

Financial Policy Guidelines

Mathews County, Virginia

Adopted August 15th, 2024



Board of Supervisors

Tom Bowen
Tim Doss
David Jones
Janice Phillips
Mike Walls

Finance Policy Guidelines Committee

Beth Davis
Leslie Hall
Tim Hill
Ashley Hubbard
Janice Phillips
Wendy Stewart
Ramona Wilson

Mathews County, Virginia Financial Policy Guidelines

TABLE OF CONTENTS

| <u>Section</u> | <u>Title</u> | <u>Page #</u> |
|----------------|--|---------------|
| 1.0 | Policy Purpose | 3 |
| 1.01 | Policy Objectives | 3 |
| 1.02 | Policy Implementation and Coordination | 3 |
| 1.03 | Review and Revision | 4 |
| 2.0 | Financial Planning Policies | 4 |
| 2.01 | Balanced Budget | 4 |
| 2.02 | Long Range Planning | 4 |
| 2.03 | Asset Inventory | 4 |
| 2.04 | Investments | 4 |
| 3.0 | Revenue Policies | 5 |
| 3.01 | Revenue Diversification | 5 |
| 3.02 | Fees and Charges | 5 |
| 3.03 | Tax Collections | 5 |
| 3.04 | Restricted Revenue | 5 |
| 3.05 | Grants, Donations and Insurance | 5 |
| 4.0 | Expenditure Policies | 6 |
| 4.01 | Debt Capacity, Issuance and Management | 6 |
| 4.02 | Expenditure Accountability | 6 |
| 4.03 | Appropriations, Amendments and Transfers | 6 |
| 5.0 | Fund Balance | 7 |
| 5.01 | Purpose | 7 |
| 5.02 | General Fund Balance Categories | 7 |
| 5.03 | Unassigned Fund Balance | 8 |
| 5.04 | Replenishment of Fund Balance | 9 |
| 5.05 | Prioritization of Fund Balance | 9 |
| 6.0 | Debt | 9 |
| 6.01 | Compliance With Legal Requirements | 9 |
| 6.02 | Outstanding Debt Supported Tax Ratios | 9 |

Mathews County, Virginia Financial Policy Guidelines

1.0 Policy Purpose

Mathews County, Virginia (the “County”) and its governing body, the Board of Supervisors (the “Board”), recognize and acknowledge that local government resources must be used wisely to ensure adequate funding for the services, public facilities, and infrastructure necessary to meet the community’s present and future needs.

1.01 Policy Objectives

The primary objective of sound financial management policies is for the Board to create a framework within which financial decisions will be made. This fiscal policy is a statement of the guidelines and objectives that will influence and guide the financial management practices of the County. A fiscal policy that is adopted, adhered to, and regularly reviewed is recognized as the cornerstone of sound financial management and safeguards the fiscal stability of the County. In order to achieve its purpose, the fiscal policy has the following objectives for the County’s fiscal performance.

- A. To contribute significantly to the County's ability to insulate itself from fiscal crisis and economic disruption.
- B. To guide Board and management policy decisions that have significant fiscal impact.
- C. To promote long-term financial stability by establishing clear and consistent guidelines.
- D. To direct attention to the total financial picture of the County rather than single issue areas and promote the view of linking long term financial planning with day-to-day operations.
- E. To ensure sound financial management by providing accurate and timely information on the County’s financial condition; the foundation for effective financial analysis.
- F. To enhance the County’s access to both short-term and long-term capital by helping the County to strengthen its credit standing (for purposes of bank, financing, and access to capital markets through other financing vehicles).
- G. To ensure that the organization has adequate resources to meet the provisions of all of the County’s indebtedness and perform mandated responsibilities.
- H. To provide the Board and citizens with a framework for measuring the fiscal impact of government services against established fiscal parameters and guidelines.

1.02 Policy Implementation and Coordination

The Board in conjunction with the County Administrator will review and promote compliance with the financial policies outlined herein.

The County intends to adhere to these polices. If there is any anticipated or unplanned variance from these policies, staff will advise the Board and establish a plan for recovery within three years.

FINANCIAL MANAGEMENT POLICIES

1.03 Review and Revision

These policies will be reviewed for appropriateness on an annual basis during the budget process. Such review shall take into consideration the County's current and projected fund balance and debt ratios as well as any developments or changes in accounting standards and/or National Credit Rating Agency criteria. Based on the review the County may consider amending these policies as appropriate.

2.0 Financial Planning Policies

2.01 Balanced Budget

The County shall prepare and approve an annual budget in compliance with sound financial practices, generally accepted accounting principles, and the provisions of the Code of Virginia which control the preparation, consideration, adoption, and execution of the County budget. The budget shall control the levy of taxes and the expenditure of money for all County purposes during the ensuing fiscal year. The County budget shall be balanced within all available operating revenues, including fund balance, and adopted by the Board of Supervisors at least seven days after an appropriately advertised public hearing is held and before July 1 of the upcoming fiscal year.

2.02 Long Range Planning

The County shall assess the long-term financial implications of current and proposed operating and capital budgets by annually preparing a three-year cash flow projection for the General Fund, Capital Projects Fund, and the Debt Service Funds.

In order to meet debt ratio targets, to schedule debt issuances, and to systematically improve the County's capital infrastructure, the County shall develop a five-year Capital Improvement Plan which is reviewed and updated at least annually. Capital improvement projects funding options will be evaluated on a project-by-project basis. The County will attempt to determine the least costly and most flexible financing method for all new projects. As a general rule, the Capital Improvement Plan should not require an annual transfer from the unassigned General Fund balance of more than 5% of current general fund revenues to fund the pay-as-you-go portion of the current year of the Plan

2.03 Asset Inventory

The County shall annually inventory and assess the condition of all major capital assets in conjunction with the preparation of the County budget and the Capital Improvement Plan.

2.04 Investments

The Treasurer has the constitutional responsibility to invest County funds in accordance with the applicable sections of the Code of Virginia which guide investment of public funds. The Treasurer, however, may restrict investments beyond the limits imposed by the Code if such restrictions serve the purpose of further safeguarding County funds or are in the best interests of the County. The investment goal is to minimize risk and to ensure the availability of cash to meet the County's expenditures, while generating revenue from the use of funds which might otherwise remain idle. Therefore, the primary objectives of the Treasurer's investment activities are safety, liquidity, and yield. The Treasurer will provide a cash and investment summary report to the Board of Supervisors on a biannual basis that shows cash balances, investment holdings, interest earnings and any changes investment strategy

FINANCIAL MANAGEMENT POLICIES

3.0 Revenue Policies

3.01 Revenue Diversification

The County will strive to maintain a diversified and stable revenue system to shelter the government from fluctuations in any one revenue source and ensure its ability to provide ongoing service. The County intends for ongoing expenditures to be funded through ongoing revenues, not one-time revenue sources. One-time or other special revenues will not be used to finance continuing County operations, but instead will be used for special projects.

3.02 Fees and Charges

All fees established by Mathews County for licenses, permits, fines, services, applications, and other charges should be set to recover all or a portion of the County's expense in providing the attendant service. These fees shall be reviewed annually during the budget process.

3.03 Tax Collections

The County Treasurer shall strive to achieve an overall property tax collection rate of 100%, utilizing all available resources for collecting delinquent accounts.

3.04 Restricted Revenues

Restricted revenues shall only be used for the purpose intended and in a fiscally responsible manner.

3.05 Grants, Donations, and Insurance Payments

Upon receiving notice of grant or program opportunities offered by various federal, state, local and other outside organizations, the County Administrator or his designee is designated as the agent:

- o To execute the necessary grant or program application and other documentation unless the terms of the grant or program require specific actions by the Board;
- o To give such assurances as may be required by the Agreement, subject to approval as to form by the county attorney;
- o To provide such additional information as may be required by the awarding organization. In addition, funding awarded, and any interest earned on the funds awarded shall be appropriated to the applicable functional area.

Additional funds received for various County programs, including contributions and donations, shall be appropriated for the purpose established by each program.

Funds received through insurance claims for damages incurred to County property as a result of unusual or infrequent events shall be appropriated to the applicable functional area.

4.0 Expenditure Policies

4.01 Debt Capacity, Issuance, and Management

The County intends to manage cash in a fashion that will prevent any borrowing to meet daily operational needs. The County will confine long-term borrowing to capital improvements or projects that cannot be financed from current revenues except where approved justification is provided.

The County will utilize a balanced approach to capital project funding, using a combination of debt financing, draws on unassigned fund balance, and pay-as-you-go current year appropriations. Debt will be repaid within a period not to exceed the expected useful life of the project.

FINANCIAL MANAGEMENT POLICIES

It is the County's intention to develop and update, at least annually, a Capital Improvement Funding Plan that identifies all funding sources for existing and proposed debt service and pay-as-you-go capital expenditures. As part of this Plan, the County will strive to provide a current year revenue appropriation for debt service that is consistent from year-to-year whereby excess funding resulting from declines in debt service payments will be carried forward to be applied to future debt service payments and/or other capital expenditures. This budgeting approach will help to create future debt and capital affordability and will provide budgeting consistency for debt and capital purposes.

For tax-supported debt, the net debt as a percentage of estimated market value of taxable property shall not exceed 5%. Net debt is defined as any and all debt that is tax-supported. The ratio of tax-supported debt service expenditures as a percentage of total governmental fund expenditures shall not exceed 10% with a minimum aggregate ten-year tax-supported payout ratio of 50%. Target debt ratios will be annually calculated and included in the review of financial trends. In the event that the County anticipates exceeding the policy requirements stated above, staff may request an exception from the Board of Supervisors stating the reason and length of time.

County staff and the financial advisor shall monitor the municipal bond market for opportunities to obtain interest savings by refunding outstanding debt.

4.02 Expenditure Accountability

The County Administrator shall maintain ongoing contact with department managers and Constitutional Officers throughout the budget implementation and execution process. Department managers and Constitutional Officers have the ability to review their expenditures at any time by contacting the finance department. Monthly financial reports shall be prepared for the Board of Supervisors to monitor budgeted and actual expenditures and revenues.

The County shall appropriate as part of its annual budget, or any amendments thereto, amounts for salaries, expenses and other allowances for its Constitutional Officers that are not less than those established for such offices by the State Compensation Board.

4.03 Appropriation Amendments and Transfers

Appropriation amendments to the operating budget shall be brought before the Board of Supervisors for approval throughout the fiscal year. Per the Code of Virginia, any additional appropriation which exceeds 1% of the total expenditures shown in the currently adopted budget must be accomplished by publishing a notice of a meeting and a public hearing once in a general circulation newspaper at least seven days prior to the meeting date. The notice shall state the Board's intent to amend the budget and include a brief synopsis of the proposed budget amendment. The amendment may be adopted at the meeting after the public hearing.

The County Administrator shall be authorized to transfer funds and personnel from time to time within and between the offices and activities delineated in the County budget as she may deem in the best interests of the County in order to carry out the work of the County as approved by the Board of Supervisors.

All appropriations lapse on June 30 of each fiscal year for all operating budgets. Capital Improvement funds will automatically be reappropriated to the next fiscal year, unless the Board of Supervisors requests that the funds be appropriated for alternate projects.

FINANCIAL MANAGEMENT POLICIES

5.0 Fund Balance

The County is dedicated to maintaining an appropriate level of fund balance sufficient to mitigate current and future financial risks and to ensure stable tax rates; and, therefore, formally establishes the General Fund Balance Policy for the County's General Fund Balance. This policy also authorizes and directs the County Administrator to prepare financial reports, which accurately categorizes fund balance as required by GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*.

The County believes that sound financial management principles require that sufficient funds be retained by the County to provide a stable financial base at all times. To retain this stable financial base, the County needs to maintain Unassigned Fund Balance, and other fund balances or reserves as identified by the County, if any, sufficient to fund all cash flows of the County, to provide financial reserves for unanticipated or emergency expenditures and/or revenue shortfalls, and to provide funds for all existing expenses.

Mathews County's Unassigned General Fund Balance shall be maintained at a level to provide the County with sufficient working capital and a comfortable margin of safety to address emergencies and unexpected declines in revenue without borrowing.

5.01 Purpose

The purpose of the General Fund Balance Policy is to specify the composition of the County's financial reserves, set minimum levels for fund balances or reserves, and to identify certain requirements for replenishing any general fund balances or reserves utilized.

The County shall not use the Unassigned General Fund Balance to finance recurring operating expenditures.

5.02 General Fund Balance Categories

For documentation of the County's fund balance position, communication with interested parties and general understanding, a clear and consistent system of classification of the components of the County's fund balances is necessary. The County's reporting and communication with respect to General Fund Balance will utilize the classifications outlined in generally accepted accounting principles (GAAP). GAAP dictates the following hierarchical fund balance classification structure based primarily on the extent to which the County is restricted in its use of resources.

- 5.02.1 Non-spendable Fund Balance: amounts that are not in a spendable form, such as land of prepayments, or trust or endowment funds where the balance must remain intact.
- 5.02.2 Restricted Fund Balance: amounts that have constraints placed on their use for a specific purpose by external sources such as creditors, or legal or constitutional provisions.
- 5.02.3 Committed Fund Balance: amounts that have been designated for a specific purpose or which have constraints placed by the Board. Committed fund balance may also include contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements. Amounts within this category require Board of Supervisors action to commit or to release the funds from their commitment.

FINANCIAL MANAGEMENT POLICIES

- 5.02.4 Assigned Fund Balance: amounts set aside with the intent that they be used for specific purposes. The expression of intent can be made by the Board or County Administrator and does not necessarily require Board action to remove the constraint on the resources. Fund Balance may be assigned through the encumbrance process as a result of normal purchasing activity (which includes the issuance of a purchase order).
- 5.02.5 Unassigned Fund Balance: amounts not included in the previously defined categories that are available for any purpose. The County's General Fund should report a positive Unassigned Fund Balance. Amounts in this classification represent balances available for appropriation at the discretion of the Board. However, the Board recognizes that the Unassigned Fund Balance needs to be comprised of liquid cash and investments to meet the County's cyclical cash flow requirements and be at a level sufficient to allow the County to avoid the need for short-term revenue anticipation borrowing. The Unassigned Fund Balance should also allow for a margin of safety against unforeseen expenditures that could include, but not be limited to, natural disasters, severe economic downturns, and economic development opportunities. Unassigned Fund Balance shall not be used for annual recurring expenditures, except for unforeseen emergency circumstances.

5.03 Unassigned Fund Balance Policy

The County will maintain a minimum Unassigned Fund Balance level of 15% of the County's Governmental Expenditures. Governmental Expenditures are defined as expenditures for the General and School Operating Funds, Net of the Local Government Contribution to the School Operating Fund.

Example Calculation: Based on the County's FY 2023 Audit, 15% translates into approximately **\$4,805,064** as follows:

| | | |
|--|-----------|-------------------|
| General Fund Expenditures | \$ | 23,921,312 |
| Plus School Operating Funds | \$ | 16,452,476 |
| Less Local Government Contribution | \$ | 8,340,027 |
| Total | \$ | 32,033,761 |
| X 15% = Unassigned Fund Balance Minimum | \$ | 4,805,064 |

To the extent that funds are available in excess of the minimums described above (i.e., 15%), the Board recognizes that it could strategically utilize these funds, if appropriate. However, the Board also recognizes that maintaining reserves above the minimum Unassigned Fund Balance Policy target may be beneficial to the overall well-being of the County. Should any amounts above the 15% Unassigned Fund Balance Policy target exist, they should only be appropriated for non-recurring expenditures, as they represent prior year surpluses that may or may not materialize in subsequent fiscal years. Amounts above the 15% Unassigned Fund Balance Policy target could be used for the following purposes (listed in order of priority):

- A. Increase Restricted Fund Balances as necessary.
- B. Fund additional reserves as deemed appropriate by the Board.
- C. Allocating such amounts toward equity funding of the capital needs, economic development or transfer to a capital project or capital reserve fund. The Board of Supervisors reviews and approves surplus allocations per the recommendation of the County Administrator.

FINANCIAL MANAGEMENT POLICIES

5.04 Replenishment of Unassigned Fund Balance/Budget Stabilization Fund

Upon the use of any Unassigned Fund Balance for temporary funding of unforeseen emergency needs, which causes such fund balance to fall below the Unassigned Fund Balance Policy target, the Board must approve and adopt a plan to restore amounts used within 36 months. If restoration of the reserve cannot be accomplished within such period without severe hardship to the County, then the Board will establish a different time period.

5.05 Prioritization of Fund Balances

As indicated, the fund balance classifications outlined above are based on the level of restriction. In the event expenditures qualify for disbursement from more than one fund balance category, it shall be the policy of the County that the most constrained or limited fund balance be used first. Funds shall be used in the following order: Restricted, Committed, Assigned, and Unassigned as they are needed.

6.0 Debt

The Board shall follow the guidelines listed below in making financial decisions on debt issuance. Adherence to these guidelines allows the County to plan for the necessary financing of capital projects while maintaining credit worthiness. In addition, continued adherence to these policies will help ensure that the County maintains the strongest financial position possible.

The County shall use an objective analytical approach to determine whether it can afford new or additional general-purpose debt. This process shall use the County's standards of affordability.

The County may obtain debt through a variety of methods including, but not limited to: stand-alone issuance via the public markets, state pooled loan programs, loans obtained directly from banks, U.S.D.A. or other funding mechanism as they may be available to local governments.

The County may use the services of a Financial Advisor to assist in the analysis of debt issuance and undertaking debt obligations.

6.01 Compliance with Legal Requirements

The County shall comply with all applicable state and federal laws related to the issuance of indebtedness and/or lease obligations. The County shall retain the use of a nationally recognized bond counsel to provide the appropriate legal advice with respect to any debt or lease issuance.

6.02 Outstanding Tax Supported Debt Ratio Policies

Policy 1: Outstanding Tax-Supported Debt as a Percentage of Total Assessed Value of Taxable Property shall not exceed 2.5%.

This ratio indicates the relationship between the County's debt and the Total Taxable value of real property, personal property, public service property and any other taxable property in the County on which a tax is levied. It is an important indicator of the County's ability to repay debt, because property taxes are the primary source of the County's revenues used to repay debt. A small ratio is an indication that the County will be better able to withstand possible future economic downturns and continue to meet its debt obligations.

Policy 2: Tax-Supported Debt Service payments (principal and interest) shall not exceed 12% of Total Governmental Expenditures.

FINANCIAL MANAGEMENT POLICIES

This ratio is a measure of the County's ability to repay debt without hampering other County services. A smaller ratio indicates a lesser burden on the County Budget. Total Governmental Expenditures is defined as expenditures for the General and School Operating Funds, Net of the Local Government Contribution to the School Operating Fund.

[Remainder of page left intentionally blank]