE/RESERVE POLICIES	TARGET	FY2018 Budget	DOCUMENTATION
Unassigned General Fund Balance as % of Total General Fund Budget	14%	\$5,471,717	(FY2018 Budgeted Expenditures \$27,401,224 + FY2018 Budgeted School Expenditures \$20,288,100 - 2018 Budgeted County Contribution to Schools \$8,605,633) * 14%
Unassigned General Fund Balance for Cash Liquidity as % of GF Budget	4%	\$1,563,348	(FY2018 Budgeted Expenditures \$27,401,224 + FY2018 Budgeted School Expenditures \$20,288,100 - 2018 Budgeted County Contribution to Schools \$8,605,633) * 4%