

TOWN OF HERNDON, VIRGINIA

RESOLUTION

MAY 22, 2018

Resolution- to approve and to adopt the Updated Financial Policies and Updated Internal Administrative Policies.

WHEREAS, each year the town adopts its financial policies and internal administrative polices related to inter-fund lending and budget transfer limits; and

WHEREAS, these policies have not been updated since at least 2012; and

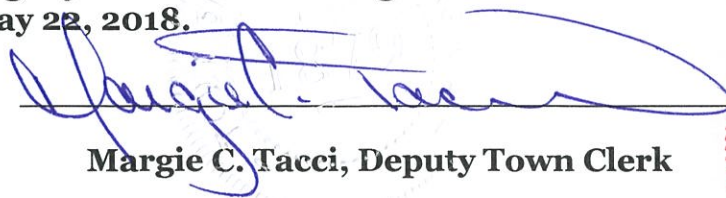
WHEREAS, adoption of, and adherence to, financial policies reflective of current best practices and ratings agency expectations are a key component of sound financial management; and

WHEREAS, in conjunction with the town's financial advisors, staff presented updated financial policies to Town Council on May 1, 2018.

NOW, THEREFORE BE IT RESOLVED that the Town Council of the Town of Herndon, Virginia, hereby approves and adopts the updated financial policies and updated internal, administrative polices in the forms hereto attached as Exhibit A and Exhibit B.

BE IT FURTHER RESOLVED, that this resolution supersedes Resolution 12-G-14.

This is certified to be a true and accurate copy of Resolution 18-G-29 adopted at a legally convened meeting of the Town Council of the Town of Herndon on May 22, 2018.


Margie C. Tacci, Deputy Town Clerk



Attached for reference are Exhibit A, "Updated Financial Polices" and Exhibit B, "Updated Internal Polices."

**Town of Herndon, Virginia
Updated Financial Policies
May 22, 2018**



INTRODUCTION

To establish and document a policy framework for fiscal decision-making and to strengthen the financial management of the Town of Herndon, Virginia (the “town”), the Town Council confirms the following Financial Policy Guidelines as part of the fiscal year 2019 budget.

Financial Policy Guidelines that are adopted, adhered to, and regularly reviewed are recognized as a cornerstone of sound financial management and:

- Contribute significantly to the town's ability to insulate itself from fiscal crisis;
- Enhance short term and long term financial credit ability by helping to achieve the highest credit and bond ratings 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; and
- Provide Town Staff, Town Council, and the town’s citizens a framework for measuring the fiscal impact of government services against established fiscal parameters and guidelines.

The town will review these Financial Policy Guidelines at least once every four years and either reaffirm them or adjust them to reflect evolving town priorities, developments in industry best practices, and/or changes to rating agency criteria.

SECTION I. Accounting, Auditing, and Financial Reporting

- a. The town will establish and maintain the highest standards of accounting practices in conformance with uniform financial reporting in Virginia and generally accepted accounting principles for governmental entities as set forth by the Governmental Accounting Standards Board.

- b. The town will engage an independent firm of certified public accountants to perform an annual financial and compliance audit according to generally accepted government-auditing standards and will have these accountants publicly issue an opinion, which will be incorporated in a comprehensive annual financial report.
- c. The town will annually seek the Government Finance Officers Association (GFOA) Certificate of Achievement for Excellence in Financial Reporting.

SECTION II. Asset Management

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

SECTION III. Revenue Management

- a. The town will maintain a diversified and stable revenue structure to protect it from short-run fluctuations in any one revenue source.
- b. The town will estimate its annual revenues by an objective, analytical process.
- c. The town maintains budgetary control at the fund and department level. At least quarterly reports of comprehensive financial data for each of the town's activity centers will be generated; displaying such line item information as approved budget, expenditure and encumbrance amounts, any budget transfers, and remaining budget balance.
- d. In addition, a condensed report is prepared for the Town Council at least semi-annually which compares actual to budgeted/projected revenues and expenditures for all funds of the town. The report notes any significant variances from expected results and recommends actions to bring the budget into balance, if necessary.
- e. The town has four enterprise funds: the Water and Sewer Fund, Chestnut Grove Cemetery Fund, Golf Course Fund, and Downtown Parking Enterprise Fund. 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.

- f. The town will follow an aggressive policy of collecting revenue.

SECTION IV. Budget Management

Operating Budget

- a. The town must adopt a structurally balanced annual budget by July 1 of each fiscal year. A structurally balanced budget is defined as one in which total recurring revenues and other financing sources are equal to total anticipated recurring expenditures.
- 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. Recurring revenues may be used for one-time expenditures if deemed appropriate by the Town Manager.
- d. Revenues must be increased or expenditures decreased, in the same fiscal year, if deficits appear.
- e. 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.

Capital Budget

- f. The town will make all capital improvements in accordance with an adopted Capital Improvements Program (CIP).
- g. 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.
- h. The town will annually update a multi-year financial forecast in concert with preparation of the operating and capital budget. The multi-year financial forecast will take into account projected operating revenues and expenditures as well as projected capital needs, both debt and non-debt funded. The multi-year financial forecast will also track projected compliance with the town's Financial Policy Guidelines.

- i. The town will make use of non-debt capital financing through alternate sources, including proffers and pay-as-you-go cash funding from the Capital Reserve Fund. The Capital Reserve Fund will be detailed be described further herein.
- j. The goal of the town is to finance 25 percent of the current portion of construction and acquisition costs of capital assets, improvements, and infrastructure (in excess of proffers) through the use of such non-debt sources over the course of a five-year CIP program. The amount provided in current resources may be applied equally to all projects or only to specific projects.

SECTION V. Reserve Funds Management

- a. The General Fund Unassigned Fund Balance should be maintained at a minimum of 20 percent of total General Fund Operating Expenditures as measured in the town's annual audited financial statements. Operating Expenditures do not include capital expenditures of a one-time, non-recurring nature.
- b. General Fund Unassigned Fund Balance should be drawn upon only as absolutely necessary and, where applicable, after use of the Revenue Stabilization Fund and Contingency Fund. Any use of General Fund Unassigned Fund Balance should be limited to:
 1. One-time capital needs;
 2. Offsetting difficult economic times;
 3. Non-recurring expenditures; and
 4. Providing liquidity in emergency situations.
- c. Should the town utilize Unassigned Fund Balance for one of the purposes noted above in such a way that will reduce the funds below the policy minimum level, the town will put in place a plan to restore the Unassigned Fund Balance to the policy minimum level. In such circumstances, the town will adopt a plan as part of the following year's budget process to restore Unassigned Fund Balance to the policy minimum level within 2 years from the date of the budget's adoption.
- d. The town will establish a Revenue Stabilization Fund within the Assigned portion of the General Fund Balance. At the close of each audited fiscal year, after certifying that the Unassigned Fund Balance is in compliance with these policies, the Revenue Stabilization Fund shall receive a minimum of 25 percent of the prior year's surplus, if any, as calculated in the prior fiscal year audit. Balances in the Revenue Stabilization Fund will be allowed to accumulate until they reach an amount equal to 5 percent of General Fund Operating Revenues. Transfers to the Revenue Stabilization Fund may also be made as part of the adopted operating budget.

1. Withdrawals from the Revenue Stabilization Fund can only be considered if there is an unexpected General Fund recurring revenue decline of at least 3 percent below the original budget projections for the then current fiscal year.
 2. No more than half of the Revenue Stabilization Fund can be withdrawn in any one fiscal year except in the event that using no more than half of the balance would result in Unassigned Fund Balance falling below the 20 percent threshold noted herein. In such an instance, the withdrawal shall be the lesser of the amount needed to maintain the 20 percent Unassigned Fund Balance policy level or the remaining balance in the Revenue Stabilization Fund.
- e. The town will establish a Contingency Fund within the Assigned portion of the General Fund Balance. At the close of each audited fiscal year, after certifying that the Unassigned Fund Balance and Revenue Stabilization Fund are each in compliance with these financial policies, the Contingency Fund shall receive a minimum of 25 percent of the prior year's surplus, if any, as calculated in the prior fiscal year audit. Balances in the Contingency Fund will be allowed to accumulate until they reach an amount equal to 2.5 percent of General Fund Operating Expenditures. Transfers to the Contingency Fund may also be made as part of the adopted operating budget. Balances in the Contingency Fund are available for:
1. Reserves against shortfalls in any given revenue source(s);
 2. Reserves against unexpected increases in any given expenditure(s);
 3. Providing liquidity in emergency situations;
 4. A financial opportunity(s) to enhance the well-being of the town; and
 5. Other such global purpose as to protect the long-term fiscal security of the town.
- f. The town will establish a Capital Reserve Fund within the Assigned portion of the General Fund Balance. At the close of each audited fiscal year, the Capital Reserve Fund shall receive a minimum of 25 percent of the prior year's surplus, if any, as calculated in the prior fiscal year audit. There will be no cap or limitation on the balances allowed to accumulate in the Capital Reserve Fund. Balances in the Capital Reserve Fund are available for pay-as-you-go funding of capital projects and other non-recurring capital related expenditures including debt payoff/paydown.

SECTION VI. Debt and Cash Management
Debt Management

- a. The town will not fund current operations from the proceeds of borrowed funds and will confine long-term borrowing and capital leases to capital improvements, projects, or equipment that cannot be financed from current financial resources.
- b. The town will, when financing capital improvements or other projects or equipment by issuing bonds or entering into capital leases, repay the debt within a period not to exceed the expected useful life of the project or equipment. Debt related to equipment ancillary to a construction project may be amortized over a period less than that of the primary project.
- c. The town will annually calculate target debt ratios for direct, non-revenue-based debt that is dependent on the General Fund for the payment of debt service (i.e. "Tax Supported Debt"). The town's Debt Capacity shall be maintained within the following primary goals.
 1. Tax Supported Debt Service expenditures as a percentage of annual General Fund expenditures should not exceed 12 percent.
 2. The outstanding amount of Tax Supported Debt of the town shall not exceed 1.5 percent of the total assessed value of the taxable property in the town.
 3. The 10-Year Payout Ratio of Tax Supported Debt (i.e. the amount of Tax Supported debt retired in 10 years as a proportion of total outstanding Tax Supported Debt) shall not be less than 55 percent.
- d. The town may exclude Water and Sewer Enterprise Fund debt, and other self-supporting Enterprise Fund Debt (if any), from the calculation of Tax Supported debt ratios if the Water and Sewer Enterprise Fund, or other Enterprise Fund, is fully self-supporting from current revenue and not reliant on support from general tax revenues.
- e. Before undertaking a new financing, the town will work with its Financial Advisor to determine the impact of the new financing on the town's Debt Capacity (i.e. impact to policy ratios) and Debt Affordability (i.e. impact to annual cash-flows).
- f. The town will follow a policy of full disclosure in every annual financial report and financing official statement/offering document. As such, the Director of Finance will maintain a record of all of the lenders of outstanding town issued debt. This record will include any post issuance disclosure obligations of the town. So long as the town has debt outstanding in the public markets this record will also include the continuing disclosure requirements found in the Continuing Disclosure Agreement ("CDA") that is executed at the closing of publicly issued bonds.

- g. It is the goal of the town to obtain a credit rating from at least two of the three major municipal bond credit rating services, namely Moody's Investors Service, Standard & Poor's, and Fitch Ratings. The town will strive to maintain and enhance its credit ratings once they have been obtained. The town understands that there is a correlation between a higher bond rating(s) and lower borrowing costs (all else being equal) whether the town is borrowing for a new project or to refinance existing debt for savings. As such, working with its Financial Advisor, the town will maintain good communications about its financial condition with bond and credit rating institutions.
- h. The town understands that it has the unique ability to borrow on a tax-exempt basis for many of its General Government and Utility Enterprise projects. The town further understands that the provisions of the Internal Revenue Code of 1986, as amended (the "IRC"), together with the regulations promulgated thereunder (the "Treasury Regulations" and collectively with the IRC, the "Tax Laws"), impose requirements that must be met in order for interest on the Bonds to continue to be exempt from federal income taxation or the Bonds be entitled to certain other tax benefits while the Bonds are outstanding. It shall be the policy of the town to work with a nationally recognized Bond Counsel and Financial Advisor, as necessary, (a) to comply with the Tax Laws and (b) to implement and carry out the procedures to ensure compliance with the Tax Laws and to preserve appropriate records to evidence such compliance.

Cash Management

- i. The town will maintain an investment policy based on Government Finance Officers Association (GFOA) best practices and the Virginia Investment of Public Funds Act. The investment policies and procedures of the director of finance shall become a part of this policy.
- j. 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 VII. Water and Sewer Enterprise Fund Policies

- a. The town shall complete a cost of service rate study for the Water and Sewer Enterprise Fund and report the results to the Town Council as part of the development of the annual budget. The cost of service study shall include projected operational and capital costs over at least a 5 year time period.
- b. It is the intent of the Water and Sewer Enterprise Fund to have adequate cash reserves to provide for at least 250 days of operating expenses and debt service as measured at the end of a fiscal year. If the unrestricted cash and long-term investments balance fall below the target level as measured at the completion of the annual audit, the town will develop a plan to bring reserves back in line with the policy target within two budget cycles.

- c. Net Revenues should be at least 1.70 times the annual debt service requirement of long-term Water and Sewer Enterprise Fund debt service with a goal of maintaining 2.0 times annual debt service requirements. Net Revenues shall be defined as operating revenues plus availability charges plus interest income less operating expenses net of depreciation. Excess revenues after debt service will be available to first build and maintain the Utility enterprise Cash and Cash Equivalents plus Long-Term Investments for policy compliance – if necessary – and secondly, to provide equity funding for future capital projects.
- d. The town will annually update a 5-year Capital Improvements Program for the Water and Sewer Enterprise Fund. The town will maintain a balance between debt funding and equity/cash funding, with at least 25 percent of capital projects funded from non-debt sources over a 5-year horizon.
- e. The Water and Sewer Enterprise Fund will amortize bond issues so that the cost of long-term assets is spread over the users that will benefit from them but not longer than the expected useful life of the asset.

Exhibit B – Updated Internal Administrative Policies

Town of Herndon, Virginia Updated Internal Administrative Policies Interfund Borrowing and Budget Transfers

Interfund Borrowing Policy:

Before lending between funds can be initiated, the amount of unrestricted, available cash to be retained at all times by the ***lending*** fund should be equivalent to at least six months (or one-half) of the ***lending*** fund's current annual operating and debt service budgets.

All borrowings will be repaid in their entirety to the ***lending*** fund by the borrowing fund unless specific action is taken by the Town Council to forgive the outstanding balance of the debt. In this case, the outstanding balance of the borrowing would be reclassified from an "inter-fund loan" to an "operating transfer".

The borrowing will be restricted to financing a specific capital outlay/project of the ***borrowing*** fund and be adequately described in and supported by the town's adopted CIP, budget or budget amendment.

The maximum lending period will generally be the lesser of 10 years or until the ***lending*** fund's need for its available cash becomes evident. However, if financially feasible by the ***lending*** fund, longer loan periods related to the acquisition and construction of longer-lived assets (i.e., buildings, roads, other infrastructure, etc.) can be considered.

The interest rate to be charged will be the prevailing interest rate the town could have secured at the time of the borrowing had the funds been invested in specific investment instruments as allowed under the town's adopted Investment and Portfolio Policy.

Should it become financially feasible and of general benefit to the town as a whole, the outstanding balance of the loan could be returned by the ***borrowing*** fund to the ***lending*** fund on an expedited basis. This can be accomplished by issuing general obligation bonds, undertaking some other financial arrangement, or Town Council action.

Transfer/Reallocation/Redistribution of Funds (Budget Transfers) Policy:

Department Heads and Directors:

Department heads and directors are authorized to transfer/reallocate/redistribute any amount, up to \$100,000, of the approved operations, maintenance and capital funding between approved expenditure accounts within their respective departments in the General Fund only, except for salary and benefit accounts. Proposed transfers from

salary or benefits accounts of any amount must be submitted to the Town Manager for review and approval. Requirements in excess of \$100,000 must be submitted to the Town Manager for review, and to Town Council for approval.

Town Manager:

The Town Manager is authorized to approve the transfer/reallocation/redistribution of General Fund, Water and Sewer Fund, Golf Course Fund, Chestnut Grove Cemetery Fund, Downtown Parking Enterprise Fund, and the Capital Projects Funds monies within a department or between departments in the same fund. Actions may be within or between the personnel, operations and maintenance and capital outlays/projects accounts. The total amount of each approval shall not exceed \$100,000 and multiple transfers to the same account cannot exceed a total of \$100,000. Requirements in excess of \$100,000 must be submitted by resolution to the Town Council for approval.

Town Council:

The Town Council retains the responsibility and authority to approve by council action all transfers/reallocations/redistribution in excess of \$100,000, and all budget amendments, including transfers between funds. In addition, only Town Council can authorize the reallocation of available reserve account funding when the reallocation is for a purpose other than the originally intended purpose of the reserve account.