FINAL DRAFT

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 Montgomery County. A fiscal policy that is adopted, adhered to, and regularly reviewed is recognized as the cornerstone of sound financial management. 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.

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 update each 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 calculated and 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 use intergovernmental assistance to finance only those capital improvements that are consistent with the capital improvement plan and County priorities, and whose operating and maintenance costs have been included in operating budget forecasts.

6. 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.

7. The County will project its equipment replacement and maintenance needs for the next several years and will update this projection each year. From this projection a maintenance and replacement schedule will be developed and followed.

8. The County will identify the estimated costs and potential funding sources for each capital project proposal before it is submitted for approval.

9. The County will attempt to determine the least costly financing method for all new projects.

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. 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.

3. Net debt as a percentage of estimated market value of taxable property should strive to be below 3.0% but not exceed 4.0%.

4. The ratio of debt service expenditures as a percent of governmental fund expenditures (General Fund plus School Operating Fund expenditures less the General Fund transfer to the School Operating Fund) should strive to be below 10% but not exceed 12%.

5. The County will review the 10 year tax supported debt and lease payout ratio on an annual basis, 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.

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 retire tax anticipation debt, if any, annually and will retire bond anticipation debt within six months after completion of the project.

9. On all General Fund support, debt-financed projects, the County will attempt to make a down payment of at least 5% of total project costs in the aggregate from current resources. The long term goal is to annually designate a portion of General Fund cash for one time capital projects.

RESERVE POLICIES

1. The County will establish an emergency reserve 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. This General Contingency will be budgeted at not less than 1.0% of the General Fund.

2. Unassigned fund balance at the close of each fiscal year should be at least 12% of the General Fund plus School Operating Fund revenues, excluding the General Fund transfer to the School Operating Fund. Should the County find it necessary to access these funds in an emergency situation the Unassigned Fund

Balance would be allowed to fall below the target described above. Any appropriation which causes Unassigned Fund Balance to drop below 12% will occur only after the County Administrator presents to the Board of Supervisors a plan and timeline for replenishing the balance to a minimum of 12%.

INVESTMENT POLICIES

OVERVIEW

The County Board of Supervisors recognizes that it is the explicit constitutional responsibility of the County Treasurer to invest County Funds in accordance with Virginia Law. It is the desire of the County Board of Supervisors to provide the Treasurer with the most timely information in order to best execute the powers of the Treasurer's Office. To that end, the following Investment Policies are intended as a guide for the County Board of Supervisors to facilitate this relationship.

POLICIES

1. The County will attempt to provide a cash-flow analysis of all funds on a continuous basis. Disbursement, collection, and deposit of funds will be scheduled to insure maximum cash availability.

2. The County will develop an annual cash-flow budget for County Operations to be reviewed quarterly with the Treasurer.

Fiscal Policy Guidelines showing the Revisions

FISCAL POLICY GUIDELINES - OBJECTIVES

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1. The County will consider all capital improvements in accordance with an adopted capital improvement program.
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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 calculated and 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 use intergovernmental assistance to finance only those capital improvements that are consistent with the capital improvement plan and County priorities, and whose operating and maintenance costs have been included in operating budget forecasts.

6. 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.

7. The County will project its equipment replacement and maintenance needs for the next several years and will update this projection each year. From this projection a maintenance and replacement schedule will be developed and followed.

8. The County will identify the estimated costs and potential funding sources for each capital project proposal before it is submitted for approval.

9. The County will attempt to determine the least costly financing method for all new projects.

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. 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.~~

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

~~4.~~3. Net debt as a percentage of estimated market value of taxable property should ~~target~~ strive to be below 3.0% but not exceed 4.0%.

~~5~~4. The ratio of debt service expenditures as a percent of governmental fund expenditures (General fund plus School Operating Fund expenditures less the General Fund transfer to the School Operating Fund) should ~~target~~ strive to be below 10% but not exceed 12%.

~~6. The ratio of net debt per capita as a percentage of income should target 7.5% but not exceed 10.0%.~~

~~7~~5. The County will review the 10 year tax supported debt and lease payout ratio annually, 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.

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.

~~8~~7. Where feasible, the County will explore the usage of special assessment, revenue, or other self-supporting bonds instead of general obligation bonds.

~~9~~8. The County will retire tax anticipation debt, if any, annually and will retire bond anticipation debt within six months after completion of the project.

~~10~~9. On all General Fund support, debt-financed projects, the County will attempt to make a down payment of at least 5% of total project costs in the aggregate from current resources. The long term goal is to annually designate a portion of General Fund cash for one time capital projects.

RESERVE POLICIES

1. The County will establish an emergency reserve 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. This General Contingency will be budgeted at not less than 1.0% of the General Fund.

~~2. Undesignated~~ unassigned fund balance~~s~~ at the close of each fiscal year should be at least ~~8% to 10%~~ 12% of the ~~Total Annual Operating Revenue Budget of the County~~General Fund plus School Operating Fund revenues, excluding the General Fund transfer to the School Operating Fund. Should the County find it necessary to access these funds in an emergency situation the ~~Undesignated~~ Unassigned Fund Balance would be allowed to fall below the targets described above. ~~Once the Undesignated Fund Balance drops below the targeted level the County will include enough funds in its next budget to increase the Undesignated Fund Balance so that it meets the targeted level.~~Any appropriation which causes Unassigned Fund Balance to drop below 12% will occur only after the County Administrator presents to the Board of Supervisors a plan and timeline for replenishing the balance to a minimum of 12%.

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