Fiscal Policy Guidelines Review

Montgomery County, Virginia

Formalizing & Reviewing Financial Policies

- Fiscal Policy Guidelines are the basis for sound financial management. These formally adopted guidelines set the framework for budgets and debt management now and into the future.

- Davenport, in our capacity as Financial Advisor, periodically reviews the County's adopted Financial Policy Guidelines.

  – Due to the changing credit markets, particularly in accord with our conversations with the three national credit rating agencies, Davenport will discuss potential new/revised Financial Policy Guidelines.

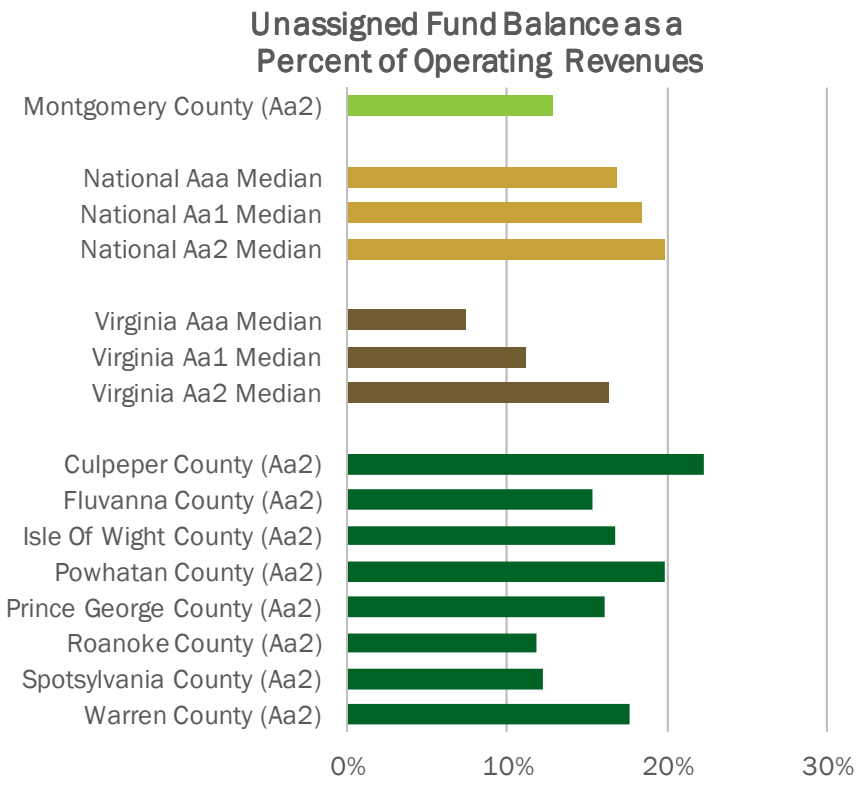
Formalizing & Reviewing Financial Policies

Existing Fund Balance Policy:

- "The General Fund reserve target is **eight** to **ten** percent of general fund plus school operating fund revenues. For the purpose of determining if the target has been met, the unassigned fund balance of the general fund is compared to the general fund plus school operating fund revenues, excluding the general fund transfer to the school operating fund."

Davenport Recommendation:

- Davenport recommends the County considers making the upper target of 12% the floor rate and **removing** the current floor rate of 8% from the Policy.
- Additionally, add language stating that fund balance should only be used for one-time uses and a description on how unassigned fund balance would be replenished if the amount drops below the guideline.
- Add clarifying language to the policy by replacing "General Fund reserve target" with "General Fund unassigned fund balance".



Source: Moody's Municipal Financial Ratio Analysis.

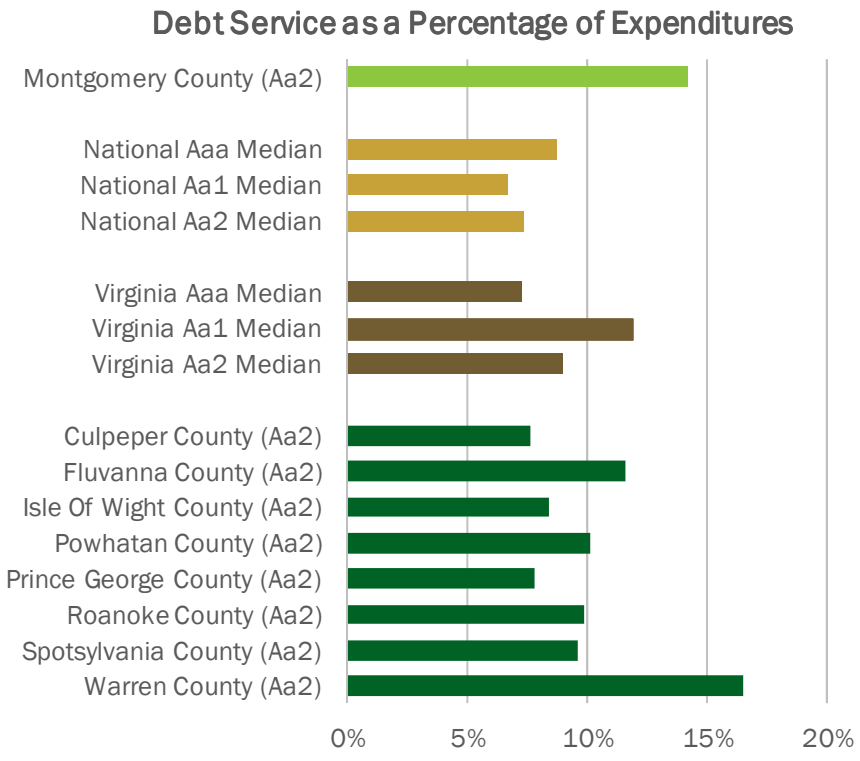
Formalizing & Reviewing Financial Policies

Existing Debt Service Policy:

- "The ratio of debt service expenditures as a percent of governmental fund expenditures should target 10% but not exceed 12%."

Davenport Recommendation:

- Add additional clarifying language defining governmental fund expenditures (i.e. general fund plus school operating fund less the general fund transfer to the school operating fund) and to the policy in general (replace "target" with "strive to be below").



Source: Moody's Municipal Financial Ratio Analysis.

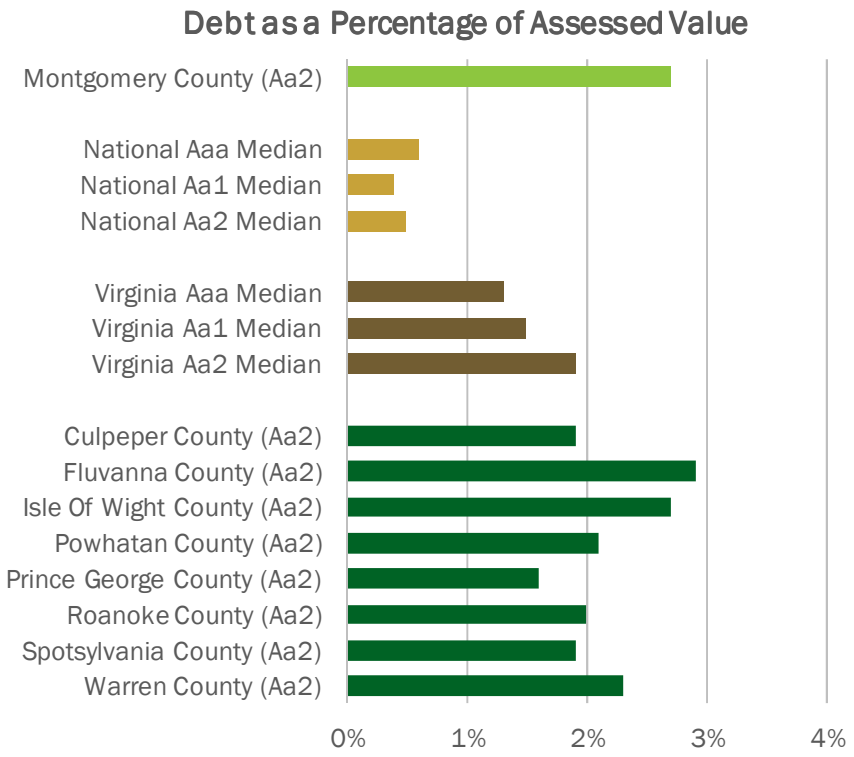
Formalizing & Reviewing Financial Policies

Existing Debt vs. Assessed Value Policy:

- "Net Debt as a percentage of estimated market value of taxable property should target 3% but not exceed 4%."

Davenport Recommendation:

- Add clarifying language to the policy in general (replace "target" with "strive to be below").



Source: Moody's Municipal Financial Ratio Analysis.

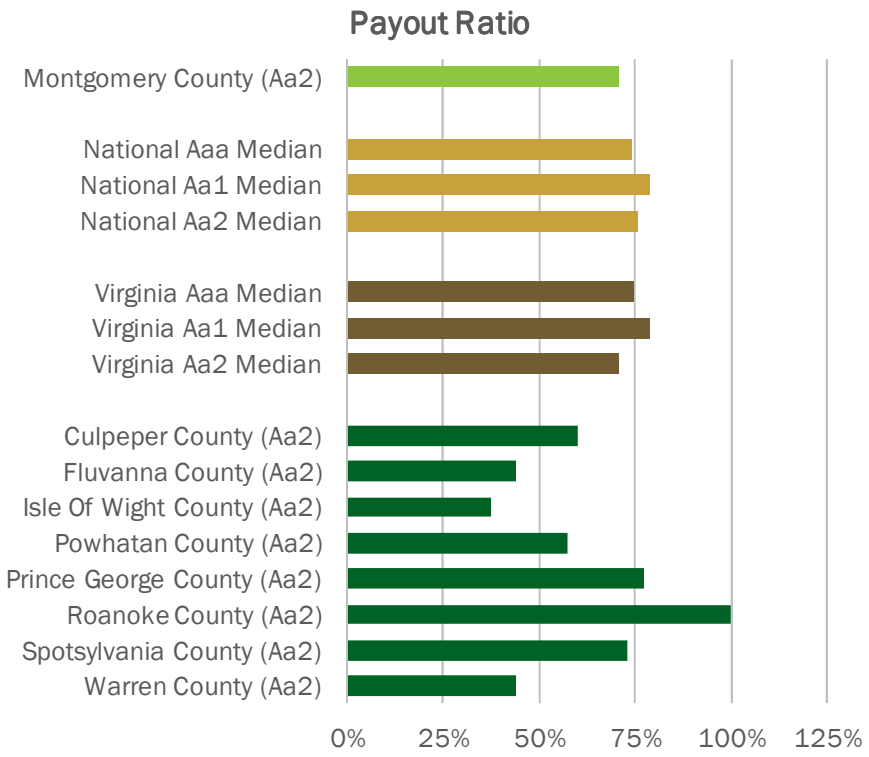
Formalizing & Reviewing Financial Policies

Example Payout Ratio Policy:

- "Annually, the County will review the 10 year tax supported debt and lease payout ratio and intends to maintain the ratio at 60% over a five year period, with the ratio being no less than 55% in any one year during the period."

Davenport Recommendation:

- Davenport recommends the County consider adopting a 10-year payout ratio policy.



Source: Moody's Municipal Financial Ratio Analysis.

Formalizing & Reviewing Financial Policies

Existing Policy on Cash Spent on Capital Projects:

- "On all general fund supported debt financed projects, the County will attempt to make a down payment of at least 5.00% of total project costs in the aggregate from current resources."

Davenport Recommendation:

- Davenport recommends a potential amendment/addition to this policy. An example of this language is "The long term goal is to designate a portion of the annual General Fund cash for one time capital projects."

Formalizing & Reviewing Financial Policies

Existing Debt Per Capita Policy:

- "Net debt per capita should remain under $2,000. Net debt is defined as any and all debt that is tax-supported."

Existing Debt vs. Income Policy:

- "The ratio of net debt per capita as a percentage of personal income should target 7.5% but not exceed 10%."

Davenport Recommendation:

- *Davenport believes the County should consider eliminating these policies.*