Essex County, Virginia

Financial Policy Guidelines

Adopted: March 10, 2015

Revision 1 – Adopted by the BOS June 8, 2023 – Effective Immediately

FISCAL POLICY GUIDELINES - OBJECTIVES

The primary objective of sound financial management policies is for the Board of Supervisors to create a framework within which financial decisions can be made. These fiscal policies are a statement of the guidelines and goals that will influence and guide the financial management practices of Essex County. Fiscal policies that are adopted, adhered to, and regularly reviewed are recognized as the cornerstone of sound financial management. Sound financial management policies:

- Contribute significantly to the County's ability to insulate itself from fiscal crisis,
- Enhance short-term and long-term financial credit ability by helping to achieve the highest credit and bond ratings possible,
- Promote long-term financial stability by establishing clear and consistent guidelines,
- Direct attention to the total financial picture of the County rather than single issue areas,
- Promote the view of linking long-run financial planning with day-to-day operations,
- Provide the Board of Supervisors and the citizens a framework for measuring the fiscal impact of government services against established fiscal parameters and guidelines,
- Ensure the organization has sufficient resources to perform mandated responsibilities and
- Provide a foundation for evaluating financial analysis and condition

To these ends, the following fiscal policy statements are presented.

Financial Policies
Accounting Policy

1. General

    a. an accounting policy addresses the accounting methods utilized in the different fund types for revenues, expenditures, assets, liabilities, and fund equity;
    b. An accounting policy also addresses the process through which revenues are collected and disbursements made.

2. Standards

    a. Generally Accepted Accounting Principles (GAAP)
    b. Governmental Accounting Standards Board (GASB)
    c. Code of Virginia
    d. Commonwealth of Virginia's Library and Archives Public Records Management
    e. Auditor of Public Accounts Uniform Financial Reporting Manual

3. Financial Statements

    a. All activities for which the county exercises oversight responsibility are incorporated into the financial statements to form the reporting entity.
    b. Include legally separate organizations which:
        i. The County appoints a majority of the governing board and either
        ii. The County can impose its will
        iii. Or there exists a financial benefit or burden
        iv. Or there is a fiscal dependence
    c. The School Board and all of its funds (School Operating, Grants, Child Nutrition) are classified as a Component Unit of the County.
    d. EDA
    e. Airport Authority
    f. The County's Annual Comprehensive Financial Report (ACFR) will be prepared at the conclusion of the County audit.

4. Fund Accounting

    a. Accounts are organized on the basis of funds, each of which is considered to be a separate accounting entity.
    b. Operations of each fund are accounted for with a separate set of self-balancing accounts, which comprise its assets, liabilities, fund equities, revenues, and expenditures or expenses as appropriate.

c. Modified accrual basis of accounting will be followed by the governmental funds and agency funds with revenues recognized when measurable and available and expenditures recognized when incurred, with the exception of interest on long-term debt, which is recognized when due.
d. Proprietary fund types will follow accrual basis of accounting with revenues recognized when due.
e. Purchase orders, contracts, and other commitments for expenditure of monies are recorded in order to reserve that portion of the applicable appropriation.

5. Fixed Assets

a. Fixed assets shall be capitalized for individual items greater than $5,000, with the exception of buildings, building improvements, construction in progress, intangible assets and land.
b. Buildings, building improvements, construction in progress and tangible assets shall be capitalized for units greater than $50,000.
c. Land shall be capitalized regardless of cost.
d. Fixed assets shall be depreciated over the estimated useful life of the asset. Enterprise funds will recognize depreciation expense.

Audit Policy

1. General

    a. Audit policy provides guidance on the selection of an independent accounting firm to provide opinions and/or reports on the County's financial statements and internal controls in compliance with Federal and State Standards.

2. Standards

    a. General Accepted Auditing Standards (GAAS).
    b. Governmental Auditing Standards issued by the Comptroller General of the United States.
    c. Specifications for Audit of Counties, Cities, and the Commonwealth of Virginia.
    d. Office of Management and Budget (OMB) Circular 133-A Audits of States and Local Governments and Non-Profit Organizations.
    e. Code of Virginia.

3. Planning and Performance

    a. To obtain reasonable assurance as to whether the financial statements are free of material misstatement by examining on a test basis evidence supporting the amounts and disclosures in the financial statements.
    b. To maintain compliance with the Single Audit Act.
    c. To perform additional audits of County, School Board and Constitutional Officer activities based upon risk assessment of activity, function or process.

4. Selection of Auditors

    a. Auditors will be selected to perform annual audits through a request for proposal (RFP) process every five years, unless otherwise approved by the Board of Supervisors. The selection of the auditors will be made jointly between the County and Schools.

Budget Policy

1. General

   a. The County's budget policy will address the processes by which a budget is formulated from departmental requests to Board of Supervisors' adoption and other issues presented to the Board of Supervisors during the budget process.
   b. A budget policy addresses the authorization levels for the approval of the annual budget and all budget adjustments for revenues and expenditures of all funds.
   c. The state code requires that the School Board present a balanced budget, in which revenues equal expenditures, to the county on or before April 1. This budget document covers the period from July 1 through June 30.

      i. There are three primary phases in the budget development process:

         1. Superintendent's Proposed Operating Budget (administrative recommendation presented to the School Board);
         2. School Board Proposed Budget (School Board recommendation to the County Board of Supervisors, and;
         3. School Board Adopted Budget (School Board adopted operating budget based on funding authorization/appropriation by County).

      ii. The county approves the appropriation for the school system generally no later than May 15. Following the approval of total budget appropriation, the School Board makes the necessary adjustments to their budget proposal and adopts a final budget.

   d. To maintain a budgeting control system that helps the County adhere to the budget, with monthly status reports comparing actual revenues and expenditures to budgeted amounts.
   e. To establish a risk management program to safeguard public assets held in trust and to minimize the financial liability arising from accidental injury or death.
   f. To provide for adequate maintenance of capital plant and equipment and develop a capital asset replacement schedule from the fixed asset inventory records.
   g. To remain current in payments to the Virginia Retirement System and to pursue legislative options that reduce or eliminate unfunded pension liabilities.
   h. To finance recurring expenses from recurring revenue sources and to not develop a dependency, within the operating budget, on nonrecurring revenue sources.

2. Standards

   a. Generally Accepted Accounting Principles (GAAP)
   b. Uniform Financial Reporting Model of the Auditor of Public Accounts of the Commonwealth of Virginia.
   c. Code of Virginia.

3. Budget Objectives

   a. The County Administrator will identify proposed budget objectives and budget schedule to be presented to the Board of Supervisors.
   b. The budget objectives will be used as the foundation in the formulation of the County Administrator's Recommended Budget and the Budget Schedule will identify important dates throughout the budget preparation and adoption period.
   c. At least once every four years, the County will reassess services and service levels.
   d. The following objectives shall be reviewed during the annual budget process:
      i. Anticipated property tax rate and assessment changes.
      ii. Provision of adequate employee compensation.
      iii. Compliance with financial policies.
      iv. Vehicle replacement programs.
      v. Reserve for contingencies within the budget year will be appropriated in the General Fund at an amount equal to at least 0.5 of the General Fund budget whenever practicable.
      vi. Enterprise funds will be self-supporting through revenues generated from their enterprise activities.
   e. The following items will occur in conjunction with the budget preparation and adoption process unless it has been determined that the proposed item is needed in a more expedited manner, in which case the Board of Supervisors approval is required.
      i. Ordinance change involving fee/rate changes.
      ii. New positions or changes to existing positions.
      iii. Requests for bond referendums for which the results of the referendum will occur prior to the appropriating of bond proceeds and expenditures.
      iv. Reimbursement resolutions for debt financed capital projects that would allow certain appropriated expenditures to occur prior to the receipt of debt proceeds.
      v. Acquisition of vehicles.
      vi. Assessment of property values for tax purposes by the Commissioner of the Revenue.
      vii. Estimate of year-end fund balances by the Treasurer.

4. Budget Preparation

    a. The County Administrator will establish a budget schedule by the second Tuesday in October, which will include important dates throughout the budget preparation period.
    b. All departments, excluding the School Board will submit their requested budget to the County Administrator by February 1 or as soon as practicable thereafter, with the requested budget providing detail to personnel, operating and capital requests, including five-year capital improvement program requests, and performance objectives as well as capital improvement needs through the next ten years that are anticipated to be considered for inclusion in the CIP in five years.
    c. County Commissions, Volunteer Organization, and Other Organizations.
        i. All community organizations shall submit their requests for contributions to the County Administrator's office.
        ii. The volunteer fire departments and EMS shall assist in the formation of the Fire and EMS budgets.
        iii. The Community Services Board and Social Services Board shall approve the departmental budget of their respective organizations prior to submission to the County Administrator's Office.
    d. At a meeting of the Board of Supervisors in March, the County Administrator shall submit to the Board of Supervisors a proposed budget, which includes proposed expenditures, segregated at the departmental level between personal services, operating expenditures and capital outlay, and a means of financing the expenditures for the fiscal year commencing July 1.
    e. A consolidated Public Hearing on the budget, ordinance changes, and personal property tax rates with a separate public hearing on the real property tax rate change, if applicable, shall be held no later than five weeks after the County Administrator submits the proposed budget.
    f. The consolidated Public Hearing notices shall appear at least seven days prior to the Public Hearing date, or such period of time as is required by law.
    g. The proposed budget summary shall be placed on the County's web page.

5. Budget Adoption

   a. As part of the budget process, these Financial Policies will be reviewed at the Board's organizational meeting and approved with any changes along with the finalized budget.
   b. As soon as practicable following the Public Hearing, the Board of Supervisors will adopt a balanced budget.
   c. The budget is legally enacted through passage of an Appropriations Resolution for all governmental and proprietary fund types that places legal restrictions on expenditures at the function level or category level.
   d. Although legal restrictions on expenditures are established at the function or activity level, effective administrative control over expenditures is maintained through the establishment of more detailed line-item budgets.
   e. At all times and notwithstanding anything in these policies to the contrary, the County will maintain compliance with the Code of Virginia in appropriating funds, advertising public notices, ordinance changes, requests for referendums, and any other legal restrictions imposed upon localities.
   f. Included with the budget resolutions is approval for the re-appropriation of all encumbered balances and capital project unencumbered balances at fiscal year-end.
   g. The Adopted Budget Document will be placed on the County's web page.

6. Budget Amendments

   a. Any additional appropriation which increases the total budget by more than 1 of the total budget will be advertised for a Public Hearing at least seven days prior to the Board of Supervisors' approval of transfer, or as otherwise required by the Code of Virginia.
   b. All transfers requiring Board of Supervisors' approvals that have been initiated from Social Services must have the Social Services Board approve the transfer prior to presentation to the Board of Supervisors.
   c. If deficits appear to be forthcoming within a fiscal year the County Administrator will recommend spending reduction to be approved by the Board during the fiscal year in order to sufficiently offset the deficit.

7. Budgetary Accounting

   a. Budgets are adopted on a basis consistent with GAAP for all government funds.
   b. Budgets for the propriety funds are also adopted in accordance with GAAP, with the exception that a budget provision is made for the payment of debt principal, reduction of refundable developer capacity fees credits and rebates, and depreciation is not budgeted.

c. All budget data in the Comprehensive Annual Financial Report represents the revised budget (adopted budget, re-appropriations and budget transfers).

8. Budget Reporting

a. The Governing Body will receive a financial report at least quarterly showing year-to-date revenues and expenditures and comparing each amount to the budget as amended.

9. Capital Improvement Budget

a. The County will consider all capital improvements in accordance with an adopted capital improvement program (CIP).

b. The County will develop a five-year plan for capital improvements and review and update the plan annually. Additional projects can be added to the CIP at any time, but funding for projects added in this manner are subject to normal operating budget constraints. The CIP will include computer, vehicle and equipment replacement.

c. The County will include as part of its annual budget process 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 included in capital budget projections.

d. 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.

e. The County will use intergovernmental grants and loans to finance only those capital improvements that are consistent with the capital improvement plan and County priorities.

f. The County will make use of non-debt capital financing sources through the use of alternate sources, including proffers and pay-as-you-go financing.

g. The County shall take all prudent steps to maintain its assets at a level adequate to protect the County's capital investment and to minimize future maintenance and replacement costs.

h. The County will identify the estimated costs and potential funding sources for each capital project proposal prior to seeking approval from the Board.

i. The County will attempt to determine the least costly and most flexible financing method for all new projects.

Fund Balance Policy

1. General

    a. The County desires to maintain the financial operation of the County in a manner consistent with sound financial management principles including guidelines and criteria established by bond rating agencies and the Governmental Accounting Standards Board (GASB).
    b. Sound financial management principles include the establishment of unassigned fund balances sufficient to maintain required cash flows and provide reserve for unanticipated expenditures, revenue shortfalls and other specific uses.
    c. The County will endeavor to maintain balances at such a level that it will not regularly incur short-term borrowings as a means to fund operations.

2. Standards

    a. Governmental Accounting Standards Board (GASB)

3. Planning and Performance

    a. Classifications of Fund Balance. The County will classify fund balances in the following manner consistent with the requirements of GASB 54:

        1. Non-Spendable Fund Balance
            i. The portion of fund balance that are not in cash or readily convertible to cash in the short term.
            ii. Inventory balances at fiscal year-end that represent amounts invested in inventory and not available for appropriation.
            iii. Advances to other funds at fiscal year-end that are currently not available for appropriation.

        2. Restricted Fund Balance
            i. Funds only able to be spent for specific purposes as stipulated by contributors outside the County government.
            ii. Includes items such as restricted grants, unspent categorical state funds

        3. Committed Fund Balance
            i. Funds available for a specific use as designated by action of the Board of Supervisors
            ii. Outstanding encumbrances (i.e., purchase orders, contracts and other commitments at fiscal year-end
            iii. Funds re-appropriated to a subsequent year's budget

4. Assigned Fund Balance
    i. Funds intended for a specific use as designated by the County Administrator
    ii. Fund balances in all funds except the general fund are assigned.

5. Unassigned Fund Balance
    i. All balances not restricted in use to another category.

b. Order of use

    i. It is the policy of Essex County to use funds from the fund balance categories in order of most restrictive to least restrictive, as appropriate. For example, for an allowable expenditure,
    ii. restricted fund balances will be spent before committed, and committed before assigned fund balances when funds designated for the same purposes are available in multiple categories.

c. Re-appropriations of capital project funds

    i. The County Administrator shall have the authority to re-appropriate unencumbered balances to continue appropriated capital projects into the next fiscal year.

d. Unassigned Fund Balance

    i. The County shall maintain an unassigned fund balance at fiscal year-end for the purposes of unanticipated expenditures, to provide for cash flow reserves during the fiscal year due to the timing difference between the receipt of revenues and disbursement of expenditures, and to meet reserve policies and bond covenants.
    ii. The County shall endeavor to achieve and thereafter maintain to the extent practicable a year-end balance at an amount equal to a minimum of 15% of governmental fund expenditures, with a preferred target of 18% of governmental fund expenditures, less any Capital Outlay projects funded with Bond Proceeds. Please see the Appendix for details on the calculation of this ratio.

Reserve Polices

1. The County Board may, from time-to-time, appropriate unassigned fund balances that will reduce available fund balances below the 15% minimum unassigned fund balance for the purposes of a declared fiscal emergency or other such global purpose as to protect the long-term fiscal security of the County. In such circumstances, the Board will adopt a plan to restore the available fund balances to the policy level within 36 months from the date of the appropriation. If restoration cannot be accomplished within such time period without severe hardship to the County, then the Board will establish a different but appropriate time period.

2. In recognition of the incremental costs of capital improvements and their future maintenance and replacement costs, the County will establish a Capital Improvements Reserve Fund. The level of the Fund will be determined on an annual basis and incorporated into the County's Annual Operating Budget. This Fund will be initially established at some minimum level based upon a further evaluation of future capital improvements needs (inclusive of pay-go capital).

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. The County will utilize a balanced approach to capital funding utilizing debt financing, draws on capital reserves and/or fund balances in excess of policy targets, and current-year (pay-as-you-go) appropriations.

3. 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.

4. Outstanding debt of the County whether general obligation, lease revenue or subject to annual appropriation, shall not exceed 3.0% of the assessed valuation of real property. Annual debt service spending should target 10% or less and shall not exceed 12% of total annual governmental fund expenditures net of interfund transfers and inclusive of Essex County School Board's expenditures. The ten- year payout ratio for all County debt shall target a minimum of 55% of total principal outstanding. These ratios will be measured annually. Please see the Appendix for details on the calculation of these ratios.

5. In the event that the County anticipates exceeding the policy requirements stated in items 4 above, Staff may request an exception from the Governing Body setting forth the reason and need for the exception and length of time estimated to retire the debt.

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

7. The County will only issue tax anticipation debt due to unforeseen circumstances and where cash flow projections identify an absolute need, and will retire any such tax anticipation debt annually. Bond anticipation debt will be retired within six months after completion of the project or upon availability of permanent financing.

School Fund Balance Reserve

1. The County shall maintain and appropriate an unassigned fund balance for Essex County Public Schools at fiscal year-end for the purposes of creating Capital Reserves for School related projects as approved by the Essex County School Board.

    a. Annual funding of these reserves will be derived from a portion of the unutilized revenue at the end of Essex County Public Schools fiscal year at a rate of 50% of the unutilized revenue.
    b. Remaining unutilized revenue will be returned to the County's unassigned fund balance.
    c. The limit of the School Capital Reserves will be set to not exceed 12% of the School's Annual Expenditures.
    d. The School Capital Reserves will continue to be funded annually with the following exceptions:
        i. School Capital Reserves meet the limit as defined.
        ii. The County's Unassigned Fund Balance drops below its targeted reserves as defined in its financial policies.
        iii. Utilization of the School Capital Reserves violates any standards or protocols by the Governmental Accounting Standards Board (GASB).

Post-Issuance of Tax-Exempt Debt

1. The Director of Finance will perform the following procedures after the issuance of tax-exempt debt and through the final maturity of the debt issuance:

    a. Monitor project expenditures for target dates of the six-month, 18-month or 24-month spending exceptions as it relates to IRS arbitrage rebate purposes and to ensure compliance with covenants and restrictions set forth in the non-arbitrage and tax certificates executed at the time of the issuance of the debt.
    b. Consult with an arbitrage rebate firm at each five year anniversary of the debt of issuance and at final maturity to determine whether arbitrage rebate calculations and arbitrage rebate payment is required. Recognition should be made that, if required, the first arbitrage rebate payment is due within 60 days after the first five year anniversary of the debt issuance, each five year anniversary thereafter and after the final maturity date.
    c. Consult with Bond Counsel prior to any transfer, sale or other disposition of debt-financed assets.
    d. Consult with Bond Counsel in connection with any contemplated management contracts, leases or other agreements with respect to the use of debt-financed assets.

Outside Agency Budget Requests

1. The County shall only consider funding requests from outside agencies after it has fully analyzed and assessed the budget requests from all County Departments and Essex County Public Schools.

Potential Non-compliance

1. Upon discovery of any potential non-compliance with any requirements of Federal or Virginia law necessary to preserve the tax-exempt status of interest on the County's bonds, the Director of Finance will consult with Bond Counsel to determine if non-compliance has, in fact occurred, and if so, what actions are needed to remedy such non-compliance.

Cash Management and Investment

1. The County Board 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 to provide the Treasurer with the timeliest information in order to best execute the powers of the Treasurer's Office. Additionally, the County is required to maintain certain controls related to the investment of restricted funds and in particular any funds derived from the issuance of debt or in some other way securing an issuance of debt.

Arbitrage

1. The County shall take all necessary steps to optimize escrows and to avoid negative arbitrage in any debt issuance in which arbitrage is applicable. Any resulting positive arbitrage will be rebated as necessary according to U. S. Internal Revenue Service & U. S. Treasury arbitrage requirements. The County is responsible for monitoring and tracking interest earnings to ensure positive arbitrage doesn't require repayment of earnings. Interest proceeds will be appropriated to offset related debt service cost and retained until eligibility of use can be determined and approved by the County Administrator.

Continuing Disclosure

1. The County will provide on-going disclosure information to established national information repositories and as agreed upon in bond and loan documentation and will maintain compliance with disclosure standards promulgated by state and national regulatory agencies.

Administration and Implementation

1. The County Administrator and the Financial Services Director are responsible for the administration and issuance of debt including the completion of specific tasks and responsibilities included in this policy.

Appendix

1. Unassigned Fund Balance Policy Calculation

	Fiscal Year	2018	2019	2020	2021	2022
1	Unassigned Fund Balance	$ 6,303,974	$ 6,687,306	$ 7,012,368	$ 8,138,455	$ 8,721,629
2						
3	**Expenditures**					
4	Total Governmental Funds	$ 26,959,035	$ 24,870,730	$ 25,106,401	$ 26,914,975	$ 25,320,659
5	Total School Funds	18,450,625	17,924,341	17,344,757	17,894,160	22,128,142
6	Less: Local Contribution to Schools	(8,254,762)	(7,655,307)	(6,830,476)	(7,149,884)	(6,665,207)
7	**Adjusted Expenditures**	**$ 37,154,898**	**$ 35,139,764**	**$ 35,620,682**	**$ 37,659,251**	**$ 40,783,594**
8						
9	UFB as % Expenditures	17.0%	19.0%	19.7%	21.6%	21.4%
10	Policy Minimum	12.0%	12.0%	12.0%	12.0%	12.0%
11	Preferred Policy Target	15.0%	15.0%	15.0%	15.0%	15.0%

Note: 2021 Expenditures have been adjusted downward by $6,140,000 for the issuance of the 2020 refunding bond through VRA and $728,941 for the premium on that bond. Sourced from County Audits.

2. Debt to Assessed Value Calculation

	Outstanding Debt as of June 30,	2018	2019	2020	2021	2022
1	**Tax-Supported Debt**					
2	County	$ 4,692,641	$ 4,166,235	$ 3,623,364	$ 2,737,561	$ 2,272,653
3	School	23,020,493	20,693,849	18,423,540	15,700,084	13,556,457
4	Airport (County Portion)	526,717	500,329	472,741	443,895	413,732
5	Water & Sewer (County Portion)	1,028,963	902,222	769,037	629,407	483,333
6	**Total Tax-Supported Debt**	**$ 29,268,814**	**$ 26,262,635**	**$ 23,288,682**	**$ 19,510,947**	**$ 16,726,175**
7						
8	Assessed Value of Real Estate	$ 1,291,693,471	$ 1,296,806,253	$ 1,302,914,819	$ 1,402,522,505	$ 1,509,472,757
9						
10	Debt to Assessed Value of Real Prop.	2.3%	2.0%	1.8%	1.4%	1.1%
11	Policy	3.5%	3.5%	3.5%	3.5%	3.5%

3. Debt Service to Expenditures Calculation

	Fiscal Year	2018	2019	2020	2021	2022
1	Governmental Debt Service	$ 4,289,748	$ 4,175,437	$ 4,064,257	$ 4,388,992	$ 3,637,652
2						
3	**Expenditures**					
4	Total Governmental Expenditures	$ 25,653,569	$ 24,870,730	$ 25,106,401	$ 26,914,975	$ 25,320,659
5	Transfers In	478,243	3,928,490	4,459,972	3,913,264	4,035,739
6	Transfers Out	(478,243)	(3,928,490)	(4,459,972)	(3,913,264)	(4,035,739)
7	Plus: Essex Co. School Board Exp.	18,450,625	17,924,341	17,344,757	17,894,160	22,128,142
8	Less: Local Contribution to Schools	(8,254,762)	(7,655,307)	(6,830,476)	(7,149,884)	(6,665,207)
9	**Adjusted Expenditures**	**$ 35,849,432**	**$ 35,139,764**	**$ 35,620,682**	**$ 37,659,251**	**$ 40,783,594**
10						
11	Debt Service to Expenditures	12.0%	11.9%	11.4%	11.7%	8.9%
12						
13	Policy Maximum	12.0%	12.0%	12.0%	12.0%	12.0%
14	Policy Target	10.0%	10.0%	10.0%	10.0%	10.0%