



# **Financial Policies: Design & Implementation**

**VGFOA Fall Conference  
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# Financial Policies: *What? Why?*

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# Financial Policies...

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- ▶ Provide guidelines for operational and strategic decision making.
- ▶ Clarify strategic financial thinking and intent.
- ▶ Define the boundaries for acceptable practice and manage risk.
- ▶ Not procedural in nature.
- ▶ An essential part of your financial tool box.
- ▶ Helpful in attaining good bond ratings.



# Writing Good Policies

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- ▶ Be explicit.
- ▶ Keep policies current.
- ▶ Be literal – policies should not be subject to interpretation.
- ▶ Be concise and comprehensive, addressing all relevant issues and risks.
- ▶ Ensure that policies are widely available and easy to locate (transparency).



# Essential Policies

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- ▶ Operating budgets – development & implementation.
- ▶ Fund balances and reserves.
- ▶ Capital budgeting and planning.
- ▶ Debt management.
- ▶ Long-range financial planning.
- ▶ Investment management.



# Advisable Policies

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- ▶ Financial reporting
- ▶ Revenues
- ▶ Internal Controls
- ▶ Expenditures
- ▶ Purchasing
- ▶ Risk Management
- ▶ Economic Development
- ▶ Sustainability



# Policy Governance

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- ▶ Measure compliance with policies.
- ▶ Review policies regularly and use them to guide important decisions.
- ▶ Adapt to changing circumstances.
- ▶ Balance accountability and flexibility.
- ▶ Demonstrate effectiveness and utility of policies to organizational leadership.

# Financial Policy Case Study

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## **Fauquier County, Virginia**

- ▶ 40 miles southwest of Washington, D.C.
- ▶ 660 square miles/70,000 residents/11,200 students
- ▶ Predominantly rural community
- ▶ \$260 million budget (FY 2012)
- ▶ Governed by elected Board of Supervisors (5 members).
- ▶ Elected School Board oversees school division.



# Financial Policy Case Study

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- ▶ Taxing authority rests with the Board of Supervisors.
  - ▶ Real estate and personal property taxes comprise about 70% of General Fund revenue.
- ▶ Virginia localities are subject to the Dillon Rule, which limits local authority to mechanisms specifically granted by the State legislature.
  - ▶ Revenue options have generally stagnated or declined over the past decade.



# Background

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- ▶ Historical strategies kept the County's fund structure as simple as possible.
  - ▶ Debt service expenditures were included in the General Fund and the School Operating Fund.
  - ▶ Capital Projects Fund housed all capital projects, regardless of funding source.
  - ▶ Board historically funded priority projects with year-end balance.
  - ▶ No formal asset replacement or fleet replacement programs.



# Background

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- ▶ **Late 2008 through 2009:**
  - ▶ Economic circumstances forced Fauquier County to reduce expenditures in response to declining revenue.
    - ▶ More than 30 positions eliminated (about 6% of workforce).
    - ▶ School Division funding held flat; school system also pledged year-end contribution of \$4.2 million (equivalent to about 5.2% of local funding) toward revenue shortfall.
- ▶ **Board of Supervisors froze most capital projects and transferred cash balances into a capital reserve.**

# Background

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- ▶ During the same period, key financial management staff positions became vacant due to retirement and/or resignation.
  - ▶ County Administrator retired in 2006.
  - ▶ Budget Director retired in Summer 2008.
  - ▶ Finance Director resigned in December 2008.
- ▶ Replacement of senior positions was completed by Spring 2009.



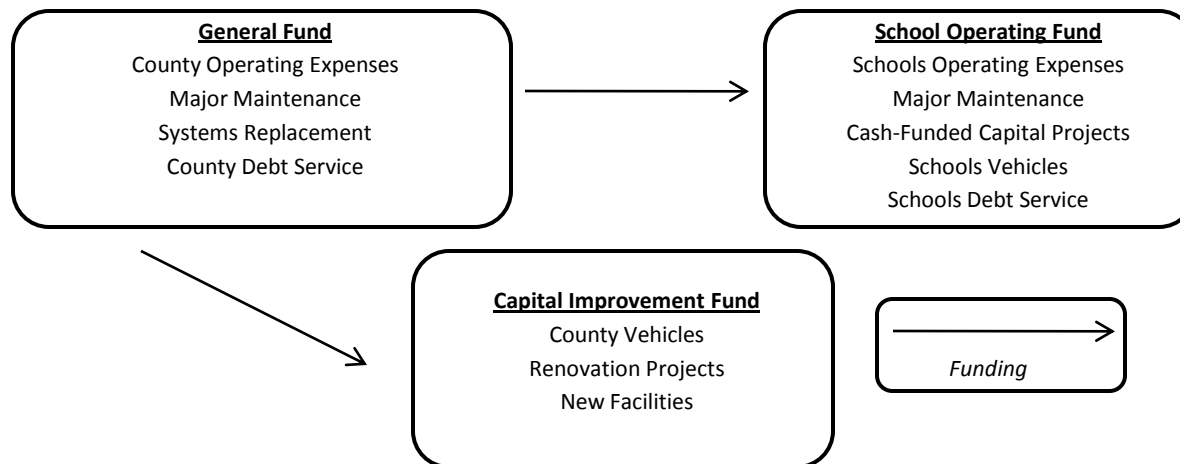
# Background

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- ▶ Board's adopted CIP for FY 2009-2018 would have required \$283 million in additional debt.
- ▶ Previous budgets regularly redirected reductions in debt service toward operating expenses.
- ▶ Existing fund structure did not provide sufficient options to accumulate funding for future projects.
- ▶ Board directed staff to develop new mechanisms to cash fund major projects and reduce debt requirements.



# Initial Fund Structure



# Stakeholders

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# Stakeholders

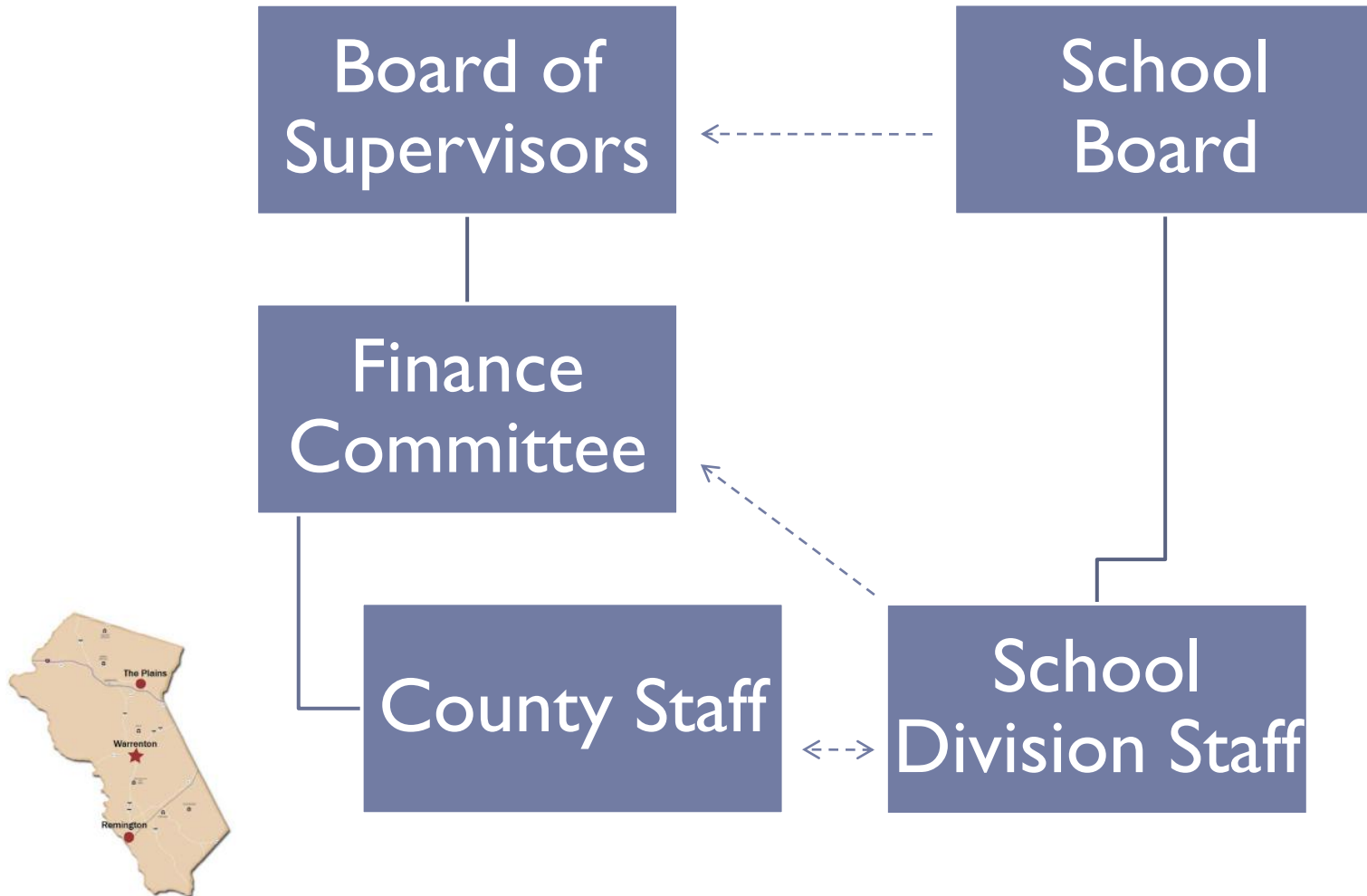
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- ▶ Office of Management & Budget designated as lead agency to develop new processes & revised fund structure.
- ▶ Initial process involved identification of key stakeholders, clarifying objectives and developing key points to be addressed.



# Stakeholders

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# Stakeholders

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- ▶ **Board of Supervisors: Principal policy making body.**  
Determines fund structure and sets appropriations at fund level.
  - ▶ **Finance Committee: Composed of two Board members.**  
Serves as advisory body to full Board on fiscal matters.
- ▶ **School Board: Policy making body for school division.**  
May request funding from Board of Supervisors, but does not set fund-level appropriations.



# Stakeholders

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## ▶ County & School Staff:

- ▶ Management & Budget charged with developing new policies, including revised fund structure in the proposed budget.
- ▶ Finance Department must administer policies and implement after budget adoption.
- ▶ New policies must be flexible enough to provide departments and school staff with opportunities to use the new tools, but with sufficient safeguards to ensure clear administration and secure outcomes.



# Policy Development

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**Focusing on what's important!**



# Policy Development

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- ▶ Making sure that all parties had been consulted and invested was a key consideration.
  - ▶ Implementation of new policies requires establishment of an effective consensus.
- ▶ Initiated process by consulting with the Finance Committee.
  - ▶ Established general boundaries and objectives.
  - ▶ Final policies needed to achieve the Committee's core goals.



# Policy Development

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- ▶ **Finance Committee's primary concerns:**
  - ▶ Develop a mechanism to accumulate cash funding for capital projects over a period of several years.
  - ▶ Sources of cash funding could include allocations from individual operating funds or designation of debt service savings from refunding and/or retirement.
  - ▶ Direct debt service savings toward management of County's debt load.



# Policy Development

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- ▶ Initiated series of meetings with School Division and departments to determine best approach given the Finance Committee's parameters.
  - ▶ School Division was not satisfied with removal of debt service from the School Operating Fund.
  - ▶ Facilities, fleet management and IT agencies sought mechanisms to accumulate funding for major systems and vehicle replacement.
- ▶ Achieved consensus by identifying issues of importance to the stakeholders that could be addressed through the new policies.

# Policy Development

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- ▶ **Core revisions:**
  - ▶ Single debt service fund.
  - ▶ Separate asset replacement funds for the County and School Division.
- ▶ Debt service expenditures would be removed from the two operating funds.
- ▶ The asset replacement funds would support non-facility capital projects for which funding could be accumulated over time.
- ▶ County and school division staff agreed upon a set of core principles.

# Debt Service Fund – Core Principles

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- ▶ The Debt Service Fund will provide for the payment of debt service, both principal and interest, of municipal debt issued to construct facilities.
- ▶ The Fund will track debt service payments for educational and non-educational facilities, as well as utility projects, conservation and public safety projects supported by the County's special revenue funds.
- ▶ Revenue sources for the Debt Service Fund will be largely limited to transfers from the General Fund and the School Operating Fund, in addition to support by the relevant special revenue funds.
- ▶ The Debt Service Fund will be appropriated by the Board of Supervisors as part of the annual budget process, but will represent the long-term financing costs resulting from policy decisions made by the Board of Supervisors and the School Board as expressed by the Capital Improvement Program.

# Debt Service Fund

Description	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017
<b>Financing Scenarios</b>							
Projected Outstanding Debt	\$124,289,791	\$115,533,897	\$132,186,890	\$123,197,864	\$122,156,958	\$126,548,529	\$123,791,357
Projected Additional Debt	-	25,600,000	0	13,700,000	7,800,000	7,000,000	17,940,000
<b>Total Projected Debt</b>	<b>\$124,289,791</b>	<b>\$141,133,897</b>	<b>\$132,186,890</b>	<b>\$136,897,864</b>	<b>\$129,956,958</b>	<b>\$133,548,529</b>	<b>\$141,731,357</b>
Projected Debt Service - County	\$14,033,321	\$13,938,615	\$14,103,621	\$14,382,487	\$13,538,479	\$13,884,529	\$13,843,118
Projected Debt Service - F&R	653,448	783,415	913,383	969,452	1,197,452	1,476,752	1,465,352
<b>Total Projected Debt Service</b>	<b>\$14,686,769</b>	<b>\$14,722,030</b>	<b>\$15,017,004</b>	<b>\$15,351,939</b>	<b>\$14,735,931</b>	<b>\$15,361,281</b>	<b>\$15,308,470</b>
Revenue Estimate - General Fund	\$150,252,891	\$153,021,350	\$156,846,884	\$161,552,290	\$168,822,143	\$173,886,808	\$179,103,412
Revenue Estimate - Other Funds	6,518,487	6,906,390	7,079,050	7,291,421	7,619,535	7,848,121	8,083,565
<b>Total Revenue Estimate</b>	<b>\$156,771,378</b>	<b>\$159,927,740</b>	<b>\$163,925,934</b>	<b>\$168,843,712</b>	<b>\$176,441,679</b>	<b>\$181,734,929</b>	<b>\$187,186,977</b>
Revenue % Chg. from Prev. Year	-7.1%	2.0%	2.5%	3.0%	4.5%	3.0%	3.0%
<b>Debt Service % of Total Revenue</b>	<b>9.4%</b>	<b>9.2%</b>	<b>9.2%</b>	<b>9.1%</b>	<b>8.4%</b>	<b>8.5%</b>	<b>8.2%</b>



# Asset Replacement Fund – Core Principles

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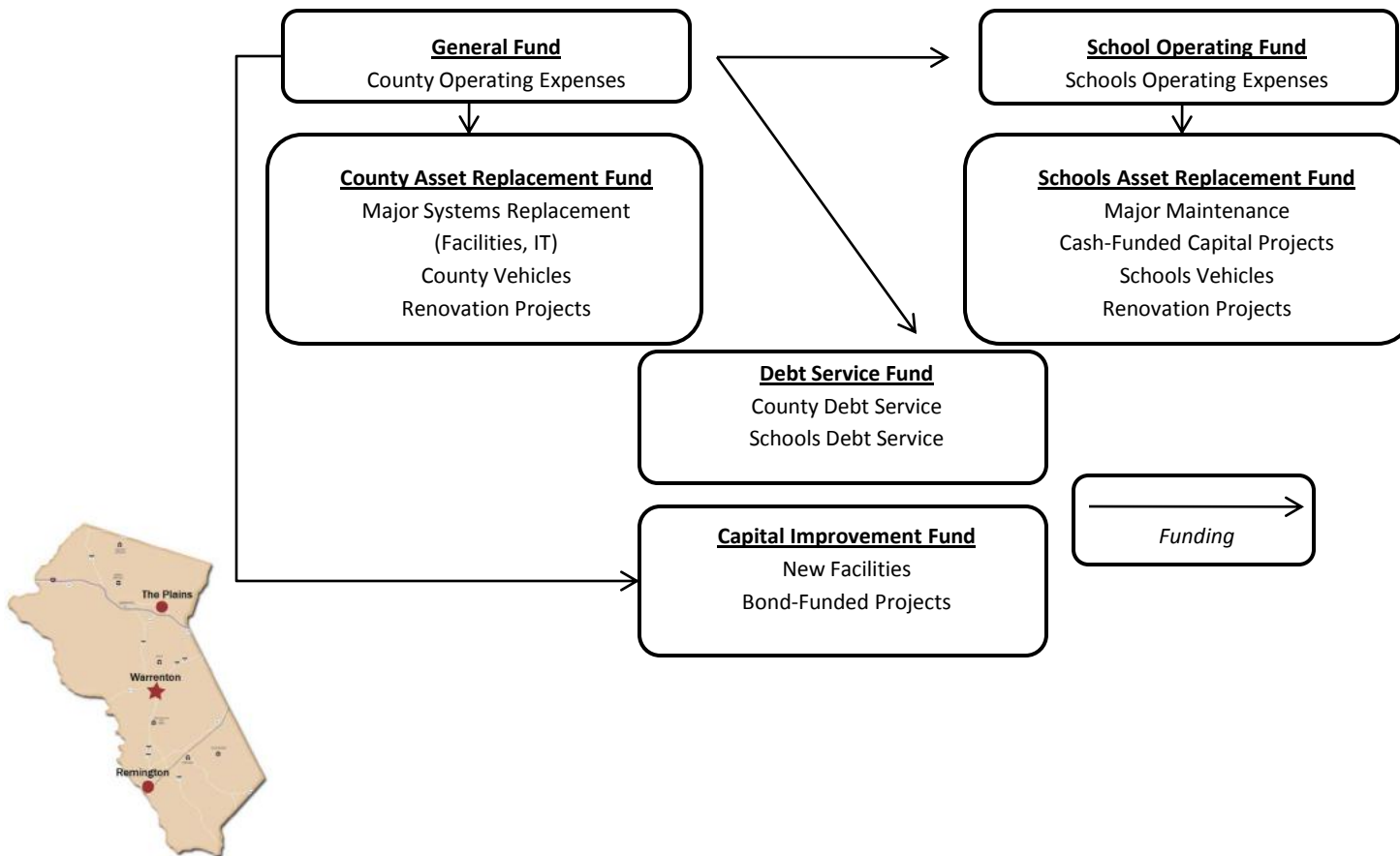
- ▶ The operating budget will provide for minor and preventative maintenance.
- ▶ The County and School Division Asset Replacement Funds provide a mechanism for funding rehabilitations and/or replacements of the structural, site, major mechanical and electrical plant.
- ▶ Replacement of major technology systems and equipment (software and hardware) will be included in the planning for asset replacements.
- ▶ Most eligible projects require a total expenditure of \$10,000 or more and a useful life of at least two years.
- ▶ The Capital Improvement Fund will provide for the acquisition, construction or total replacement of physical facilities to include additions that increase the square footage of an existing facility.
- ▶ The County will capitalize all hard assets with a value greater than \$5,000 and an expected life of two years or more. The County will capitalize computer software with a value greater than \$150,000.

# County Asset Replacement Fund

Department/Project	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	Total
<b><u>General Services</u></b>								
Major Systems Replacement	\$203,500	\$260,000	\$440,000	\$360,000	\$313,000	\$243,000	\$270,000	\$1,886,000
Courthouse Maintenance	35,000	35,000	35,000	35,000	35,000	35,000	35,000	210,000
<b><u>Information Technology</u></b>								
Technology Review Board	200,000	200,000	200,000	200,000	200,000	200,000	200,000	1,200,000
<b><u>Parks &amp; Recreation</u></b>								
Small Projects Fund	200,000	200,000	200,000	200,000	200,000	200,000	200,000	1,200,000
<b><u>Sheriff</u></b>								
Vehicle Replacement	369,000	369,000	369,000	369,000	369,000	369,000	369,000	2,214,000
<b><u>DFREM/VFRA</u></b>								
SCBA Replacement	0	2,100,000	0	0	0	0	300,000	2,400,000
<b>Total</b>	<b>\$1,007,500</b>	<b>\$3,164,000</b>	<b>\$1,244,000</b>	<b>\$1,164,000</b>	<b>\$1,117,000</b>	<b>\$1,047,000</b>	<b>\$1,374,000</b>	<b>\$9,110,000</b>



# Revised Fund Structure



# Results

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- ▶ Utilized core principles to draft revised financial policies on funds structure and debt issuance and management.
- ▶ Briefed Finance Committee in October and November 2009.
- ▶ Board of Supervisors approved revisions in December 2009.
- ▶ Implemented new fund structure for FY 2011 budget.
- ▶ Narrowed focus of CIP to six years for more effective planning.
- ▶ Released procedures for implementing policy with FY 2010 closeout.
- ▶ Integrated CIP with operating budget process beginning in FY 2012.

# Feedback

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# Feedback Mechanisms

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- ▶ Continuous assessment is a core value of the policy revision process.
  - ▶ Periodic evaluations of policy effectiveness includes meetings with stakeholders and the board of supervisors.
  - ▶ Meetings with key staff will be scheduled after the FY 2011 closeout to determine whether any revisions are needed to the basic fund structure.
  - ▶ Recently completed first revision since initial adoption to incorporate GASB reserve requirements.
  - ▶ Facilities, IT and fleet staff are utilizing the new fund structure to develop comprehensive asset and fleet replacement programs.

# Why Was the Initiative Successful?

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# Why Was the Initiative Successful?

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- ▶ **Commitment at top levels of organization.**
  - ▶ Finance Committee & county management actively supported development of a new fund structure.
- ▶ **Collaboration between stakeholders.**
  - ▶ County & school division staff developed a format that was mutually beneficial and gave each side a win.
- ▶ **Determined project management.**
- ▶ **Organizational commitment to continuous improvement.**



# Final Thoughts

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***Acknowledgement & appreciation to Charles M. Schulz***