Town of Purcellville, Virginia
Fiscal Policy Guidelines
Version 4 – February 25, 2014

SECTION I. Accounting, Auditing, and Financial Reporting

a. The town will establish and maintain the highest standards of accounting practices in conformance with uniform financial reporting in Virginia and generally accepted accounting principals for governmental entities as promulgated by the Governmental Accounting Standards Board.
b. The town will engage an independent firm of certified public accountants to perform an annual financial and compliance audit according to generally accepted government-auditing standards and will have these accountants publicly issue an opinion, which will be incorporated in a comprehensive annual financial report.
c. The town will annually seek both the Government Finance Officers Association Certificate of Achievement for Excellence in Financial Reporting and the Government Finance Officers Association Distinguished Budget Presentation Award.

SECTION II. Asset Management

a. The town will capitalize all fixed assets with a value greater than $5,000 and an expected life of two years or more.
b. The operating budget will provide for minor and preventive maintenance.
c. The capital budget will provide for the acquisition of fixed assets and the construction, or total replacement of physical facilities to include additions existing facilities, which increase the square footage or asset value of that facility or other asset. The town will protect its assets by maintaining adequate insurance coverage through either commercial insurance or risk pooling arrangements with other governmental entities.

SECTION III. Revenue Management

a. The town will maintain a diversified and stable revenue structure to protect it from short-run fluctuations in any one-revenue source.
b. The town will estimate its annual revenues by an objective, analytical process.
c. The town, where practicable, will institute user fees and charges for specialized programs and services. Rates will be established to recover operational as well as overhead or indirect costs and capital or debt service costs, and the town will periodically review user fee charges and related expenditures to determine if pre-established recovery goals are being met.

d. The town will follow an aggressive policy of collecting revenue.
e. The town should routinely identify intergovernmental aid funding possibilities. However, before applying for or accepting intergovernmental aid, the town will assess the merits of a particular program as if it were funded with local tax dollars. Local tax dollars will not be used to make up for losses of intergovernmental aid without first reviewing the program and its merits as a budgetary matter. All grant applications, prior to submission, must be approved by the Town Manager; grants and donations may be accepted only by the Town Council; and no grant will be accepted that will incur management and reporting costs greater than the grant amount.

SECTION IV. <u>Budget Management</u>

<u>Operating Budgets</u>

a. The town, to maximize planning efforts, intends to prepare the operating budget with a multi-year perspective.
b. The budget is a plan for raising and allocating resources. The objective is to enable service delivery within available resources. Services must be delivered to residents and taxpayers at a level, which will meet real needs as efficiently and effectively as possible.
c. The town will fund current expenditures with current revenues and use nonrecurring revenues for nonrecurring expenditures.
d. It is important that a positive unassigned fund balance and a positive cash balance be shown in all governmental funds at the end of each fiscal year. When deficits appear to be forthcoming within a fiscal year, spending during the fiscal year must be reduced sufficiently to create a positive unassigned fund balance and a positive cash balance.
e. Where possible, the town will integrate performance measurements and productivity indicators within the budget. This should be done in an effort to continue to improve the efficiency and effectiveness of town programs and employees. Performance measurement should become a dynamic part of town government administration.
f. The budget must be structured so that the Town Council and the general public can readily establish the relationship between revenues, expenditures and the achievement of service objectives.
g. Budgetary reviews by the Town Council and Town Manager will focus on the following basic concepts:

    <u>Existing Service Costs</u>. The justification for base budget program costs will be a major factor during budget reviews.

    <u>Administrative Costs</u>. In all program areas, administrative overhead costs should be kept to the absolute minimum.

    <u>Program Expansions</u>. Proposed program expansions above existing service levels must be submitted as separate budgetary requests requiring detailed justification. Every proposed program expansion will be scrutinized on the basis of its relationship to the health, safety and welfare of the community to include analysis of long-term fiscal impacts

    <u>New Programs</u>. Proposed new programs must also be submitted as individual budgetary requests requiring detailed justification. New programs will be evaluated on the same basis as program expansions to include analysis of long-term fiscal impacts.

Capital Budgets

h. The town will make all capital improvements in accordance with an adopted capital improvements program.
i. The town will develop a multi-year plan for capital improvements, which considers the town's development policies and links development proffers resulting from conditional zonings with the capital plan.
j. The town will coordinate development of the capital budget with development of the operating budget. Future operating costs associated with new capital projects will be projected and included in operating budget forecasts.
k. The town will make use of non-debt capital financing through the use of alternate sources, including proffers and pay-as-you-go financing. The goal of the town is to finance 25% of the current portion of construction and acquisition costs of capital assets, improvements, and infrastructure (in excess of proffers) through the use of such non-debt sources over the course of a five year CIP program. The amount provided in current resources may be applied equally to all projects or only to specific projects.

Capital Asset Replacement Fund

l. Given the above stated goal to finance 25% of the cost of construction and acquisition costs of capital assets, improvements, and infrastructure(in excess of proffers) through the use of non-debt sources over the course of a five year CIP program, the Town will establish a Capital Asset Replacement Fund.
m. The Capital Asset Replacement Fund will provide non-debt funding for capital projects included in the adopted CIP with a focus on capital assets with shorter useful lives (i.e. vehicles, equipment, etc.).
n. Initial funding for the Capital Asset Replacement Fund will come from revenues that result from the growth in the Town's tax base. It is the goal of the Town to dedicate between 10% and 25% of the incremental additional revenues generated by the annual growth in the Town's tax base, if any, to the Capital Asset Replacement Fund.
o. Town Council may also, from time to time, dedicate monies from the Unassigned Fund Balance that are in excess of the Town's stated policy guideline to the Capital Asset Replacement Fund so long as the Undesignated Fund Balance level after such dedication will maintain compliance with the Town's policy goals.

SECTION V. Debt and Cash Management

Debt Management

a. The town will not fund current operations from the proceeds of borrowed funds and will confine long-term borrowing and capital leases to capital improvements, projects, or equipment that cannot be financed from current financial resources.
b. The town will, when financing capital improvements or other projects or equipment by issuing bonds or entering into capital leases, repay the debt within a period not to exceed the expected useful life of the project or equipment. Debt related to equipment ancillary

to a construction project may be amortized over a period less than that of the primary project.

c. The town will annually calculate target debt ratios for direct, non-revenue based debt that is dependent on the general fund for the payment of debt service. So long as payments from the general fund to the enterprise fund are not necessary to make up shortfalls in the enterprise fund, enterprise fund debt will not be included in the calculation of the debt ratios. The town's debt capacity shall be maintained within the following primary goals:
    1. Debt service expenditures as a percentage of general fund expenditures should not exceed 15%.
    2. Bonded debt of the town shall not exceed 2.0% of the total assessed value of taxable property.
d. The town will follow a policy of full disclosure in every annual financial report and financing official statement/offering document. As such, the Director of Finance will maintain a record of all of the lenders of outstanding town issued debt. This record will include any post issuance disclosure obligations of the town. So long as the Town has debt outstanding in the public markets this record will also include the continuing disclosure requirements found in the Continuing Disclosure Agreement ("CDA") that is executed at the closing of publicly issued bonds. The Continuing Disclosure Agreement specifically references the town's obligations under rule 15c212. The most recent CDA is included as Appendix A to these financial policies.
e. It is the goal of the town to maintain or enhance its credit ratings. The town understands that there is a correlation between a higher bond rating(s) and lower borrowing costs (all else being equal) – whether the town is borrowing is for a new project or to refinance existing debt for savings. As such, working with its Financial Advisor, the town will maintain good communications about its financial condition with bond and credit rating institutions.
f. The town understands that is has the unique ability to borrow on a tax-exempt basis for many of its General Government and Utility Enterprise projects. The town further understands that the provisions of the Internal Revenue Code of 1986, as amended (the "IRC"), together with the regulations promulgated thereunder (the "Treasury Regulations" and collectively with the IRC, the "Tax Laws"), impose requirements that must be met in order for interest on the Bonds to continue to be exempt from federal income taxation or the Bonds be entitled to certain other tax benefits while the Bonds are outstanding. It shall be the policy of the town work with a nationally recognized Bond Counsel and Financial Advisor, as necessary, (a) to comply with the Tax Laws and (b) to implement and carry out the procedures to ensure compliance with the Tax Laws and to preserve appropriate records to evidence such compliance.

Cash Management

f. The town will maintain an investment policy based on the Government Finance Officers Association model investment policy, and the investment policies and procedures of the director of finance shall become a part of this policy.
g. The town will, where permitted by law, pool cash from its various funds for investment purposes and will invest revenue to maximize the rate of return while maintaining a low level of risk

SECTION VI. **<u>Reserve Funds Management</u>**

a. The general fund unassigned fund balance should be maintained at a minimum of $3 million or 30% of total general fund revenues, whichever is greater, given that the water and sewer enterprise funds are self supporting and the enterprise fund fund balances are maintained at a substantial level.
b. The general fund unassigned fund balance should be drawn upon only as absolutely necessary and any use thereof should be limited to:
    1. One time capital needs;
    2. Offsetting difficult economic times;
    3. Non-recurring expenditures;
    4. Providing liquidity in emergency situations.
c. The total of the water and sewer utility funds unrestricted cash and equivalents at the close of each fiscal year should be equal to no less than 100% of the total of operating expenditures and debt service.
d. Should the town utilize fund balances (general fund) or unrestricted cash and equivalents (water and sewer utility funds) that will reduce the funds below the policy for one of the purposes noted above the town will put in place a plan to restore the fund balance to the policy level. In such circumstances, after the fund balance (General Fund) or unrestricted cash (water and sewer utility funds) have been calculated as part of closing-out a fiscal year, the town will adopt a plan as part of the following year's budget process to restore the funds to the policy level within 36 months from the date of the budget adoption.

Note: Version 1 adopted in October 2005; Version 2 adopted in February 2007; Version 3 adopted in November 2010; Version 4 adopted in February 2014.