



The Board of County Supervisors

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September 9, 2020

TO: Board of County Supervisors

THRU: Christopher E. Martino
County Executive

FROM: Michelle L. Attreed
Director of Finance/CFO *MLA*

RE: Presentation Materials - Principles of Sound Financial Management Update – Sept. 2020

Attached please find the following presentation materials related to the Principles of Sound Financial Management (PSFM) Update:

- PowerPoint presentation
- Current (April 2018) PSFM Document with track changes
- Revised Cover Format

I will present this material to you at your September 15, 2020 meeting at which time I plan to review the recommended changes and answer any questions you may have. No Board action is planned for the 15th -- this is really meant to be more of a conversation. I will return to the Board on either September 22nd or October 6th to request the Board adopt the recommended changes. This allows you time to thoroughly review the proposed changes and get the answers to any questions you may have.

Attachments

cc: County Attorney
DCXOs



PRINCE WILLIAM
COUNTY

Principles of Sound Financial Management Update – Sept. 2020

Presented By: Michelle L. Attreed, Director of Finance/CFO

BOCS Meeting | September 15, 2020

Background and Purpose

- Principles of Sound Financial Management (PSFM) first adopted by Board of County Supervisors (BOCS) in December 1988
 - Amended in 1993, 1996, 1999, 2009, 2012, 2016 and 2018
- Purpose
 - Guide the BOCS and the County Executive as they make fiscal decisions regarding resource allocations and budget appropriations
 - Assure sound stewardship of taxpayer dollars
 - Guide the County in the planning of expenditures, revenues and funding arrangements for public services
 - Ensure budget flexibility
 - Ensure structural stability to weather economic cycles

Importance of PSFM



- Instills public trust
- Instills discipline upon the organization to ensure long term fiscal stability and resiliency
- Serves as a key measure of fiscal strength and credit worthiness
- Underlying factor for AAA ratings from all three major rating agencies
- Leading indicator of trustworthiness for the bond market
- Lays the foundation for success in Economic Development

"The rigor of a government's financial management practices is an important factor in Standard & Poor's analysis of that government's creditworthiness. Managerial decisions, policies, and practices apply directly to the government's financial position and operations, debt burden, and other key credit factors."

~ Standard & Poor's "U.S. Local Governments General Obligation Ratings: Methodology and Assumptions"

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Policy Review



- Policy 13.01 requires the BOCS review and approve by resolution the financial policies contained in the PSFM a minimum of once every four (4) years, contiguous with the term of the newly elected BOCS.
- PSFM have been thoroughly reviewed by Finance Department/Treasury Management staff in consultation with PFM, the County's financial advisor
- Recommendations/edits vetted with:
 - Office of Executive Management
 - Office of Management & Budget
 - Department of Economic Development
 - Human Resources
 - Finance Department/Procurement Services
 - Finance Department/Risk and Wellness Services
 - Finance Department/Financial Reporting & Control
- Three types of changes identified:
 - Substantive Change – significant change to existing policy or new policy
 - Administrative Update – grammatical, punctuation, formatting
 - Terminology Update - wording changes to reflect change in industry nomenclature or standards

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Current Policy Sections



- Fund Balance
- Fiscal Planning
- Revenues
- Capital Improvement Program (CIP) and Capital Assets
- Debt Management
- Cash Management
- Personnel
- Internal Control and Financial Reporting
- Risk Management
- Procurement
- Economic Development
- Policy Review

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Proposed Policy Sections



- Fund Balance
- Fiscal Planning
- Revenues
- Capital Improvement Program (CIP) and Capital Assets
- Debt Management
- Cash Management
- Personnel
- Internal Control and Financial Reporting
- Risk Management
- Procurement
- Economic Development
- **Redevelopment (NEW)**
- Policy Review

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Five Substantive Policy Changes Recommended



Policy I:
Fund Balance

Policy II:
Fiscal Planning


Policy IV:
Capital Improvement
Program and
Capital Assets

Policy V:
Debt Management

Policy XII:
Redevelopment


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GFOA Best Practice



- Government Finance Officers Association (GFOA) Best Practices “recommend, at a minimum, that general-purpose governments, regardless of size, maintain unrestricted budgetary fund balance in their general fund of **no less than two months of regular general fund operating revenues or regular general fund operating expenditures**”

County's
unassigned
fund balance is
approximately
one-half the
recommended
amount



General Fund Budget (FY 19)

\$1.179 B

Two-month Operating Expenditures (2/12th or 16.67%)

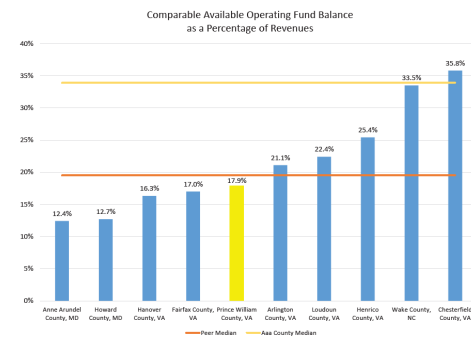
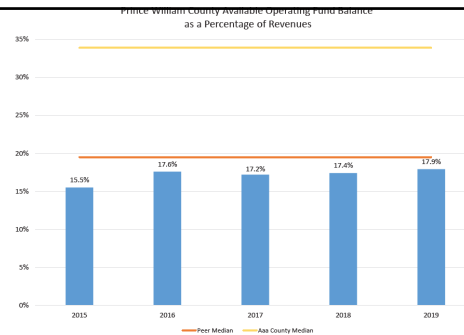
\$196.5 M

County Unassigned Fund Balance at 6/30/19

\$87.3 M

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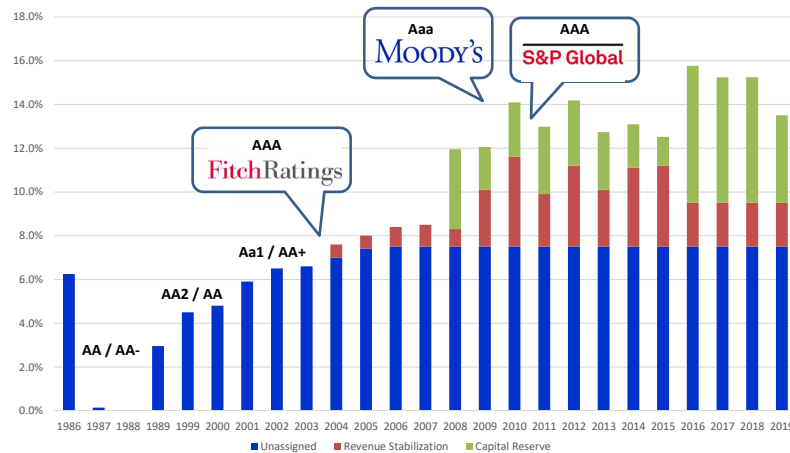
County's Reserve Levels are Lower than AAA Peer Median and AAA County Median



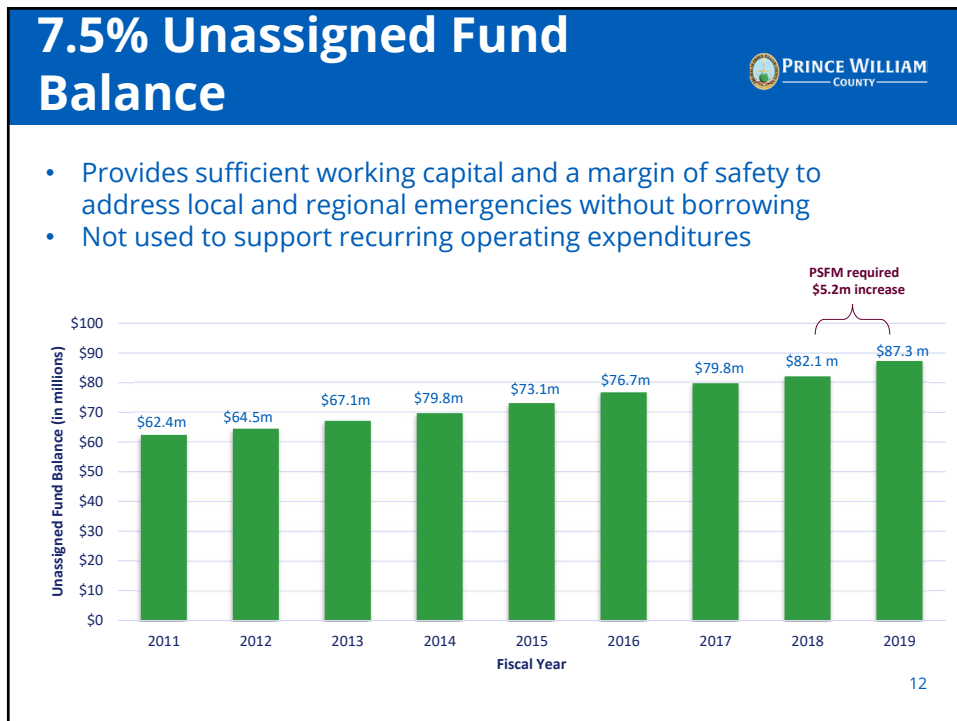
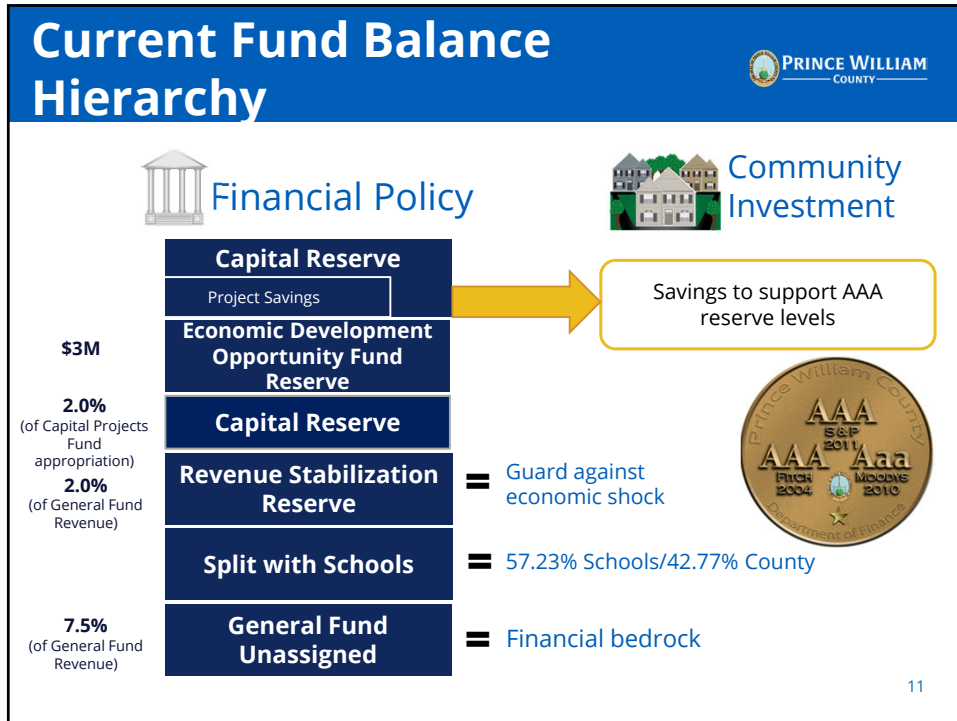
AAA Target > 30%

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Reserve/Rating Correlation



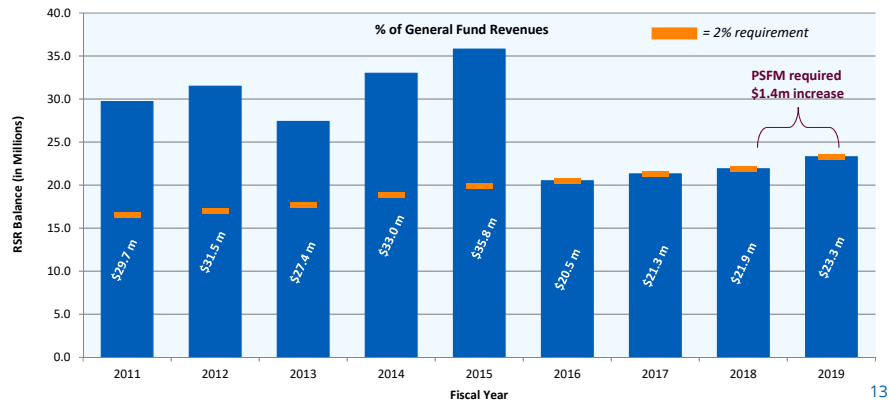
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2% Revenue Stabilization Reserve



- Provides sufficient working capital and a margin of safety to withstand local and regional economic shocks and unexpected declines in revenue without borrowing

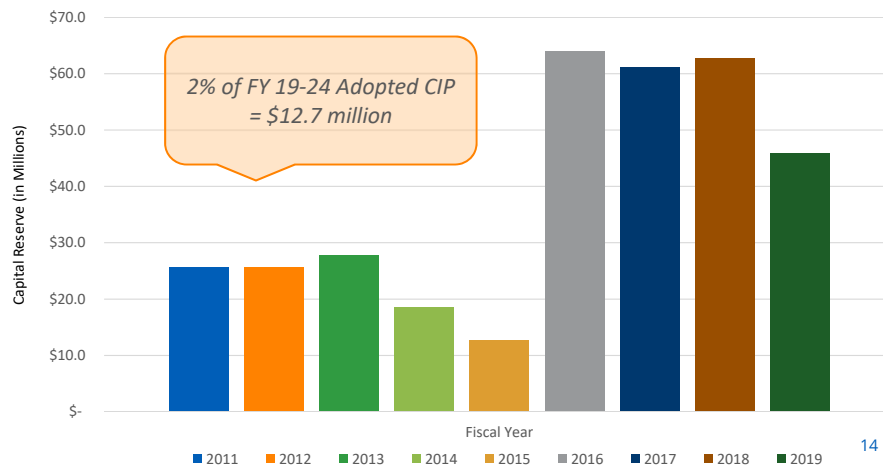


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Capital Reserve Balance

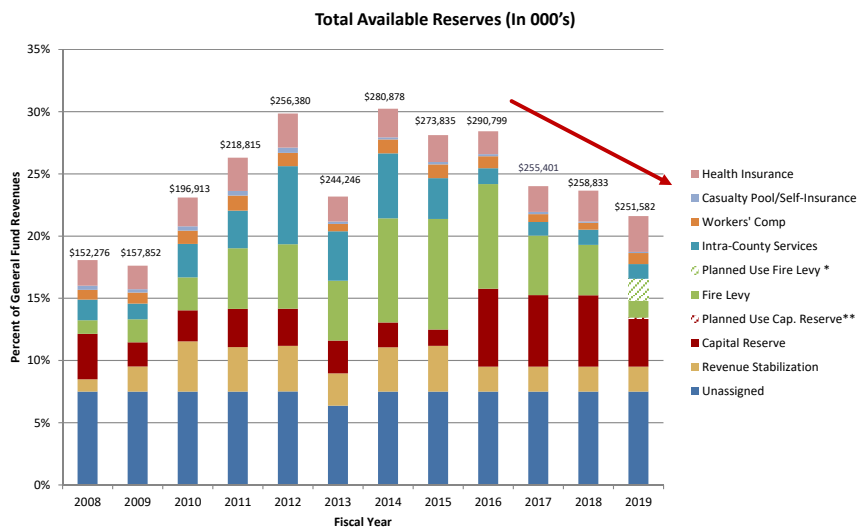


- Provides the County with sufficient working capital and a margin of safety to withstand unexpected, but necessary, project cost overruns without additional borrowing



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Declining Total Reserve Levels



* \$20.3 million of the FY 2019 Fire Levy fund balance is planned for future cash-to-capital investments and associated operations in FY 2020 and FY 2021; ** \$0.6 million of the FY 2019 Capital Reserve is planned for use in FY 2020

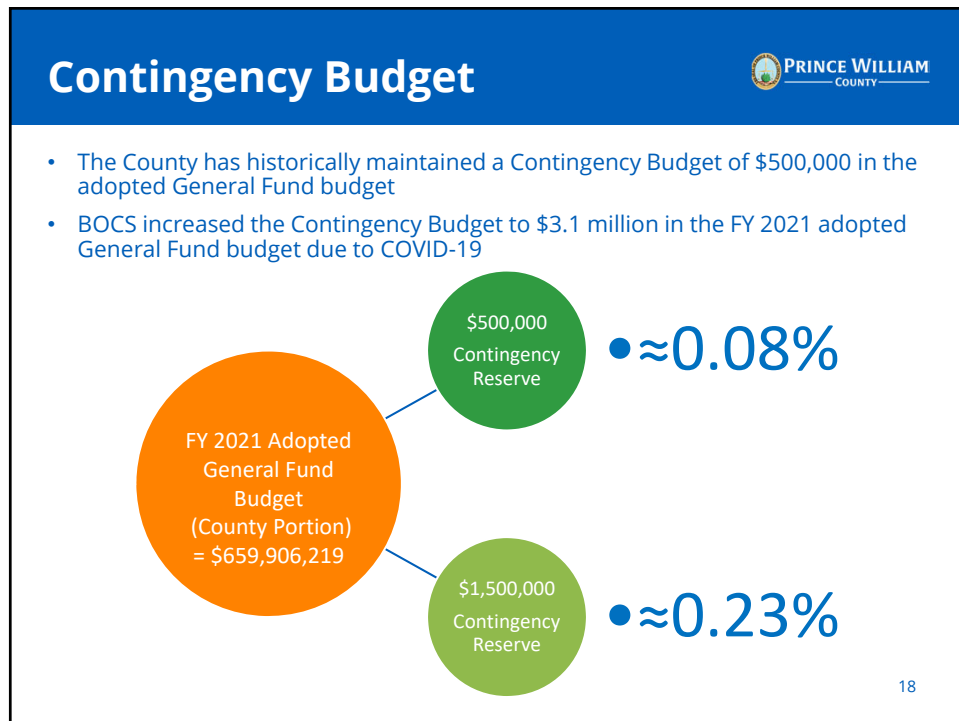
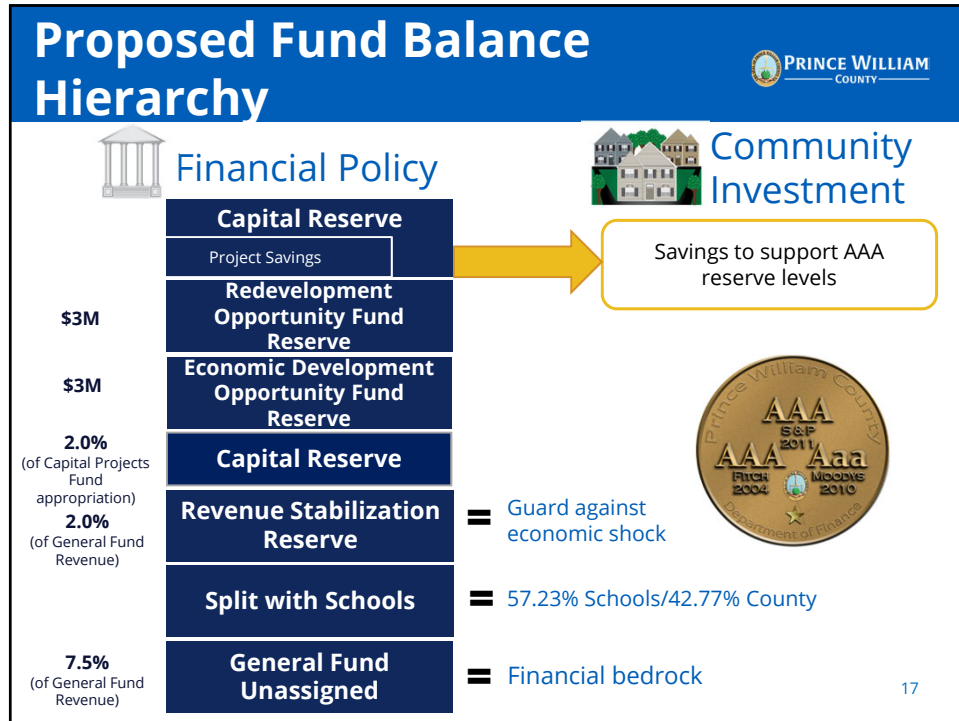
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Recommendation #1

Policy I: Fund Balance

- A new Redevelopment Opportunity Fund (ROF) Reserve is recommended in a new set of Principles (1.40 through 1.43). These Principles would establish a \$3 million ROF Reserve, with annual replenishment, for the purpose of incentivizing redevelopment, subject to appropriation by the BOCS
 - Enhances the County's reserve levels
 - Earmarked source of annual funding for redevelopment initiatives

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Recommendation #2

Policy II: Fiscal Planning

- Increase the Contingency Budget requirement to \$1,500,000
 - FY 2021 adopted General Fund budget already exceeds \$1,500,000
 - Provides source of funding for unanticipated operational cost overruns or unplanned expenditures
 - All usage of the Contingency Budget requires BOCS action

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Capital Maintenance



- During the last Great Recession, the County, like many other jurisdictions across the country, deferred some of its capital maintenance to maneuver through difficult economic times
 - Deferred maintenance creates a future liability or cost obligation, often more costly (i.e., every \$1 of deferred maintenance can lead to \$4 in capital renewal costs)
- GFOA Best Practices state, "Government entities should therefore establish capital planning, budgeting and reporting practices to encourage adequate capital spending levels. A government's financial and multi-year capital plans should address the continuing investment necessary to properly maintain its capital assets. **Such practices should include proactive steps to promote adequate investment in capital renewal and replacement**"

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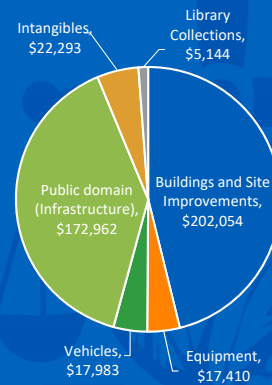
The County's Governmental Assets: \$437.8 million (net)*



- Building and Site Improvements comprise 46% of the County's depreciable assets at \$202 million
- Dedicated capital maintenance budget approved by BOCS
 - FY 2021 - \$0
 - FY 2020 - \$5.5 million
 - FY 2019 - \$8.0 million
 - FY 2018 - \$8.0 million
 - FY 2017 - \$0

Buildings and Other Capital Assets (net of depreciation)

amounts in 000's



* Excludes Landfill, Parks and ADC

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Example - PWCS Repairs and Renewals Policy



- Prince William County Schools (PWCS) budget for repairs and renewals using the National Building Research Board recommendations
 - The School Board recommends 2% to 4% of current replacement value of facilities be budgeted annually for repairs and renewals
 - PWCS has established an average repair and renewal target of 3% of the current replacement value of facilities with 1.5% for preventative maintenance and 1.5% for repairs and renewals; target varies from 2.2% to 3.4% dependent on biennium funding from Commonwealth

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Recommendation #3

Policy IV: Capital Improvement Program and Capital Assets

- Add a minimum dollar requirement of \$3,000,000 annually for the ongoing, cyclical maintenance of capital assets
 - $\approx 1.5\%$ of value of building and site improvements
 - Strengthens fiscal policies related to the County's capital program
 - Preserves taxpayer funded assets
 - Reduces long-term costs

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Debt Policies Aim to Measure Capacity and Affordability



Debt Capacity

The amount of financing that may be issued by the County within legal constraints without overextending the County's ability to repay its obligations

Debt Affordability

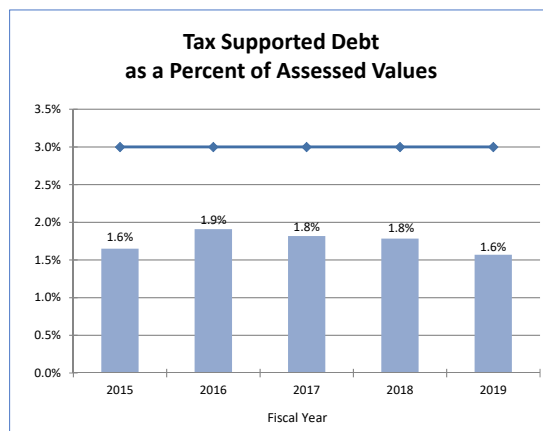
The burden associated with repaying a debt obligation

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Self-imposed Debt Obligation Limit → Capacity

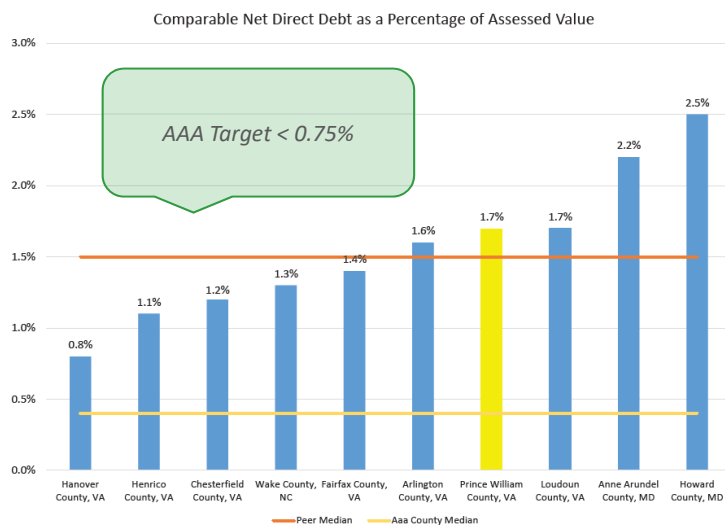


Total bonded debt will not exceed 3% of the net assessed valuation of taxable real and personal property in the County



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Peer Comparison



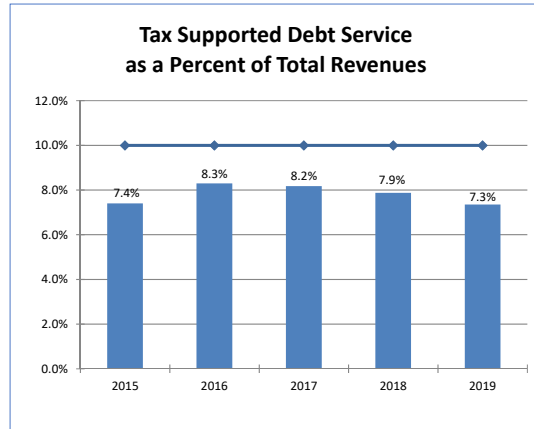
Source: Moody's Financial Ratio Analysis database, all data is as of FY 2019

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Self-imposed Debt Service Limit → Affordability

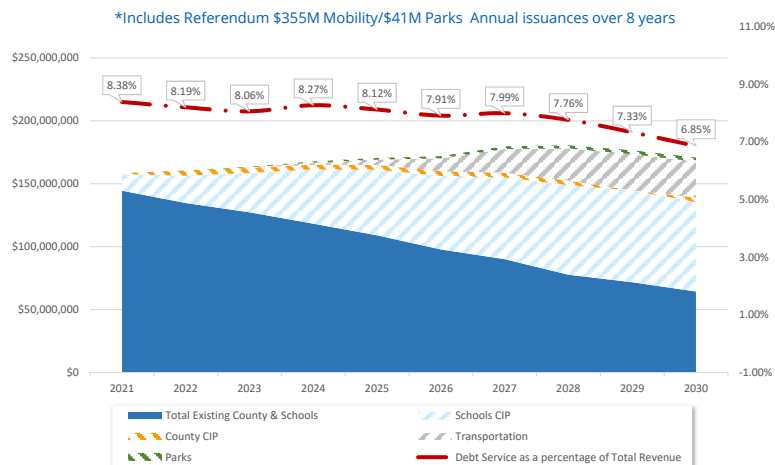


Annual tax supported debt service expenditures shall not exceed 10% of annual revenues



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Projected 10% of Total Revenues Metric



Notes: The County's metric uses total annual revenues of all funds. Includes adopted FY 2021 Revenue. Five-Year plan was not adopted therefore pre-COVID forecast is included.

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Jurisdictional Comparison



- Many other jurisdictions utilize a metric specific to their General Fund (typical source for debt payments)

Arlington County	10% of General Fund Expenditures
Fairfax County	10% of General Fund Expenditures
Henrico County	7.8% of General Fund Expenditures
Stafford County	10% of General Fund Expenditures
Loudoun County	10% of General Fund Expenditures
City of Virginia Beach	10% of General Fund Expenditures
City of Alexandria	12% of General Governmental Expenditures

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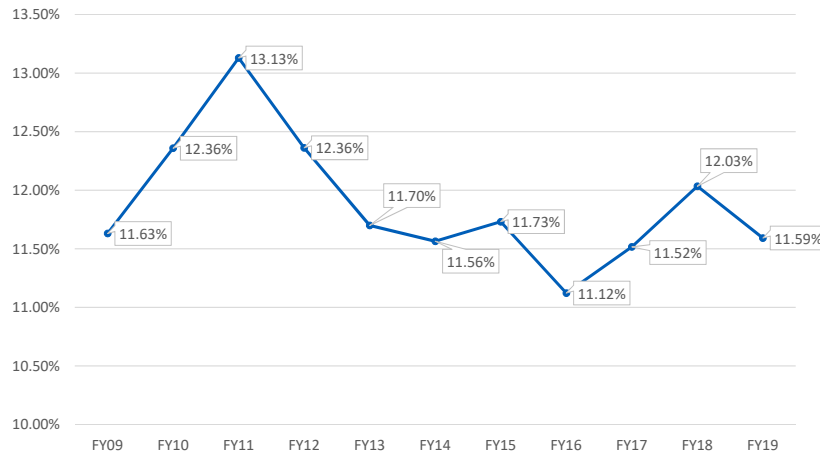
Recommendation #4

Policy V: Debt Management

- Add new debt affordability metric that measures debt service expenditures against general fund + fire levy expenditures → cannot exceed 13%
 - Better measurement of affordability as it measures debt service against the primary funds used to pay debt service
 - Consistent with metrics used by other peer jurisdictions
 - Measurement used by rating agencies and other peer localities

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Existing Debt Service as % of General Fund + Fire Levy Expenditures



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Redevelopment



- As vacant land in development areas decreases and many commercial properties and adjacent land age or are underutilized, vast opportunities exist to redevelop and revitalize strategically important nodes to increase capital investment, attract and retain targeted industries, increase property values, and improve the overall quality of life and placemaking
- During the FY 2021 budget process, Board members expressed a desire for the County to not only invest in new economic development but to also invest in redevelopment in certain areas of the County
- The County's Small Area Plans are largely focused on redevelopment
 - Dale City
 - Fairgrounds
 - North Woodbridge
 - The Landing at Prince William
 - Triangle
 - Yorkshire
- In addition to the County's Small Area Plans, there are many commercial nodes that are of strategic importance such as gateways, retail destinations, and neighborhood centers that would be targeted for revitalization to enhance placemaking and the County's ability to attract diverse businesses, both small and large

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Redevelopment (cont'd)



- In many cases, commercial nodes in need of revitalization require government financial assistance to incentive new capital investment because the risk is higher due to untested markets
- The overall goal of redevelopment is to incentivize catalyst projects, that will in turn create momentum to attract more private investment that needs little or no government financial assistance.
- The County currently has no dedicated financial policies surrounding redevelopment

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Recommendation #5

Policy XII: Redevelopment

- Create a new section in the PSFM related to Redevelopment
- Consists of 12 specific policies that define key financial and other considerations for Catalyst Projects in redevelopment activities
 - (1) Seek private investment
 - (2) "Catalyst Projects" that have area-wide or targeted benefits
 - (3) Redevelopment sites with strategic importance
 - (4) Defined public purpose and benefit
 - (5) Due diligence; use of consultants and business plan (market analysis, financial plan, environmental study)
 - (6) Public funding for public facilities; other incentives approved by BOCS

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Recommendation #5

Policy XII: Redevelopment (cont'd)

- (7) No anticipated negative impact on bond rating
- (8) Evaluation of risk
- (9) Fiscal impact analysis
- (10) Access to developer's financial records
- (11) Compliance with BOCS' Land Bank Policies
- (12) Compliance with BOCS' Community Development Authority Policies

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Questions?

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Director of Finance/CFO
mattreed@pwcgov.org
(703) 792-6700

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Appendix

Summary of all Recommended Changes

Introduction Section



Old	New	Existing	Proposed	Explanation
n/a	n/a	Prince William County is a community of choice with a strong, diverse economic base, where families and individuals choose to live and work and businesses choose to locate. The <i>Principles of Sound Financial Management</i> establish a foundation for the fiscal strength and stability of Prince William County Government. These <i>Principles</i> guide the Board of County Supervisors and the County Executive as they make fiscal decisions regarding resource allocations and annual appropriations. Fiscal principles assure sound stewardship of taxpayer dollars as they guide the County in the planning of expenditures, revenues and funding arrangements for public services and ensure budget flexibility and structural stability to weather economic cycles.	Prince William County is a community of choice with a strong, diverse economic base, where families and individuals choose to live and work and businesses choose to locate. The <i>Principles of Sound Financial Management</i> establish a foundation for the fiscal strength and stability of Prince William County Government. These <i>Principles</i> guide the Board of County Supervisors, County Executive and staff when making fiscal decisions regarding resource allocations and annual appropriations. Fiscal principles assure sound stewardship of taxpayer dollars to guide the County in the planning of expenditures, revenues and funding arrangements for public services and ensure budget flexibility and structural stability to weather economic cycles.	Administrative update.
n/a	n/a	Prince William County initially adopted the <i>Principles of Sound Financial Management</i> in December 1988, and amended the <i>Principles</i> in 1993, 1996, 1999, 2009, 2012 and 2016. As the County and its citizen base continue to grow and become more complex, policy changes are occasionally needed. This edition marks the seventh amendment to the <i>Principles of Sound Financial Management</i> .	Prince William County initially adopted the <i>Principles of Sound Financial Management</i> in December 1988, and amended the <i>Principles</i> in 1993, 1996, 1999, 2009, 2012, 2016 and 2018. As the County and its citizen base continue to grow and become more complex, policy changes are occasionally needed. This edition marks the eighth amendment to the <i>Principles of Sound Financial Management</i> .	Updated to reflect these proposed changes if adopted by the BOCS.

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PSFM Policy I: Fund Balance



Old	New	Existing	Proposed	Explanation
1.17	1.17	1.17 Funds in excess of two percent (2.0%) of the annual requirement of Policy No. 1.12 may be retained in the Revenue Stabilization Fund Reserve, transferred to the Unassigned General Fund Balance described in Policy No. 1.00, transferred to the Committed Fund Balance - Capital Reserve described in Policy No. 1.20, or used to replenish the Economic Development Opportunity Fund as described in Policy No. 1.30.	1.17 Funds in excess of two percent (2.0%) of the annual requirement of Policy No. 1.12 may be retained in the Revenue Stabilization Fund Reserve, transferred to the Unassigned General Fund Balance described in Policy No. 1.00, transferred to the Committed Fund Balance - Capital Reserve described in Policy No. 1.20, used to replenish the Economic Development Opportunity Fund Reserve as described in Policy No. 1.30, or used to replenish the Redevelopment Opportunity Fund Reserve as described in Policy No. 1.40.	Update necessary to be consistent with Section 1.12 recommendation above.

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PSFM Policy I: Fund Balance (cont'd)



Old	New	Existing	Proposed	Explanation
n/a	1.41	n/a	1.41 The County will maintain an "Redevelopment Opportunity Fund" (ROF) Reserve to provide the County with a source of working capital that can be used to incentivize redevelopment in support of the Board's Robust Economy strategic goal of growing the commercial tax base.	Recommended new section to establish a dedicated funding source for redevelopment.
n/a	1.42	n/a	1.42 The ROF Reserve can only be appropriated by a resolution of the Board of County Supervisors.	Sets the restriction that only the BOCS can authorize use of the new ROF Reserve.
n/a	1.43	n/a	1.43 The ROF Reserve shall be replenished to a targeted \$3,000,000 threshold at the end of each fiscal year after the requirements of Policy Nos. 1.02, 1.12, 1.21 and 1.33 are met.	Sets a recommended threshold for the ROF Reserve and the order in the hierarchy of fund balance.

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PSFM Policy II: Fiscal Planning

Old	New	Existing	Proposed	Explanation
2.12	2.12	2.12 The County will annually appropriate a contingency budget to provide for unanticipated increases in service delivery costs and needs that may arise throughout the fiscal year. The contingency budget will be established at a minimum of \$500,000 annually and may be allocated only by resolution of the Board of County Supervisors.	2.12 The County will annually appropriate a contingency budget to provide for unanticipated increases in service delivery costs and needs that may arise throughout the fiscal year. The contingency budget will be established at a minimum of \$500,000 annually and may be allocated only by resolution of the Board of County Supervisors.	Updated to reflect a more appropriate level of contingency for a \$1.2 billion general fund budget (approximately 1%).
2.14	2.14	2.14 Budget transfers will provide sufficient agency operating flexibility while ensuring adherence to GASB fund accounting principles and adopted BOCS policy.	2.14 Budget transfers will provide sufficient agency operating flexibility while ensuring adherence to U.S. generally accepted accounting principles (GAAP) and adopted BOCS policy.	Terminology update.

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PSFM Policy II: Fiscal Planning (cont'd)

Old	New	Existing	Proposed	Explanation
n/a	2.17	n/a	Funds generated from year-end General Fund revenue surpluses and/or expenditure savings shall first be used to meet the various fund balance policy requirements as defined in Policy I.	Defines the priority of for usage of year end funds in accordance with Policy I.

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PSFM Policy III: Revenues



Old	New	Existing	Proposed	Explanation
3.08	3.08	3.08 The County will assess all property annually as of January 1 st in accordance with Title 58.1 of the <i>Code of Virginia</i> . Real property assessments shall be based on fair market value and follow standards established by the International Association of Assessing Officers. Personal property assessments shall be based on the average trade-in value as supplied by a nationally recognized organization, or a percentage or percentages of original cost which reasonably approximate market value.	3.08 The County will assess all property annually as of January 1 st in accordance with Title 58.1 of the <i>Code of Virginia</i> . Real property assessments shall be based on fair market value and follow standards established by the International Association of Assessing Officers (IAAO). Personal property assessments shall be based on the average trade-in value as supplied by a nationally recognized organization, or a percentage or percentages of original cost which reasonably approximate market value.	Terminology update.
3.09	3.09	3.09 The County may provide, as appropriate, tax exemptions to churches and governmental entities pursuant to State and local guidelines. Charitable, benevolent or educational institutions may seek public funding through the Community Partners Process. Such requests must be submitted annually to the Office of Management and Budget. Considerations for exemptions should be based on such considerations as benefits to the County and the fiscal capacity of the County.	3.09 The County may provide, as appropriate, tax exemptions to churches and governmental entities pursuant to State and local guidelines. Charitable, benevolent or educational institutions may seek public funding through the Community Partners Process. Such requests must be submitted annually to the Office of Management and Budget. Exemptions should be based on such considerations as benefits to the County and the fiscal capacity of the County.	Administrative update.

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PSFM Policy III: Revenues (cont'd)



Old	New	Existing	Proposed	Explanation
3.10	3.10	3.10 The County will achieve maximum possible accuracy in its annual assessment to sales ratio when the annual January 1 st assessment is compared to sales in the preceding calendar year. The County expects to achieve maximum possible accuracy by implementing state-of-the-art assessment practices. The County will maintain an average error, measured by the coefficient of dispersion (COD), and assessment to sales ratio better than the current professional standard which is ninety percent (90%) assessment to sales ratio and ten percent (10%) COD as published by the International Association of Assessing Officers.	3.10 The County will achieve maximum possible accuracy in its annual assessment to sales ratio when the annual January 1 st assessment is compared to sales in the preceding calendar year. The County expects to achieve maximum possible accuracy by implementing state-of-the-art assessment practices. The County will maintain an average error, measured by the coefficient of dispersion (COD), and assessment to sales ratio better than the current professional standard which is ninety percent (90%) assessment to sales ratio and ten percent (10%) COD as published by the International Association of Assessing Officers (IAAO).	Terminology update.

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PSFM Policy IV: Capital Improvement Program and Capital Assets

Old	New	Existing	Proposed	Explanation
4.06	4.06	4.06 The County will in ongoing, cyclical maintenance of existing capital assets in order to prevent major breakdowns or deterioration of assets with the goal of extending the life of facilities and assets. The County will maintain a schedule of needed repair, maintenance and replacement of existing capital assets with associated costs. Routine maintenance of facilities should be a focus of maintenance efforts. Prioritization of cyclical maintenance needs should be undertaken to ensure that the most important needs are addressed.	4.06 The County will invest at least \$3,000,000 annually in ongoing, cyclical maintenance of existing capital assets in order to prevent major breakdowns or deterioration of assets with the goal of extending the life of facilities and assets. The County will maintain a schedule of needed repair, maintenance and replacement of existing capital assets with associated costs. Routine maintenance of facilities should be a focus of maintenance efforts. Prioritization of cyclical maintenance needs should be undertaken to ensure that the most important needs are addressed.	Ensures a minimum level of maintenance on existing capital assets of the County to preserve useful life.

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PSFM Policy V: Debt Management



Old	New	Existing	Proposed	Explanation
5.02 d)	5.02 d)	5.02 d) Annual net tax supported debt service expenditures shall not exceed ten percent (10%) of annual revenues;	5.02 d) Annual net tax supported debt service expenditures shall not exceed ten percent (10%) of annual revenues or thirteen percent (13%) of General Fund plus Fire Levy expenditures;	Recommended new self-imposed debt limit to reflect the funds from which debt service is typically paid and add a metric measured by rating agencies.
5.03	5.03	5.03 The County shall comply with all U.S. Internal Revenue Service rules and regulations regarding issuance of tax exempt debt, including arbitrage rebate requirements for bonded indebtedness, and with all Securities and Exchange Commission requirements for continuing disclosure of the County's financial condition, and with all applicable Municipal Securities Rulemaking Board requirements.	5.03 The County shall comply with all U.S. Internal Revenue Service rules and regulations regarding issuance of tax exempt debt, including arbitrage rebate requirements for bonded indebtedness, and with all Securities and Exchange Commission requirements for continuing disclosure of the County's financial condition, and with all applicable Municipal Securities Rulemaking Board (MSRB) requirements, including Securities and Exchange Commission (SEC) Rule 15c2-12.	Terminology update.

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Policy VII: Personnel

Old	New	Existing	Proposed	Explanation
7.02	7.02	7.02 County personnel shall adhere to legal, moral, ethical, and professional standards of conduct in the fulfillment of their professional responsibilities, including the Vision, Values, Ethics and Leadership Philosophies as promulgated by the County Executive.	7.02 County personnel shall adhere to legal, moral, ethical, and professional standards of conduct in the fulfillment of their professional responsibilities, including the Vision, Values, Ethics and Leadership at All Levels philosophies as promulgated by the County Executive.	Terminology update.

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Policy VIII: Internal Control and Financial Reporting



Old	New	Existing	Proposed	Explanation
8.04	8.04	8.04 The County will establish and maintain a "Board Audit Committee" to govern and provide oversight of the County's internal control environment. The Board Audit Committee will coordinate activities between the Board of County Supervisors, the independent external auditor(s) and the internal auditor(s) in connection with the annual comprehensive financial audit and other internal and external audits.	8.04 The County will establish and maintain a "Board Audit Committee (BAC)" and a "Joint Audit Committee of the County Government and Schools (JAC)" to govern and provide oversight of the County's internal control environment. The BAC and JAC will coordinate activities between the Board of County Supervisors, the independent external auditor(s) and the internal auditor(s) in connection with the annual comprehensive financial audit and other internal and external audits.	Terminology update.
8.06	8.06	8.06 The County will contract for an annual comprehensive financial audit, including an audit of Federal grants in accordance with U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments and Non-Profit Organizations , to be performed by an independent external auditor (public accounting firm). The independent external auditor will express an opinion on the County's financial statements.	8.06 The County will contract for an annual comprehensive financial audit, including an audit of Federal grants in accordance with U.S. Office of Management and Budget Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (commonly called "Uniform Guidance") per Title 2 of the Code of Federal Regulations (CFR) to be performed by an independent external auditor (public accounting firm). The independent external auditor will express an opinion on the County's financial statements.	Terminology update.

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Policy VIII: Internal Control and Financial Reporting (cont'd)



Old	New	Existing	Proposed	Explanation
8.07	8.07	8.07 The County's Comprehensive Annual Financial Report will be prepared in accordance with the Code of Virginia and the Uniform Financial Reporting Manual for Virginia Counties, issued by the Commonwealth of Virginia Auditor of Public Accounts (APA) and the guidelines established by the Government Finance Officers Association in its Certificate of Achievement for Excellence in Financial Reporting Award Program.	8.07 The County's Comprehensive Annual Financial Report (CAFR) will be prepared in accordance with the Code of Virginia and the Uniform Financial Reporting Manual for Virginia Counties, issued by the Commonwealth of Virginia Auditor of Public Accounts (APA) and the guidelines established by the Government Finance Officers Association (GFOA) in its Certificate of Achievement for Excellence in Financial Reporting Award Program.	Terminology update.
8.08	8.08	8.08 The County will comply with Generally Accepted Accounting Principles (GAAP) in its accounting and financial reporting, as contained in the following publications:	8.08 The County will comply with U.S. generally accepted accounting principles (GAAP) in its accounting and financial reporting, as contained in the following publications:	Terminology update.

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Policy IX: Risk Management

Old	New	Existing	Proposed	Explanation
9.02	9.02	9.02 The County shall manage its exposure to risk through the most appropriate means of self-insurance and, or the purchase of traditional insurance to include, but not limited to, the following areas: a) General liability, b) Automobile liability, c) Public officials' errors and omissions, d) Police professional liability, and e) Property loss and workers' compensation;	9.02 The County shall manage its exposure to risk through the most appropriate means of self-insurance and, or the purchase of traditional insurance to include, but not limited to, the following areas: a) General liability, b) Automobile liability, c) Public officials' errors and omissions, d) Police professional liability, e) Property loss and workers' compensation; f) Environmental liability; and g) Cyber security and terrorism.	Terminology update.
9.03	9.03	9.03 The County will further control its exposure to risk through the use of hold harmless agreements in County contracts and by requiring contractors to carry liability insurance.	9.03 The County will further control its exposure to risk through the use of hold harmless agreements in County contracts, stop-loss limits and by requiring contractors to carry liability insurance.	Terminology update.

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Policy XI: Economic Development



Old	New	Existing	Proposed	Explanation
11.02	11.02	11.02 The County will endeavor to utilize a network of public facilities that link planned industrial and commercial areas with its growing residential areas.	11.02 The County will endeavor to utilize a network of public facilities, including public transportation modes and utility infrastructure, to link industrial and commercial areas with its growing residential areas to achieve "connectivity".	Terminology update.

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Policy XII: Redevelopment



Old	New	Existing	Proposed	Explanation
n/a	n/a	n/a	Redevelopment is an important element of the County's Comprehensive Plan, related Small Area Plans and redevelopment strategies to enhance the quality of life for the citizens of Prince William County through land assemblage and infrastructure development and other appropriate measures aimed at attracting, retaining, and creating wealth generating jobs; developing and implementing neighborhood revitalization; eliminating blight; creating safe and affordable housing and expanding the commercial tax base in accordance with the Board's Robust Economy strategic goal. Private investment is the first and most desirable means of redevelopment.	Recommended new section to identify Board policy surrounding redevelopment.
n/a	12.01	n/a	12.01 The County will seek private investment, including public-private partnerships, as the most desirable means of redevelopment.	
n/a	12.02	n/a	12.02 The use of public funds shall be directed toward select "Catalyst Projects" that result in area-wide or targeted benefits. Catalyst Projects include single or a grouping of projects that have a catalytic effect on the revitalization of an area or area-wide public improvements that have broad area benefits. Such Catalyst Projects shall be consistent with the County's zoning regulations and land use policies, including the Comprehensive Plan, related Small Area Plan(s) and/or redevelopment strategies.	

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Policy XII: Redevelopment (cont'd)

Old	New	Existing	Proposed	Explanation
n/a	12.03	n/a	12.03 The redevelopment site(s) must be located within an area of the County that is of strategic importance to achieving the County's revitalization goals in accordance with the County's land use policies, including the Comprehensive Plan, related Small Area Plan(s) or economic development strategies.	Recommended new section to identify Board policy surrounding redevelopment.
n/a	12.04	n/a	12.04 The public purpose, financial and other benefits from the publicly funded improvements must be clearly defined and, based on the nature of the benefit, measurable.	
n/a	12.05	n/a	12.05 For due diligence purposes, the County may retain professionals that represent the County's interest, when contemplating redevelopment. The County may prepare, or have prepared, a business plan, including the following, when considering redevelopment: <ul style="list-style-type: none"> • Market analysis and marketing plan; • Financial plan and financial projections; and • Environmental study, as applicable. 	
n/a	12.06	n/a	12.06 Public funding debt mechanisms shall only be used for public facilities. Other monetary or non-monetary incentives, as permitted by State statute, may be provided to Catalyst Projects with applicable Board of County Supervisor approval including but not limited to grants made through the Industrial Development Authority (IDA), tax abatement, fee reductions, and fast-track permitting.	

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Policy XII: Redevelopment (cont'd)

Old	New	Existing	Proposed	Explanation
n/a	12.07	n/a	12.07 There shall be no anticipated negative impact on the County's bond rating.	Recommended new section to identify Board policy surrounding redevelopment.
n/a	12.08	n/a	12.08 The County will perform a due diligence analysis of each Catalyst Project to evaluate the level of each type of risk associated with the redevelopment investment. The due diligence evaluation shall be presented to the Board of County Supervisors along with the redevelopment investment.	
n/a	12.09	n/a	12.09 The County will perform a fiscal impact analysis on each Catalyst Project that evaluates the economic costs, economic benefits, intrinsic benefits and the levels of each type of risk associated with the redevelopment investment.	
n/a	12.10	n/a	12.10 Developers or development entities will be required to grant full access to all accounting records, project financials (i.e. pro-formas) and any other pertinent financial information for any Catalyst Project involving a financial partnership with the County.	
n/a	12.11	n/a	12.11 The County shall maintain and comply with the written Economic Development Land Bank Policies as approved and adopted by the Board of County Supervisors whenever contemplating the purchase of land for redevelopment purposes.	

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Policy XII: Redevelopment (cont'd)

Old	New	Existing	Proposed	Explanation
n/a	12.12	n/a	12.12 The County shall maintain and comply with the written Policy Guidelines for Approval of the Creation of a Community Development Authority (CDA) as approved and adopted by the Board of County Supervisors whenever contemplating the creation of a separate legal CDA to further the redevelopment goals of the County.	Recommended new section to identify Board policy surrounding redevelopment.

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Policy XIII: Policy Review



Old	New	Existing	Proposed	Explanation
12.01	13.01	12.01 The Board of County Supervisors (BOCS) will review and approve by resolution the financial policies contained in this document a minimum of once every four (4) years, contiguous with the term of the newly elected BOCS. The Director of Finance shall review the Principles of Sound Financial Management on an annual basis to determine if the financial policies require update by the Board of County Supervisors in advance of the scheduled four-year cycle.	13.01 The Board of County Supervisors (BOCS) will review and approve by resolution the financial policies contained in this document a minimum of once every four (4) years, contiguous with the term of the newly elected BOCS. The Director of Finance shall review the Principles of Sound Financial Management on an annual basis to determine if the financial policies require update by the Board of County Supervisors in advance of the scheduled four-year cycle.	Administrative update.
12.02	13.02	12.02 The County Executive shall provide the Board of County Supervisors a written status report concerning Prince William County's compliance with the Principles of Sound Financial Management on an annual basis.	13.02 The County Executive shall provide the Board of County Supervisors a written status report concerning Prince William County's compliance with the Principles of Sound Financial Management on an annual basis.	Administrative update.

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Principles of Sound Financial Management

September ~~April~~ __ 20~~20~~18

Prince William County

Principles of Sound Financial Management

Prince William County

September 20~~2018~~

Board of County Supervisors

~~Corey A. Stewart~~Ann B. Wheeler, Chairman
~~Victor S. Angry~~Martin E. Nohe, Vice-Chairman
~~Andrea O. Bailey~~Ruth M. Anderson
~~Kenny A. Boddye~~Maureen S. Caddigan
Pete ~~K.~~ Candland
~~Margaret Angela Franklin~~John D. Jenkins
Jeanine M. Lawson
~~Yesli Vega~~Frank J. Principi

County Executive

Christopher E. Martino

Director of Finance/CFO

Michelle L. Attreed

Introduction

Prince William County is a community of choice with a strong, diverse economic base, where families and individuals choose to live and work and businesses choose to locate. The *Principles of Sound Financial Management* establish a foundation for the fiscal strength and stability of Prince William County Government. These *Principles* guide the Board of County Supervisors ~~a,nd the~~ County Executive ~~and staff when makingas they make~~ fiscal decisions regarding resource allocations and annual appropriations. Fiscal principles assure sound stewardship of taxpayer dollars ~~toas they~~ guide the County in the planning of expenditures, revenues and funding arrangements for public services and ensure budget flexibility and structural stability to weather economic cycles.

The financial condition of the County must be maintained at the highest level to assure resources are available to meet the community's ever-changing needs and these *Principles* reflect the County's commitment to continued fiscal strength.

Prince William County initially adopted the *Principles of Sound Financial Management* in December 1988, and amended the *Principles* in 1993, 1996, 1999, 2009, 2012, ~~and~~ 2016 ~~and~~ 2018. As the County and its citizen base continue to grow and become more complex, policy changes are occasionally needed. This edition marks the ~~eighthseventh~~ amendment to the *Principles of Sound Financial Management*.

Establishing, adhering to and updating these guiding financial policies have enhanced the County's image and credibility with the public, credit rating agencies, and investors. It is important to regularly engage in the process of financial planning including reaffirming and updating these financial guidelines.

The *Principles of Sound Financial Management* apply to the County and its agencies, but do not apply to Prince William County School Board, which is an independent entity.

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Policy I

Fund Balance

The County shall maintain a fund balance position that meets the County's needs and challenges and mitigates current and future risks. Fund balance measures the net financial resources available to finance the County government. Rating agencies examine fund balance when considering the overall economic health and credit quality of the County.

1.00 Unassigned General Fund Balance

1.01 The County's Unassigned General Fund Balance will be maintained to provide the County with sufficient working capital and a margin of safety to address local and regional emergencies without borrowing.

1.02 Except for the provisions contained in Policy No. 1.05, the Unassigned General Fund Balance will not be less than seven and one-half percent (7.5%), of each year's General Fund revenues in every fiscal year of the Five-Year Plan.

1.03 The Unassigned General Fund Balance can only be appropriated by a resolution of the Board of County Supervisors.

1.04 The Unassigned General Fund Balance should not be used to support recurring operating expenditures outside of the current fiscal year. The Unassigned General Fund Balance shall be used only to cover local and regional emergencies. If the Unassigned General Fund Balance is used for such emergencies, the County will take measures necessary to prevent its use in the following fiscal year by increasing General Fund revenues and/or decreasing its expenditures.

1.05 In the event the Unassigned General Fund Balance is used to provide for temporary funding of unforeseen emergency needs, the County shall restore the Unassigned General Fund Balance to the minimum level of seven and one-half percent (7.5%) of General Fund revenues within two (2) fiscal years following the fiscal year in which the event occurred. The plan to restore the Unassigned General Fund

Balance shall be included and highlighted in the County's Adopted Five-Year Plan.

1.06 Funds in excess of seven and one-half percent (7.5%) of the annual requirements of Policy No. 1.02 may be retained in the Unassigned General Fund Balance, used to supplement "pay as you go" capital outlay expenditures, prepay existing County debt, or be added to the Revenue Stabilization Fund Reserve.

1.10 Committed Fund Balance – Revenue Stabilization Fund Reserve

1.11 The County shall maintain a portion of the General Fund Balance as a “Revenue Stabilization Fund” Reserve to provide the County with sufficient working capital and a margin of safety to withstand local and regional economic shocks, and unexpected declines in revenue without borrowing.

1.12 Except for the provisions contained in Policy No. 1.14 and Policy No. 1.15, the Revenue Stabilization Fund Reserve will not be less than two percent (2.0%) of each year’s General Fund revenues in every fiscal year of the Five-Year Plan.

1.13 The Revenue Stabilization Fund Reserve can only be appropriated by a resolution of the Board of County Supervisors.

1.14 The Revenue Stabilization Fund Reserve may be used to cover a portion of local and regional economic shocks and/or unexpected declines in the County’s share of General Fund revenues greater than three percent (3%) as compared to the current Adopted Budget.

1.15 In the event of a local or regional emergency, the entire balance of the Revenue Stabilization Fund Reserve may be appropriated by a resolution of the Board of County Supervisors to provide for additional temporary funding of unforeseen emergency needs.

1.16 If the Revenue Stabilization Fund Reserve is used, the County will take measures necessary to replenish its balance to the minimum level described within five (5) years following the year(s) in which it was used. The plan to restore the Revenue Stabilization Fund Reserve shall be included and highlighted in the County’s Adopted Five-Year Plan.

1.17 Funds in excess of two percent (2.0%) of the annual requirement of Policy No. 1.12 may be retained in the Revenue Stabilization Fund Reserve, transferred to the Unassigned General Fund Balance described in Policy No. 1.00, transferred to the Committed Fund Balance - Capital Reserve described in Policy No. 1.20, ~~or~~ used to replenish the Economic Development Opportunity Fund Reserve as

described in Policy No. 1.30, or used to replenish the Redevelopment Opportunity Fund Reserve as described in Policy No. 1.40.

1.20 Committed Fund Balance – Capital Reserve

1.21 The County will maintain a “Capital Reserve” to provide the County with sufficient working capital and a margin of safety to withstand unexpected, but necessary, project cost overruns without additional borrowing. The target balance for the Capital Reserve shall be a minimum of two percent (2.0%) of the current Capital Projects Funds Appropriations included in the Adopted Six-Year Capital Improvement Program.

1.22 The Capital Reserve can only be appropriated by a resolution of the Board of County Supervisors for a new or existing capital project.

1.23 In the event the Capital Reserve is used to provide for funding for critical capital projects, the County shall restore the Capital Reserve to the target level of two percent (2.0%) of the current Capital Projects Funds Appropriations within five (5) fiscal years following the fiscal year in which the event occurred. The plan to restore the Capital Reserve shall be included and highlighted in the County’s Adopted Five-Year Plan.

1.30 Committed Fund Balance – Economic Development Opportunity Fund (EDOF) Reserve

1.31 The County will maintain an “Economic Development Opportunity Fund” (EDOF) Reserve to provide the County with a source of working capital that can be used to incentivize economic development in key targeted industries to support the Board’s Robust Economy strategic goal of growing the commercial tax base.

1.32 The EDOF Reserve can only be appropriated by a resolution of the Board of County Supervisors.

1.33 The EDOF Reserve shall be replenished to a targeted \$3,000,000 threshold at the end of each fiscal year after the requirements of Policy Nos. 1.02, 1.12 and 1.21 are met.

1.40 Committed Fund Balance – Redevelopment Opportunity Fund (ROF) Reserve

1.41 The County will maintain an “Redevelopment Opportunity Fund” (ROF) Reserve to provide the County with a source of working capital that can be used to incentivize redevelopment in support of the Board’s Robust Economy strategic goal of growing the commercial tax base.

1.42 The ROF Reserve can only be appropriated by a resolution of the Board of County Supervisors.

1.43 The ROF Reserve shall be replenished to a targeted \$3,000,000 threshold at the end of each fiscal year after the requirements of Policy Nos. 1.02, 1.12 and 1.21 and 1.33 are met.

Policy II

Fiscal Planning

The Annual Budget is one of the most important documents the County prepares since it identifies the programs and services to be provided and the means by which the programs and services are to be financed.

2.01 The County will maintain a structurally balanced budget.

2.02 The County Executive will propose a budget prepared in compliance with the applicable sections of the *Code of Virginia*, the Financial and Program Planning Ordinance requirements included in Section 2-1, Government Services, Planning, Budgeting and Accountability of Chapter 2-Administration, of the *Prince William County Code* and in accordance with the guidelines established by the Government Finance Officers Association in its Distinguished Budget Award Program.

2.03 The County Executive will annually submit a Five-Year Plan for review by the Board of County Supervisors, including revenue and expenditure projections for the General Fund. The Five-Year Plan shall provide multi-year impacts of fiscal decisions and weigh the corresponding implications of tax rates and other revenue sources.

2.04 The Five-Year Plan shall provide for the County-School Revenue Sharing Agreement which splits the County's General Revenues with the Schools in accordance with the existing agreement approved by the Board of County Supervisors.

2.05 Every year of the Adopted Five-Year Plan must be balanced and limits expenditures and other uses of resources to annually available revenues. The County shall not adopt a budget that includes operating deficits or that requires the use of one-time resources to cover recurring expenditures.

2.06 The Annual Budget will contain the following:

- a) Proposed personnel staffing levels;
- b) Revenue estimates by major category;

- c) Expenditure estimates by program levels and major expenditure categories;
- d) A detailed schedule of capital projects;
- e) Debt service summarized by project and identifies supporting amounts by fund; and
- f) Any additional information, data, or analysis requested of management by the Board of County Supervisors.

2.07 The Annual Budget will not automatically replace lost State or Federal revenue with local tax support. Doing so will occur only after careful consideration of service level impacts to affected agencies during the annual budget process and in accordance with Policy No. 3.11.

2.08 A quarterly report on the status of the General Fund budget and trends will be provided to the Board of County Supervisors within forty-five (45) days of the end of each quarter. In addition, the quarterly report shall include revenue and expenditure projections through the end of the fiscal year.

2.09 The unencumbered capital project balances and encumbered balances will be considered for re-appropriation in the subsequent fiscal year in a resolution amending the adopted budget.

2.10 The County will not balance the current budget at the expense of meeting future years' expenditures; for example, the County will not accrue future years' revenues or roll over short-term debt to avoid planned retirement. The County will not use debt to fund current operations.

2.11 If a deficit is projected during any fiscal year, the County will take steps to reduce expenditures, increase revenues or, if a deficit is caused by an emergency, consider using the Revenue Stabilization Fund Reserve and/or the General Fund Unassigned Fund Balance, to the extent necessary to ensure a structurally balanced budget at the close of the fiscal year.

2.12 The County will annually appropriate a contingency budget to provide for unanticipated increases in service delivery costs and needs that may arise throughout the fiscal year. The contingency budget will be established at a

minimum of \$1,500,000 annually and may be allocated only by resolution of the Board of County Supervisors.

2.13 Officials and department heads are required to monitor revenues and control expenditures to prevent exceeding the amount of local tax support budgeted for their respective department and total departmental expenditure budget.

2.14 Budget transfers will provide sufficient agency operating flexibility while ensuring adherence to U.S. GASB fundgenerally accepted accounting principles (GAAP) and adopted BOCS policy.

2.15 The County will maintain a Capital Asset and Equipment Replacement Schedule which provides a five-year estimate of the funds necessary to maintain and replace the County's capital assets and equipment. The Capital Asset and Equipment Replacement Schedule will be updated as part of the Capital Improvement Program planning process.

2.16 The County will fully fund its Annual Required Contributions associated with its pension and other post-employment benefit obligations, as actuarially determined.

2.17 Funds generated from year-end General Fund revenue surpluses and/or expenditure savings shall first be used to meet the various fund balance policy requirements as defined in Policy I.

Policy III Revenues

The County collects revenues from many sources, the largest of which is from property taxes, to provide programs and services consistent with the Board's strategic goals. The structure, fluctuation, and collection of revenues are examined by rating agencies to determine the County's credit quality.

3.01 The County will strive to maintain a diversified and stable revenue system to shelter it from short-term fluctuations in any one revenue source.

3.02 Major revenue sources should provide for the following principles:

- a) **Vertical Equity** - Revenue sources should provide appropriate treatment of taxpayers at different economic levels.
- b) **Horizontal Equity** - Revenue sources should treat taxpayers with the same income or wealth equally.
- c) **Neutrality** - Revenue sources should not unduly influence economic decisions by consumers or business except for targeted development or redevelopment programs approved by the Board of County Supervisors.
- d) **Administrative and Compliance Costs** - Revenue administration and enforcement should not absorb an undue percentage of revenue collected.

3.03 The County will monitor all taxes to insure they are equitably administered and collections are timely and accurate. The County will aggressively collect property taxes and related penalties and interest as authorized by the *Code of Virginia*.

3.04 The County will periodically recalculate the full costs of providing services in order to provide a basis for setting the associated service charge or fee. Full cost shall incorporate direct and indirect costs, including operations and maintenance, overhead, and charges for use of capital facilities, thereby setting fees at a level that is related to the cost of producing the good or service, unless otherwise restricted by law. The County will

periodically examine current competitive tax rates and fees and may establish new charges and fees as needed and as permitted by law. It is recognized that occasionally competing policy objectives may result in user fee levels that recover only a portion of service costs.

3.05 The County Executive will provide the Board of County Supervisors with an estimate of the County's revenues annually for each year of the Five-Year Plan and in compliance with the Financial and Program Planning Ordinance requirements included in Section 2-1, Government Services, Planning, Budgeting and Accountability of Chapter 2 - Administration, of the *Prince William County Code*.

3.06 The estimate of the County's revenues shall be set at realistic and attainable levels, sufficiently conservative to avoid shortfalls, yet accurate enough to avoid a systematic pattern of setting tax rates that produce significantly more revenue than is necessary to meet expenditure, fund balance and reserve requirements.

3.07 A quarterly report on the status of the General Revenues will be provided to the Board of County Supervisors within forty-five (45) days of the end of each quarter. In addition, the quarterly report shall include revenue projections through the end of the fiscal year.

3.08 The County will assess all property annually as of January 1st in accordance with Title 58.1 of the *Code of Virginia*. Real property assessments shall be based on fair market value and follow standards established by the International Association of Assessing Officers (IAAO). Personal property assessments shall be based on the average trade-in value as supplied by a nationally recognized organization, or a percentage or percentages of original cost which reasonably approximate market value.

3.09 The County may provide, as appropriate, tax exemptions to churches and governmental entities pursuant to State and local guidelines. Charitable, benevolent or educational institutions may seek public funding through the Community Partners Process. Such requests must be submitted annually to the Office of Management and Budget. ~~Considerations for E~~ exemptions should be based on such considerations as benefits to the County and the fiscal capacity of the County.

3.10 The County will achieve maximum possible accuracy in its annual assessment to sales ratio when the annual January 1st assessment is compared to sales in the preceding calendar year. The County expects to achieve maximum possible accuracy by implementing state-of-the-art assessment practices. The County will maintain an average error, measured by the coefficient of dispersion (COD), and assessment to sales ratio better than the current professional standard which is ninety percent (90%) assessment to sales ratio and ten percent (10%) COD as published by the International Association of Assessing Officers [\(IAAO\)](#).

3.11 The County will pursue intergovernmental aid, including grants, for those programs and activities that address a recognized need and are consistent with the County's long-range objectives, and will attempt to recover all allowable costs associated with those programs. Any decision to pursue intergovernmental aid should be consistent with the County's Grants Management Policies and Procedures and include the consideration of the following:

- a) Present and future funding requirements;
- b) Cost of administering the funds;
- c) Costs associated with special conditions or regulations attached to the grant award; and
- d) When grants or other intergovernmental aid are reduced or eliminated, the program or project it supported will be reduced by a commensurate amount in accordance with Policy No. 2.07.

Policy IV

Capital Improvement Program and Capital Assets

The County's assets are held primarily in the form of infrastructure, capital facilities, site improvements, vehicles and equipment. Well maintained assets and infrastructure are an important aspect of the quality of life for citizens, economic development, and the credit quality of the County.

Dedicating resources to capital investment is appropriate for a growing county such as Prince William County. Committing to and implementing the County's capital investment program will protect the County's existing capital assets and add new capital assets necessary to maintain the high level of programs and services provided to County residents and improve the quality of life throughout the County.

4.01 The County will invest a minimum of ten percent (10%) of the annual General Fund revenues allocated to the County's operating budget in the Capital Improvement Program. The amount invested can be in the form of debt service or some other source of funds. The County will direct its annual allocation for its capital investments to projects that best support the County's strategic goals, the comprehensive plan and facility master plans.

4.02 The County Executive will annually submit a Six-Year Capital Improvement Program for review by the Board of County Supervisors. The Capital Improvement Plan may include capital improvements for all agencies for which the County sets tax rates, makes levies or approves budgets or programs.

4.03 The Capital Improvement Program shall be prepared in accordance with the requirements of §15.2-2239 of the *Code of Virginia* and the Financial and Program Planning Ordinance included in Section 2-1, Government Services, Planning, Budgeting and Accountability of Chapter 2-Administration, of the *Prince William County Code*.

4.04 The Capital Improvement Program shall include the following elements:

- a) An implementation program for each of the capital improvements;

- a)b) A statement of the objectives of the Capital Improvement Program and the relationship with the comprehensive plan and the County's strategic goals; and
- b)c) An estimate of the cost and anticipated sources of revenue for financing the capital improvements for each project and an estimate of the impact of each capital improvement on County revenues and the capital and operating budgets, including estimated debt service costs, if applicable.

4.05 The County will fund programs and activities identified in the Capital Improvement Program with the most appropriate revenue sources. Such revenues as the fire & rescue levy, proffers and user fees, such as solid waste and stormwater fees, are to be used exclusively for the purpose for which they were levied or collected.

4.06 The County will invest at least \$3,000,000 annually in ongoing, cyclical maintenance of existing capital assets in order to prevent major breakdowns or deterioration of assets with the goal of extending the life of facilities and assets. The County will maintain a schedule of needed repair, maintenance and replacement of existing capital assets with associated costs. Routine maintenance of facilities should be a focus of maintenance efforts. Prioritization of cyclical maintenance needs should be undertaken to ensure that the most important needs are addressed.

4.07 The County will return remaining appropriated funds upon the completion of any capital project to the Capital Reserve.

4.08 When current revenues or resources are available for capital improvement projects, consideration will be given first to those capital assets with the shortest useful life and/or to those capital assets whose nature makes them comparatively more difficult or expensive to finance with bonds or lease financing.

4.09 Nonrecurring revenues, which cannot be used to fund recurring costs and are not required to meet the Unassigned General Fund Balance, Revenue Stabilization Fund Reserve or Capital Reserve objectives in Policy No. 1.00, 1.20 and 1.30 respectively should be used for nonrecurring capital

expenditures, the early retirement of existing County debt, or to replenish the Economic Development Opportunity Fund Reserve.

Policy V

Debt Management

The County will maintain a high credit rating in the financial community to: 1) assure the County's taxpayers that the County government is well managed and financially sound; 2) obtain reduced borrowing costs. The County will consider long-term debt financing when appropriate.

5.01 The County will consider the project and its useful life and utilize the most appropriate method to finance the project. Financing may include debt financing or "pay-as-you-go" or other financing sources.

5.02 Whenever the County finds it necessary to issue tax supported bonds, the following guidelines will be adhered to:

- a) Tax supported bonds will, whenever feasible; be issued on a competitive basis unless market conditions or the nature of the financing favors negotiated sales;
- b) Average weighted maturities for General Obligation (GO) bonds of the County, and whenever possible for any type of annual appropriation debt, will be maintained at ten and one-half (10.5) years, or less;
- c) GO bond issues, and whenever possible for any type of annual appropriation debt, will be structured to allow an equal principal amount to be retired each year over the life of the issue thereby producing a total debt service with an annual declining balance;
- d) Annual net tax supported debt service expenditures shall not exceed ten percent (10%) of annual revenues or thirteen percent (13%) of General Fund plus Fire Levy expenditures;
- e) Total bonded debt will not exceed three percent (3%) of the net assessed valuation of taxable real and personal property in the County;

- f) Bond financing will be confined to projects which would not otherwise be financed from current revenues; and
- g) The term of any bond note or lease obligation issue will not exceed the useful life of the capital project/facility or equipment for which the borrowing is intended.

5.03 The County shall comply with all U.S. Internal Revenue Service rules and regulations regarding issuance of tax-exempt debt, including arbitrage rebate requirements for bonded indebtedness, and with all Securities and Exchange Commission requirements for continuing disclosure of the County's financial condition, and with all applicable Municipal Securities Rulemaking Board (MSRB) requirements, including Securities and Exchange Commission (SEC) Rule 15c2-12.

5.04 The County shall comply with all requirements of the Public Finance Act as included in Title 15.2 of the *Code of Virginia* and other legal requirements regarding the issuance of bonds and certificates of the County or its debt issuing authorities.

5.05 The issuance of variable rate debt by the County will be subject to the most careful review and will be issued only in a prudent and fiscally responsible manner.

5.06 The County will adhere to the following guidelines when it finds it necessary to issue revenue bonds:

- a) For any bonds or lease anticipation or appropriation debt in which the debt service is partially paid from revenue generated by the project and partially paid from tax sources, the portion of the bond or lease to the extent that its debt service is paid from non-tax sources shall be deemed to be revenue bonds and are excluded from the calculation of the annual debt service limitation in Policy No. 5.02(d) and No. 5.02(e);
- b) Revenue bonds of the County and any of its agencies will be analyzed carefully by the Department of Finance for fiscal soundness. The issuance of County revenue bonds will be subject to the most careful review and must be secured by

covenants sufficient to protect the bondholders and the credibility of the County;

- c) Whenever feasible, revenue bonds will be issued on a competitive basis and will be structured to allow an approximately equal annual debt service amount over the life of the issue;
- d) Debt Service Reserve funds, when required, will be provided to adequately meet debt service requirements in the subsequent years;
- e) Interest earnings on the reserve fund balances will only be used to pay debt service on the bonds; and
- f) The term of any revenue bond or lease obligation issue will not exceed the useful life of the capital project or equipment for which the borrowing is intended.

5.07 The County will not use debt financing to fund current operations.

5.08 The County does not intend to issue bond anticipation notes (BANS), tax anticipation notes (TANS), or revenue anticipation notes (RANS). If a BAN is issued for a capital project, the BAN will be converted to a long-term bond or redeemed at its maturity.

Policy VI

Cash Management

Cash management is the practice of safeguarding and maximizing the income earned on liquid assets. Cash, liquidity, and investment management activities shall be conducted prudently. The County shall maintain adequate management procedures, controls, and policies for the County's liquid assets.

6.01 The Director of Finance, as Chief Investment Officer, shall invest all funds of the County according to four criteria, in order of importance: (1) legality, (2) safety (3) liquidity, and (4) yield.

6.02 All County funds will be invested in compliance with the Investment of Public Funds Act contained in §2.2-4500 thru §2.2-4518 of the *Code of Virginia*.

6.03 The County shall maintain and comply with a written Investment Policy approved and adopted by the Board of County Supervisors.

Policy VII Personnel

Human capital costs are the most significant portion of the County's operating budget. The strategic management of personnel requires comprehensive planning and analysis in order to develop, implement and evaluate programs that support employee performance of goals and objectives, productivity, retention of the workforce and succession planning.

7.01 The County shall maintain a written classification system, compensation plan and personnel policies in accordance with the Prince William County Code, Chapter 19 - Personnel issued pursuant to §15.1-7.1 and §15.1-7.2 of the *Code of Virginia* and all other applicable sections of State and Federal laws.

7.02 County personnel shall adhere to legal, moral, ethical, and professional standards of conduct in the fulfillment of their professional responsibilities, including the Vision, Values, Ethics and Leadership at All Levels philosophies as promulgated by the County Executive.

7.03 The County shall have an employee compensation policy to provide competitive salaries and benefits.

Policy VIII

Internal Control and Financial Reporting

Internal control or the system of internal controls is broadly defined as a process, administered by the County's management and other personnel, designed to provide reasonable assurance that the organization will achieve its objectives in effectiveness and efficiency of operations, reliability and accuracy of financial reporting and compliance with applicable laws, regulations and policies of Prince William County Government. Financial reporting provides the informational infrastructure for the County.

8.01 The County will maintain a system of internal controls in order to maintain accountability to the citizens of the County and the Board of County Supervisors, meet established goals and objectives, promote adherence to laws and regulations, encourage sound financial and operational practices, develop and maintain accurate, reliable and timely financial and management data, safeguard assets/resources, prevent, detect and deter fraud, and facilitate both internal and external audits.

8.02 The County will adhere to an Internal Control Policy and establish related internal control policies and procedures on the basis of the *Internal Control – Integrated Framework* and *Enterprise Risk Management – Integrated Framework* developed by the Committee on Sponsoring Organizations (COSO). This compilation will provide the components of the control environment, risk assessment, control activities, communication and monitoring that will work together to provide reasonable assurance of meeting the County's operational, compliance and reporting goals.

8.03 The County will maintain an Internal Audit function in order to enhance the County's overall control environment. The Internal Audit function shall adhere to the Institute of Internal Auditors' *Code of Ethics* and the *International Standards for the Professional Practice of Internal Auditing* as well as *Generally Accepted Government Auditing Standards*.

8.04 The County will establish and maintain a "Board Audit Committee (BAC)" and a "Joint Audit Committee of the County Government and Schools (JAC)" to govern and provide oversight of the County's internal control environment. The BAC and JAC Board Audit Committee will coordinate activities between the Board of County Supervisors, the independent external

auditor(s) and the internal auditor(s) in connection with the annual comprehensive financial audit and other internal and external audits.

8.05 The County shall have all their accounts and records, including all accounts and records of its constitutional officers, audited annually in accordance with the applicable sections of the *Code of Virginia*.

8.06 The County will contract for an annual comprehensive financial audit, including an audit of Federal grants in accordance with U.S. Office of Management and Budget *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (commonly called "Uniform Guidance") per Title 2 of the *Code of Federal Regulations (CFR)* ~~Circular A-133, Audits of States, Local Governments and Non-Profit Organizations~~, to be performed by an independent external auditor (public accounting firm). The independent external auditor will express an opinion on the County's financial statements.

8.07 The County's Comprehensive Annual Financial Report (CAFR) will be prepared in accordance with the *Code of Virginia and the Uniform Financial Reporting Manual for Virginia Counties*, issued by the Commonwealth of Virginia Auditor of Public Accounts (APA) and the guidelines established by the Government Finance Officers Association (GFOA) in its Certificate of Achievement for Excellence in Financial Reporting Award Program.

8.08 The County will comply with U.S. Generally Accepted Accounting Principles (GAAP) in its accounting and financial reporting, as contained in the following publications:

- a) *Codification and Pronouncements of Governmental Accounting and Financial Reporting Standards*, issued by the Governmental Accounting Standards Board (GASB);
- b) *Codification and Pronouncements of Accounting and Financial Reporting Standards*, issued by the Financial Accounting Standards Board, (FASB);
- c) *Governmental Accounting, Auditing, and Financial Reporting* (GAAFR), issued by the Government Finance Officers Association (GFOA) of the United States and Canada;

- d) *State and Local Governments – Audit and Accounting Guide*, an industry guide published by the American Institute of Certified Public Accounts (AICPA); and
- e) *Government Accounting Standards*, issued by the Comptroller General of the United States.

Policy IX Risk Management

Risk Management functions to protect County resources such as employees, buildings, equipment, vehicles, and financial assets. The County will manage its risk and limit risk exposure in a professional and prudent manner.

9.01 The County shall make diligent efforts to protect and preserve County assets against losses that could deplete County resources or impair the County's ability to provide services to its citizens. The County shall reduce its exposure to liability through training, safety, risk financing and the transfer of risk when cost effective.

9.02 The County shall manage its exposure to risk through the most appropriate means of self-insurance and, or the purchase of traditional insurance to include, but not limited to, the following areas:

- a) General liability,
- b) Automobile liability,
- c) Public officials' errors and omissions,
- d) Police professional liability, ~~and~~
- e) Property loss and workers' compensation;
- f) Environmental liability; and
- g) Cyber security and terrorism.

9.03 The County will further control its exposure to risk through the use of hold harmless agreements in County contracts, stop-loss limits and by requiring contractors to carry liability insurance.

Policy X

Procurement

Procurement authorizes contracts using monetary assets of the County to purchase goods and services. All acquisitions must be performed in accordance with applicable laws and regulations.

10.01 The County will maintain an effective and efficient purchasing system which provides needed goods and services in a timely manner to avoid interruptions in the delivery of programs and services and will endeavor to obtain supplies, equipment and services as economically as possible.

10.02 The County will establish purchasing guidelines consistent with all applicable State and Federal laws. All products and services will be procured in compliance with the Virginia Public Procurement Act contained in §2.2-4300 thru §2.2-4377 of the *Code of Virginia*.

Policy XI

Economic Development

The County's economic base is an important element of and has a dramatic influence on the County's financial health in determining the County's quality of life and credit rating. The goal of economic development is to improve the County's economic base by encouraging new businesses to locate in Prince William County, retaining existing businesses and facilitating the expansion of existing businesses.

11.01 The County shall continue to expand and diversify its economic base by attracting industrial and commercial firms to the County. Special emphasis should be given to targeted industries and industrial and commercial enterprises that will employ the local labor force. Such business and industry will be in accordance with the strategic plans and ordinances of the County.

11.02 The County will endeavor to utilize a network of public facilities, including public transportation modes and utility infrastructure, to~~that~~ link ~~planned~~ industrial and commercial areas with its growing residential areas to achieve "connectivity".

11.03 The County will endeavor to increase, to the greatest degree possible, its commercial/industrial tax base and at place professional employment within the County.

11.04 The County will perform a due diligence analysis of each economic development investment to evaluate the level of each type of risk associated with the economic development investment. The due diligence evaluation shall be presented to the Board of County Supervisors along with the economic development investment.

11.05 The County will perform a fiscal impact analysis on each economic development investment that evaluates the economic costs, economic benefits, intrinsic benefits and the levels of each type of risk associated with the economic development investment.

11.06 The County shall maintain and comply with the written Economic Development Land Bank Policies as approved and adopted by the Board of

County Supervisors whenever contemplating the purchase of land for economic development purposes.

11.07 The County shall maintain and comply with the written Policy Guidelines for Approval of the Creation of a Community Development Authority (CDA) as approved and adopted by the Board of County Supervisors whenever contemplating the creation of a separate legal CDA to further the economic development or community development growth goals of the County.

Policy XII

Redevelopment

Redevelopment is an important element of the County's Comprehensive Plan, related Small Area Plans and redevelopment strategies to enhance the quality of life for the citizens of Prince William County through land assemblage and infrastructure development and other appropriate measures aimed at attracting, retaining, and creating wealth generating jobs; developing and implementing neighborhood revitalization; eliminating blight; creating safe and affordable housing and expanding the commercial tax base in accordance with the Board's Robust Economy strategic goal. Private investment is the first and most desirable means of redevelopment.

12.01 The County will seek private investment, including public-private partnerships, as the most desirable means of redevelopment.

12.02 The use of public funds shall be directed toward select "Catalyst Projects" that result in area-wide or targeted benefits. Catalyst Projects include single or a grouping of projects that have a catalytic effect on the revitalization of an area or area-wide public improvements that have broad area benefits. Such Catalyst Projects shall be consistent with the County's zoning regulations and land use policies, including the Comprehensive Plan, related Small Area Plan(s) and/or redevelopment strategies.

12.03 The redevelopment site(s) must be located within an area of the County that is of strategic importance to achieving the County's revitalization goals in accordance with the County's land use policies, including the Comprehensive Plan, related Small Area Plan(s) or economic development strategies.

12.04 The public purpose and financial and other benefits from the publicly funded improvements must be clearly defined and, based on the nature of the benefit, measurable.

12.05 For due diligence purposes, the County may retain professionals that represent the County's interest, when contemplating redevelopment. The

County may prepare, or have prepared, a business plan, including the following, when considering redevelopment:

- Market analysis and marketing plan;
- Financial plan and financial projections; and
- Environmental study, as applicable.

12.06 Public funding debt mechanisms shall only be used for public facilities. Other monetary on non-monetary incentives, as permitted by State statute, may be provided to Catalyst Projects with applicable Board of County Supervisor approval including but not limited to grants made through the Industrial Development Authority (IDA), tax abatement, fee reductions, and fast-track permitting.

12.07 There shall be no anticipated negative impact on the County's bond rating.

12.08 The County will perform a due diligence analysis of each Catalyst Project to evaluate the level of each type of risk associated with the redevelopment investment. The due diligence evaluation shall be presented to the Board of County Supervisors along with the redevelopment investment.

12.09 The County will perform a fiscal impact analysis on each Catalyst Project that evaluates the economic costs, economic benefits, intrinsic benefits and the levels of each type of risk associated with the redevelopment investment.

12.10 Developers or development entities will be required to grant full access to all accounting records, project financials (i.e. pro-formas) and any other pertinent financial information for any Catalyst Project involving a financial partnership with the County.

12.11 The County shall maintain and comply with the written Economic Development Land Bank Policies as approved and adopted by the Board of County Supervisors whenever contemplating the purchase of land for redevelopment purposes.

12.12 The County shall maintain and comply with the written Policy Guidelines for Approval of the Creation of a Community Development Authority (CDA) as approved and adopted by the Board of County Supervisors whenever contemplating the creation of a separate legal CDA to further the redevelopment goals of the County.

Policy XII

Policy Review

132.01 The Board of County Supervisors (BOCS) will review and approve by resolution the financial policies contained in this document a minimum of once every four (4) years, contiguous with the term of the newly elected BOCS. The Director of Finance shall review the *Principles of Sound Financial Management* on an annual basis to determine if the financial policies require update by the Board of County Supervisors in advance of the scheduled four-year cycle.

132.02 The County Executive shall provide the Board of County Supervisors a written status report concerning Prince William County's compliance with the *Principles of Sound Financial Management* on an annual basis.

Glossary

Ad Valorem Tax. A tax calculated "according to the value" of property. Such a tax is based on the assessed valuation of real property and, in certain cases, on a valuation of tangible personal property. (The principles define measuring value.) The tax is a lien on the property enforceable by seizure and sale of the property. General restrictions, such as overall restrictions on rates, or the percent of charge allowed, apply.

Annual Debt Service Expenditures. Annual debt service for measuring debt capacity for the County shall include debt service on outstanding:

- General Obligation Bonds of the County,
- Literary Fund Loan Notes;
- Bonds issued to the Virginia Public School Authority and the Virginia Resources Authority; and
- All annual appropriation debt to the extent that it is supported by tax revenue, excluding Revenue Bonds.

Annual Revenue. Annual revenue for measuring debt capacity shall include the revenues of the General Fund and special revenue funds for the fiscal year in which the debt service expenditures occur.

Arbitrage. The gain which may be obtained by borrowing funds at a lower (often tax-exempt) rate and investing the proceeds at higher (often taxable) rates.

Assessed Valuation. The appraised worth of property as set by a taxing authority through assessments for purposes of ad valorem taxation. The method of establishing assessed valuation varies from state to state, with the method generally specified by State law. For example, in certain jurisdictions the assessed evaluation is equal to the full or market value of the property; in other jurisdictions the assessed valuation is equal to a percentage of the full market value.

Bond. A security that represents an obligation to pay a specified amount of money on a specific date in the future, typically with periodic principal and interest payments.

Bond Anticipation Note (BAN). Short-term interest-bearing security issued in anticipation of a long-term bond issue. The investors typically rely upon the sale of a subsequent issue of securities to pay the BAN at maturity.

Capital Improvement Program. The Capital Improvement Program (CIP) is a six-year plan of major, nonrecurring facility and infrastructure expenditures that expand or improve the County's physical assets. Projects shown in the CIP include physical descriptions, implementation schedules, cost and funding source estimates, statements of relationship to the Strategic Plan and Comprehensive Plan, and projected benefits to the community in terms of service delivery.

Coefficient of Dispersion. The average deviation of a group of numbers from the median expressed as a percentage of the median. In ratio studies, the average percentage deviation from the median ratio. This is a measure of the dispersion of a group of measurements relative to the median (center point) of that group. This statistic used as a measure of the dispersion or variation in a distribution.

Committed Fund Balance. Amounts earmarked for specific purposes pursuant to constraints imposed by formal action of the County's governing body.

Continuing Disclosure. The Securities and Exchange Commission (SEC) requires dissemination to interested parties of the County's annual financial statements. They also require that interested parties should be immediately notified of any material event (or events or information deemed material) that affect the County's ability to make payments to bondholders in accordance with SEC Rule 15c2-12.

Debt Service. The amount necessary to pay principal and interest requirements on outstanding obligations for a given year or series of years.

Debt Service Reserve. The fund into which funds are placed which may be used to pay debt service if pledged revenues are insufficient to satisfy the debt service requirements. A typical reserve requirement might be the maximum aggregate annual debt service requirement for any year remaining until the bonds reach maturity.

General Obligation Debt. Debt that is secured by a pledge of the ad valorem taxing power of the issuer. Also known as a full faith and credit obligation.

Fund Balance. A measurement of the net financial resources available to finance the government.

Lease. An obligation wherein a lessee agrees to make payments to a lessor in exchange for the use of certain property. The term may refer to a capital lease or to an operating lease.

Revenue Bonds. Bonds on which the debt service is payable from the revenue generated from the operation of the project being financed or from a category of facilities, or from other non-tax sources of the County.

Tax Supported Bonds. Bonds for which the funding used to make annual debt service expenditures is derived from tax revenue of the County's General and Special Revenue Funds.

Total Bonded Debt. For purposes of measuring debt capacity, total bonded debt shall include total outstanding principal for:

- General Obligation Bonds of the County;
- Literary Fund Loan Notes;
- Bonds issued to the Virginia Public School Authority and the Virginia Resources Authority; and
- All annual appropriation debt to the extent that it is supported by tax revenue, excluding Revenue Bonds.

Unassigned Fund Balance. Used as a measure of the amount of resources a jurisdiction has available for spending, including its ability to meet special needs and withstand financial emergencies. In these policies, unassigned fund balance means it is neither earmarked nor reserved for other uses. It is available for discretionary spending with approval by the Board of County Supervisors.

Variable Rate Bond or Note. A bond or note on which the interest rate is reset periodically. The interest rate is reset either by means of an auction or through an index.



PRINCE WILLIAM

Finance

Principles of Sound Financial Management

September 2020