# Summary of Financial Policies

The Town's Administrative Regulations includes 22 chapters with six chapters having the greatest impact on day-to-day financial management and resulting financial position of the Town. These are:  Chapter12- Vehicle Equipment and Replacement Fund, Chapter 13 Fund Balance, Chapter 15- Debt Management Policy, Chapter 16-Debt Post Issuance Policy, Chapter 17-Financial Management Policy, Chapter and Chapter 21-Capital Project Management Policy

Brief summaries of each policy is included below with the complete policy included as an appendix to this book. To facilitate a logical topic flow, policies will not necessarily be discussed in chapter number order.

**Chapter 17-Financial Management Policy**

The rapid growth of the Town has required rapid expansion of personnel, facilities and related finances. To address these issues the following policies are designed to promote strong financial management.

Annual Audit. Establishes criteria to ensure that the external auditor hired will be sufficiently experienced in state and local government audits to provide a quality audit.  Requires all auditor findings regarding internal controls to be addressed.

Operating Budgets.  Sets the timing for the budget process and level of budgetary control.  Requires a structurally balanced budget in which recurring expenditures may not exceed recurring revenues.  Non-recurring expenditures may be funded from recurring revenues, non-recurring revenues and fund balance in excess of policy reserves. Budgets that draw reserves below policy requirements are deficit budgets and a plan must be established to replenish policy reserves.

Tax Rate Management.   Establishes a capital dedicated portion of the M & O levy that can be used fund pay as you go projects and reduce debt issuance in the short-term and then as capital facilities are built but revenue growth has slowed, can be rediverted to fund operations required for the new facilities.

Revenue Management.  Does not permit dedication of general revenues for specific purposes. User based fees should be cost based and may be classified as "full" "partial" or "minimal" cost recovery. Impact fees for water, wastewater and roadways will be reassessed every five years. Utility rates will be self-supporting.

Expenditure Control.  All expenditures must be appropriated by budget. Operating appropriations that are not expended or encumbered at year end lapse.

Financial Condition and Reserves. Reinforces the requirement for no operating deficits. Establishes General Fund Reserve at the 20% charter reserve as restricted fund balance and unassigned fund balance of 1% for a total of 21% (2 ½ months of expenditures).  Establishes $25,000 cash reserve for both Fire and Crime

Control Special Purpose Districts. Requires enterprise funds to be self-sufficient.

**Chapter 13- Fund Balance Policy**

Establishes the basis and need for maintaining minimum fund balance reserves, defines categories of fund balance for financial reporting and references GFOA Best Practices for determining adequate fund balance. Fund Balance is set at a total of 21% ($2^{1/2}$ months expenditures) for the General Fund, 3-5% for Debt Service Fund, 25% (3 months expenses) for the Water and Sewer Fund, $250,000 for the Solid Waste Fund and 17% (2 months expenses) for the Stormwater Utility Fund.

**Chapter 21- Capital Projects Management Policy**

The rapid growth of the Town has created oversized capital budgets relative to operating budgets and have resulted in long-term agreements with developers for construction of infrastructure that may not be completed for many years following the agreement. From a materiality standpoint infrastructure is often the largest single item in a government's financial statement and must be properly accounted for. The policy requires departments to furnish to finance all developer related agreements and contracts. Upon receipt, finance will analyze the contract for proper accounting treatment including the specific "triggers" that must occur before the transaction is recognized. Annual closing procedures include review of all open agreements and their status.

**Chapter 12-Vehicle Equipment and Replacement Fund (VERF)**

Creates an internal service fund of the Town for the purpose of smoothing the budget impact of large vehicle and equipment purchases. This approach has the advantage of avoiding debt financing allowing the Town to avoid deferring maintenance during times of economic downturn and tight budgets.

Key provisions include:

1) All equipment and vehicle are owned by the VERF.
2) Using departments are charged a monthly fee that is accumulated towards replacement.
3) All items replaced are surrendered by the department with disposal proceeds retained by VERF.
4) New items due to new programs or positions must be included as part of the annual budget process and then are donated to VERF.
5) VERF cash balances should approximately equal (defined as +/- 10%) accumulated depreciation in the fund.

**Chapter 15- Debt Management**

Describes the type of debt issuance available to the Town and the circumstances in which each type of debt may be used. Preference is given to alternate financing means such as PAYGO programs or capital grants. When debt issuance is necessary, preference is given to voter-approved governmental debt vs. non-voter approve debt. For capital assets for enterprise activities, the intent is to pay all debt service from the revenues of the enterprise operation.

Debt issuance should be limited to the acquisition or construction of long-lived capital assets and never be issued to fund current operations. The maximum final maturity for governmental fund and enterprise fund debt is 20 and 30 years respectively.

For general obligation governmental debt, the debt service tax levy should never exceed 40% of the total tax levy.  Total tax supported debt should also not exceed 4% of taxable assessed valuation.

It is the Town's intent that enterprise fund debt service be paid from the revenues generated from the enterprise activities. If Revenue Bonds are issued, the Town will maintain a coverage ratio of at least 1.25% of net operating revenue available for debt service to maximum annual debt service.

**Chapter 16-Debt Post Issuance Policy**

Details the process following debt issuance including tax certificates, Attorney General filing, SEC Continuing Disclosure (15C2-12), recordkeeping, use of proceeds and Arbitrage Rebate and Yield calculations.