

Town of Bowling Green, Virginia



Financial Policy Guidelines

Adopted: _____



BASIS FOR SOUND FINANCIAL MANAGEMENT POLICIES

The primary objective of sound financial management policies is for the Town Council to create a framework within which financial decisions can be made. These policies are a statement of the guidelines and goals that influence and guide the financial management practices of the Town of Bowling Green. Financial management policies that are adopted, adhered to, and regularly reviewed are recognized as the cornerstone of sound financial management. Sound financial management policies:

- Contribute significantly to the Town's ability to insulate itself from fiscal crisis and economic disruption.
- Enhance short-term and long-term financial credit ability by managing to the parameters that would put the Town in-line with the highest credit and bond rating categories as possible.
- Promote long-term financial stability by establishing clear and consistent guidelines.
- Direct attention to the total financial picture of the Town rather than single-issue areas.
- Promote the view of linking long-term financial planning with day-to-day operations.
- Provide the Town Council and residents with a framework for measuring the fiscal impact of government services against established fiscal parameters and guidelines.
- Ensure that the organization has sufficient resources to perform mandated responsibilities.
- Provide a foundation for evaluating financial analysis and condition.

FINANCIAL MANAGEMENT POLICIES

The Town intends to adhere to these policies. If there is any anticipated or unplanned variance from these policies, staff will advise Town Council and establish a plan for recovery within three to five years. If restoration cannot be accomplished within such time period without severe hardship to the Town, then the governing body will establish a different but appropriate time period.

Policy I – Fund Balance

General Fund- Unassigned Fund Balance

The Town of Bowling Green's Unassigned General Fund Balance (UGFB) will be maintained at a level to provide the Town with sufficient working capital and a comfortable margin of safety to address emergencies and unexpected declines in revenue without borrowing.

- The Town shall not use the Unassigned General Fund Balance to finance recurring operating expenditures.
- The Town's policy is to maintain an unassigned fund balance in the general fund equal to 25% of general fund operating expenditures excluding capital outlay. In the event the UGFB is used to provide for temporary funding of unforeseen emergency needs, the Town shall restore the Unassigned General Fund Balance to the previous level within three years. Fund balance in excess of this policy may be considered for "pay-as-you-go" capital outlay expenditures, other non- recurring expenditures or funding of additional/necessary reserves.
- The Town will balance achieving its targeted fund balance level with its annual "Pay as you go" capital improvement requirements.



Enterprise Funds

Water Fund

Minimum ending Unrestricted Cash and Cash Equivalents shall not be less than 50% of Operating Expenses, or 180 days of cash on hand. At this level, the Town would be able to sustain operations for one-half of the fiscal year, during an economic downturn. In the event the ending Unrestricted Cash and Cash Equivalents falls below the minimum of 50% of operating expenses, the Town shall restore the Unrestricted Cash and Cash Equivalents to the minimum of 50% within three years. Funds in excess of the annual requirements may be considered for “pay-as-you-go” capital outlay expenditures, other non-recurring expenditures or funding of necessary reserves. Operating Expenses exclude debt service and transfers for the purposes of calculating this policy.

- A rate review will be conducted periodically, between 3-5 years.

Sewer Fund

Minimum ending Unrestricted Cash and Cash Equivalents shall not be less than 50% of Operating Expenses, or 180 days of cash on hand. At this level, the Town would be able to sustain operations for one-half of the fiscal year, during an economic downturn. In the event the ending Unrestricted Cash and Cash Equivalents falls below the minimum of 50% of operating expenses, the Town shall restore the Unrestricted Cash and Cash Equivalents to the minimum of 50% within three years. Funds in excess of the annual requirements may be considered for “pay-as-you-go” capital outlay expenditures, other non-recurring expenditures or funding of necessary reserves. Operating Expenses exclude debt service and transfers for the purposes of calculating this policy.

- A rate review will be conducted periodically, between 3-5 years.

Policy II - Debt Management

Tax-Supported Debt

Tax-supported debt obligations are those that are expected to be repaid from the General Fund tax revenue of the Town of Bowling Green. These include general obligation bonds (except self-supporting bonds) and capital leases. General obligation bonds issued for self-supporting enterprise funds are not included in calculations of tax-supported bonds.

- The Town does not currently use nor does it anticipate using short-term borrowing to fund current operations; however, should the Town experience a financial hardship whereby a short-term Revenue or Tax Anticipation Note may be helpful in allowing enough time to address the structural imbalance, the Town may do so with the goal of rectifying the short-fall within 12 to 24 months.
- The Town will not use long-term debt to fund current operations.

Whenever the Town finds it necessary to issue tax-supported bonds, the following policy will be adhered to:

1. The Town will not borrow more than it has the capacity to repay.
2. The term of any bond issue will not exceed the useful life of the capital project/facility or equipment for which the borrowing is intended.



Revenue-Supported Debt

The Water and Sewer Funds may issue General Obligation or Revenue-Supported Debt.

Revenue-supported obligations are those for which the debt service is payable solely from the revenue generated from the operation of the project being financed or a category of facilities (i.e. water and sewer). These are not considered tax-supported debt of the Town. Whenever the Town finds it necessary to issue revenue-supported bonds, the following guidelines will be adhered to:

1. Revenue-supported and general obligation bonds for enterprise fund purposes will be structured to allow equal or declining annual debt service payments over a term not to exceed the life of the project being financed. For those revenue-supported bonds issued through the State or Federal Programs (i.e., Revolving Loan Fund, USDA Rural Development, among others), annual debt service payments shall not exceed thirty or forty years, depending upon specific program requirements.
2. For each of its enterprise funds (i.e., Water and Sewer), the Town will strive to meet a minimum for Debt Service Coverage Ratio of 1.15 times debt service, with a goal in excess of 1.25 times. The Debt Service Coverage Ratio will factor in all Operating Revenues less Operating Expense, to arrive at Net Operating Revenues Available for Debt Service.
3. In the event net revenues available for debt service falls below 1.15 times annual debt service of any fiscal year, the Town shall restore the net revenues available for debt service to the minimum of 1.15 times within three years.

Refinancing of Debt

The Town shall issue refunding bonds to achieve debt service savings, eliminate onerous covenants or provisions in outstanding bond documents, or to respond to a financial emergency.

The Town shall regularly monitor its outstanding debt to identify instances where the Town may achieve savings through an advance refunding or current refunding transaction.

The Town shall receive a written refunding analysis indicating the amount of net present value savings from its financial advisor prior to selling bonds to refund any outstanding bonds.

- A refunding transaction to achieve debt service savings should only be undertaken when the net present value of the savings, net of issuance costs, will be at least 3% of the principal amount of the refunded bonds, unless otherwise approved by the governing body. Refunding transactions for revenue bonds can be structured so that savings are realized over the life of the refunding bonds or up-front, depending on the results of a cost-benefit analysis.

General Debt Policies

- In the event the Town obtains bond ratings, the Town will maintain communication with bond rating agencies to keep them abreast of its financial condition and will provide them with information on a timely basis including the Town's Annual Financial Report, Adopted Budget and Capital Improvement Program. The Town shall comply with all of its undertakings in accordance with Securities and Exchange Commission Rule 15c2-12 and will follow the Government Finance Officers' Association and Securities and Exchange Commission requirements for continuing disclosure.



Policy III- Budget Principles

- Public participation in the budgetary process will be encouraged.
- The Town will avoid dedicating revenue to a specific project or program because of the constraint this may place on flexibility in resource allocation except in instances where programs are expected to be self-sufficient or where revenue is dedicated to a program for statutory or policy reasons.
- The budget process will be coordinated in a way that major policy issues are identified for Town Council several months prior to consideration of budget approval. This will allow adequate time for appropriate decisions and analysis of financial impacts.

Policies

- Town Council shall adopt a balanced budget in accordance with all legal requirements.
- The Vision and priorities established by Town Council as well as the Strategic and Comprehensive Plans will serve as the framework for the budget proposed by the Town Manager.
- A structured budget preparation and formulation process shall be used for all departments and agencies receiving funding from the Town.
- Departmental budgets shall be managed within the total appropriated budget for each fiscal year.
- All operating budget appropriations shall lapse at the end of the fiscal year to the extent that they are not expended or encumbered.
- The budget shall be adopted by the favorable vote of a majority of members of Town Council.
- The fiscal year for the Town is July 1 through June 30.
- One-time revenues shall be used for one-time expenditures only.
- The Town will establish a Contingency line item in the Operating Budget up to 10% of the Estimated Revenues in order to account for unexpected Expenditures.
- A General Fund Reserve for Contingencies shall be used as a source of funding for unanticipated expenditures during the budget year. The Reserve for Contingencies is limited to one-time expenditures and shall not be considered a source for recurring financing.

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Process

The Town Manager shall annually prepare a Proposed Budget for Town Council review. The Proposed Budget shall serve as a financial plan for the upcoming fiscal year and shall contain the following information:

1. A budget message that outlines the proposed revenues and expenditures for the upcoming fiscal year together with an explanation of any major changes from the previous fiscal year. The budget message should also include any proposals for major changes in financial policy.
2. Charts indicating the major revenues and expenditures in each major fund (General, Water, Sewer, etc.) as well as changes in fund balance for all funds.
3. Summaries of proposed expenditures by function, department and activity for all funds proposed to be expended in a fiscal year.
4. A schedule of estimated requirements for the principal and interest of each bond issue.
5. A three-year history of revenues and expenditures to include the prior year actual, current year adopted, revised, and proposed budgets for each major fund.
6. The proposed budget appropriation resolution including the tax levy.
 - The Town Council shall hold a public hearing on the budget submitted by the Town Manager, and all interested residents shall be given an opportunity to be heard on issues related to the proposed budget, including the Capital Improvement Program.
 - Following the public hearing on the Proposed Budget, Town Council may make adjustments in instances where Town Council increases the total proposed expenditures, it shall also identify a source of funding at least equal to the proposed expenditures.

Capital Improvement Program

- A five-year Capital Improvement Program (CIP) that serves as the basis for annual capital appropriations and debt financing requirements shall be prepared and updated annually.
- The CIP shall include descriptions, timeline, cost estimates, and a schedule of expected expenditures for each project.
- Debt service requirements and funding needs for Town government shall be determined based on the Adopted CIP.
- Long-term borrowing shall be confined to major capital improvements and long-lived equipment purchases.
- Short-term borrowing shall be limited to bond anticipation notes and vehicle/equipment leasing, where feasible, and shall not exceed the useful life of the asset being purchased.
- Capital project appropriations shall lapse upon project completion, allowing for an adequate warranty period. Lapsed appropriations shall remain in the Capital Fund for reallocation to other projects.
- Incremental operating costs associated with capital projects shall be funded in the operating budget after being identified and approved in the Capital Improvement Program.
- Pay-as-you-go funding, including State Highway Maintenance Funds, State Revenue Sharing Funds, State and federal grants, and other cash sources, shall not be less than 10%, with a goal of 15%, of the Town's 5-Year CIP.



Quarterly Financial Reporting

- The Finance Director & Town Manager will present to the Town Council quarterly financial reports identifying meaningful trends in revenues and expenditures for the General and Enterprise Funds.
- First Quarter Review
 - Budget staff will evaluate requests for the carry forward of funds remaining from prior year appropriations and other possible budget adjustments. Section 15.2-2507 of the Code of Virginia requires that a public hearing be held prior to Town Council action when a proposed budget amendment exceeds one percent of the total expenditures shown in the currently adopted budget.
 - Third Quarter Review - Budget staff will evaluate all expenditures and revenues as compared to budget and make recommendations to Town Council regarding possible budget adjustments. Section 15.2-2507 of the Code of Virginia requires that a public hearing be held prior to Town Council action when a proposed amendment of the budget exceeds one percent of the total expenditure shown in the currently adopted budget.

Policy IV - Investment

I. Policy Statement

It is the policy of The Town of Bowling Green, Virginia (“the Town”) that the investment and administration of its funds be made in accordance with the Code of Virginia Investment of Public Funds Act, the applicable provisions of any outstanding bond indebtedness, and this policy. The Town shall be in complete compliance with all applicable federal, state, and local laws, and other regulations and statutes governing the investment of public funds. Within those parameters, the goal of this policy is to invest the Town’s moneys based upon the following in order of priority:

- Protection and preservation of principal;
- Liquidity; and
- Yield.

The Town Manager, Finance Director/Treasurer and Financial Advisors will review the town’s investments quarterly.

This Committee will provide broad policy oversight over investments and, at a minimum, provide quarterly reporting to the governing body. This policy will be reviewed on an annual basis. Any changes must be approved and adopted by Town Council.

II. Receipt of Donations

From time to time, the Town may receive donations directly from other entities. Prior to accepting the gift, the Town Staff will consult with Town Council and Legal Counsel in order to obtain direction on how best to:

- Account for the gift within its financial statements;
- If applicable, Invest the gift, keeping in mind the potential for protecting principal and maximizing interest earnings; and
- Further restrict or program the gift for future use (i.e., selling the asset, restricting it for specific purposes, spending on specific projects, among others).