



Date of Council Meeting: January 26, 2015

**TOWN OF LEESBURG  
TOWN COUNCIL MEETING**

**Subject:** Amending the Fiscal Policy

**Staff Contact(s):** Kaj Dentler, Town Manager  
Clark Case, Director of Finance & Administrative Services

**Council Action Requested:** Council approval for amending the current fiscal policy to increase the minimum General Fund unassigned fund balance from 15 percent to 20 percent of General Fund expenditures and to revise the fiscal policy for the Utilities Fund in accordance with recently adopted water and sewer rates.

**Staff Recommendation:** Staff recommends that Town Council approve amending the Fiscal Policy as such:

- 1.) Progressively increase the General Fund unassigned fund balance to be equal to no less than 20 percent of general fund expenditures in order to strengthen the Town's fiscal position and improve the Town's credit ratings;
- 2.) To list additional revenue sources associated with non-debt financing guidance; and
- 3.) To include administrative language to the Utility Fund fiscal policy section in accordance with the Council's adopted water and sewer rates.

**Commission Recommendation:** Not Applicable

**Fiscal Impact:** It is anticipated that annual general fund expenditures will continue to be approximately \$50-53 million for the foreseeable future per the Council's long-term financial sustainability plan. The recommended increase to the unassigned general fund balance to 20 percent will result in a projected \$10 to \$10.6 million unassigned fund balance by FY 2018-19 or approximately \$2 to \$2.6 million above the current fiscal policy requirement of 15 percent of general fund expenditures. The progressive, incremental increase to the unassigned general fund balance is anticipated to take several fiscal years to achieve due primarily to the increased debt service requirements from FY 2017 until 2020.

Utility Fund water and sewer rate changes were previously approved by Council and as such there is no anticipated fiscal impact resulting from the fiscal policy changes.

**Executive Summary:** The recommended increase in the unassigned general fund balance from 15 percent to 20 percent of annual general fund expenditures, after taking into account planned reserves for debt service and capital asset replacements, per the Town's long-term sustainability plan, is a proposed component in ensuring future financial

stability in line with the Council's adopted long-term plan for budget sustainability and positioning the Town to obtain more favorable credit ratings. Higher credit ratings result in reductions to the Town's borrowing costs on new debt.

**Background:** As of July 2014, the latest affirmed credit ratings for the Town are: Moody's at Aa1, Standard & Poor's at AAA and Fitch at AA+. The Town's prudent financial management is evident from Standard & Poor's increasing their rating as part of the most recent review from AA+ to AAA, their highest possible credit rating, and the stable and positive outlooks from Moody's and Fitch. The Town continues to be considered a high quality municipal investment, but obtaining the highest credit ratings from all three bond rating agencies will result in further lowered interest rates. Maintaining a strong unassigned fund balance is viewed favorably by bond rating agencies and helps obtain the most advantageous interest rates on bonds.

The proposed increased of unassigned fund balance is to be reached by progressively increasing the balance incrementally over the next 4-5 fiscal years in order to reach the 20 percent balance level by fiscal years 2019-2020, after taking into account planned reserves for debt service and capital asset replacements, per the Town's long-term sustainability plan. Accomplishing this increased unassigned fund balance is not projected to impact future tax rates and will be achieved through prudent financial management, controlling Town operating costs, and continuing to seek additional and diversified revenue sources.

The other recommended changes to the fiscal policy include updating general accounting terminology to comply with professional standards as well as explicitly listing several of the other possible revenue sources considered non-debt financing sources in order to provide transparency and further guidance within the fiscal policy. These are administrative in nature and have no corresponding fiscal impact.

Further, the Town Council adopted water and sewer rates, Ordinance 2014-O-024, on July of 2014, which set forth fair and equitable user rates for services. The recommended fiscal policy revisions to the Utility Fund debt management section reflect the Council's action.

**Attachments:** (1) Resolution along with proposed amendment to the fiscal policy

PRESENTED: January 26, 2015

RESOLUTION NO.

ADOPTED: January 26, 2015

A RESOLUTION: AMENDING THE FISCAL POLICY FOR THE TOWN OF LEESBURG

WHEREAS, the Town Council and Town Manager are responsible to the Town of Leesburg residents and taxpayers to carefully account for all public funds, to manage Town finances wisely, and to plan for the adequate funding of services; and

WHEREAS, a fiscal policy is designed to establish guidelines and goals to promote the fiscal well-being of the Town and to provide guidance to the Town Manager; and

WHEREAS, a fiscal policy that is adopted, adhered to, and regularly reviewed and updated as necessary is recognized as the cornerstone of prudent financial management; and

WHEREAS, effective fiscal policy should strive to promote financial stability by establishing clear, concise, and consistent guidelines; to direct attention to the total financial picture of the Town rather than to single issues; to promote the view of linking long-term financial planning with day-to-day operations; to provide the Town Council, Town Manager, residents, and taxpayers with a framework for measuring the impact of services against established fiscal guidelines; to contribute significantly to the Town's ability to shield itself from fiscal crises; and to enhance short- and long-term credit availability by helping to achieve and maintain the highest credit and bond ratings possible; and

WHEREAS, the Town Council and Town Manager will review the adopted fiscal policy periodically and the Town Council will approve any significant changes.

A RESOLUTION: AMENDING THE FISCAL POLICY FOR THE TOWN OF LEESBURG

THEREFORE, RESOLVED by the Council of the Town of Leesburg in Virginia as follows:

SECTION I. Accounting, Auditing, and Financial Reporting

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

SECTION II. Asset Management

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

SECTION III. Revenue Management

General Fund

- a. The Town will maintain a diversified and stable revenue structure to protect it from short-run fluctuations in any one-revenue source.

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- b. The Town will conservatively estimate its annual revenues by an objective, analytical process.
- c. The Town, where practicable, will institute user fees and charges for specialized programs and services. Rates will be established to recover operational as well as overhead or indirect costs and capital or debt service costs, and the Town will periodically review user fee charges and related expenditures to determine if pre-established recovery goals are being met.
- d. The Town will follow an aggressive policy of collecting revenue.
- e. The Town should routinely identify intergovernmental aid funding possibilities. However, before applying for or accepting intergovernmental aid, the Town will assess the merits of a particular program as if it were funded with local tax dollars. Local tax dollars will not be used to make up for losses of intergovernmental aid without first reviewing the program and its merits as a budgetary matter. All grant applications, prior to submission, must be approved by the Town Manager; grants and donations may be accepted only by the Town Council; and no grant will be accepted that will incur management and reporting costs greater than the grant amount.

Utilities Fund

- f. The Town will strive to set water and sewer rates based on the actual cost to deliver each service. The Town will periodically review the components that make up the rates and fees through a cost-of-service study for every service provided. However, nothing in this policy shall prohibit the Town from establishing fair and reasonable rates that provide for a differential between in town and out of town customers.
- g. The Town will set rates to achieve a positive net income and cash flow each year.
- h. The Town will set rates to cover all current costs and to allow the fund to meet all bond covenant, state, and federal requirements. If a deficit between current revenue and current expenditures occurs, the Town will take all necessary steps to reduce and eliminate said deficit by reducing expenditures or enhancing revenues including additional water service opportunities while ensuring adequate capacity in water and wastewater facilities is maintained.

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- i. The Town will track, monitor, and report quarterly on the key variables of the rate model. Also, the Town will set rates that are based on annually updated 5-year forecasts of operating and capital budgets.
- j. Based on the 5-year forecasts, the Town will attempt to implement any required rate increases in a gradual and predictable manner and avoid large, one-time rate increases to ensure predictable and sustainable rates over the long-term, while providing sufficient funding for maintaining system infrastructure.
- k. As cash reserves and revenues permit, the Town will establish a rate stabilization reserve or other similar innovative approaches to mitigate the need for annual rate increases. Further, the Town shall evaluate rates regularly, to include increases if necessary, to avoid large one-time increases, and maintain infrastructure.

SECTION IV. Budget Management

Operating Budget

- a. The Town, to maximize planning efforts, intends to prepare the operating budget with a multi-year perspective.
- b. The budget is a plan for raising and allocating resources. The objective is to enable service delivery within available resources. Services must be delivered to residents and taxpayers at a level, which will meet real needs as efficiently and effectively as possible.
- c. The Town will fund current expenditures with current revenues and use nonrecurring revenues for nonrecurring expenditures.
- d. It is important that a positive unrestricted fund balance and a positive cash balance be shown in all governmental funds at the end of each fiscal year. When deficits appear to be forthcoming within a fiscal year, spending during the fiscal year must be reduced sufficiently to create a positive unrestricted fund balance and a positive cash balance.
- e. Where possible, the Town will integrate performance measurements and productivity indicators within the budget. This should be done in an effort to continue to improve the efficiency and effectiveness of Town programs and employees. Performance measurement should become a dynamic part of Town government administration.

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- f. The budget must be structured so that the Town Council and the general public can readily establish the relationship between revenues, expenditures and the achievement of service objectives.
- g. Budgetary reviews by the Town Council and Town Manager will focus on the following basic concepts:

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

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

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

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

Capital Budget

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

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SECTION V. Debt and Cash Management

Debt Management

- a. The Town will not fund current operations from the proceeds of borrowed funds and will confine long-term borrowing and capital leases to capital improvements, projects, or equipment that cannot be financed from current financial resources.
- b. The Town shall make use of non-debt capital financing through the use of alternate sources, such as but not limited to proffers, pay-as-you-go financing when financially feasible, investment income, and intergovernmental sources. The goal of the Town is to finance a minimum of 25% of the current portion of construction cost of capital improvements ~~(in excess of proffers)~~ from current financial resources ~~which. The amount provided in current resources~~ may be applied equally to all projects or only to specific projects.
- c. The Town will, when financing capital improvements or other projects or equipment by issuing bonds or entering into capital leases, repay the debt within a period not to exceed the expected useful life of the project or equipment. Debt related to equipment ancillary to a construction project may be amortized over a period less than that of the primary project.
- d. The Town is cognizant of its higher than average debt burden and should continue to offset its impact through rapid payback. An average payback of at least 60% in ten years should be maintained except for projects with a known revenue stream.
- e. The Town will annually calculate target debt ratios. The Town's debt capacity shall be maintained within the following primary goals:
  - Debt service expenditures as a percentage of governmental fund expenditures should not exceed 15%.
  - Bonded debt of the Town shall not exceed 2.5% of the total assessed value of taxable property in the Town nor 3.5% of the total personal income of residents of the Town.
- f. The Town will follow a policy of full disclosure in every annual financial report and financing official statement/offering document.

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- g. The Town will maintain good communications about its financial condition with bond and credit rating institutions.

Cash Management

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

SECTION VI. Reserve Funds Management

- a. The goal of the Town is to progressively increase the fund balance incrementally to achieve a general fund unassigned fund balance at the close of each fiscal year should be equal to no less than 15% 20% of general fund expenditures, after taking into account planned reserves for debt service and capital asset replacements, per the Town's long-term sustainability plan. Upon achieving this level of general fund unassigned fund balance, the Town shall continue to maintain such a level at the close of each succeeding fiscal year. Use of the fund balance may be necessary from time to time to meet unexpected revenue shortfalls or financial emergencies. By policy, appropriations from the fund balance require a majority vote of the Council. No appropriation from the fund balance will occur without prior presentation to the Council by the Town Manager of a plan and timeline for replenishing the fund balance to its minimum level within at least a 24 month timeframe.
- b. The utilities fund unrestricted fund balance at the close of each fiscal year should be equal to no less than 75% of operating revenues including the ninety (90) day operations and maintenance (O&M) reserve, and will pursue the necessary steps to achieve one percent (1.00%) repair, replacement, and rehabilitation (3R) reserve, excluding availability fees, over subsequent fiscal years.
- c. The Town will maintain an appropriated contingency account not to exceed 1.5% of general fund revenue to provide for any supplemental appropriations or other unanticipated expenditures.

A RESOLUTION: AMENDING THE FISCAL POLICY FOR THE TOWN OF LEESBURG

PASSED this 27<sup>th</sup> day of January, 2015.

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Kristen C. Umstatt, Mayor  
Town of Leesburg

ATTEST:

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Clerk of Council