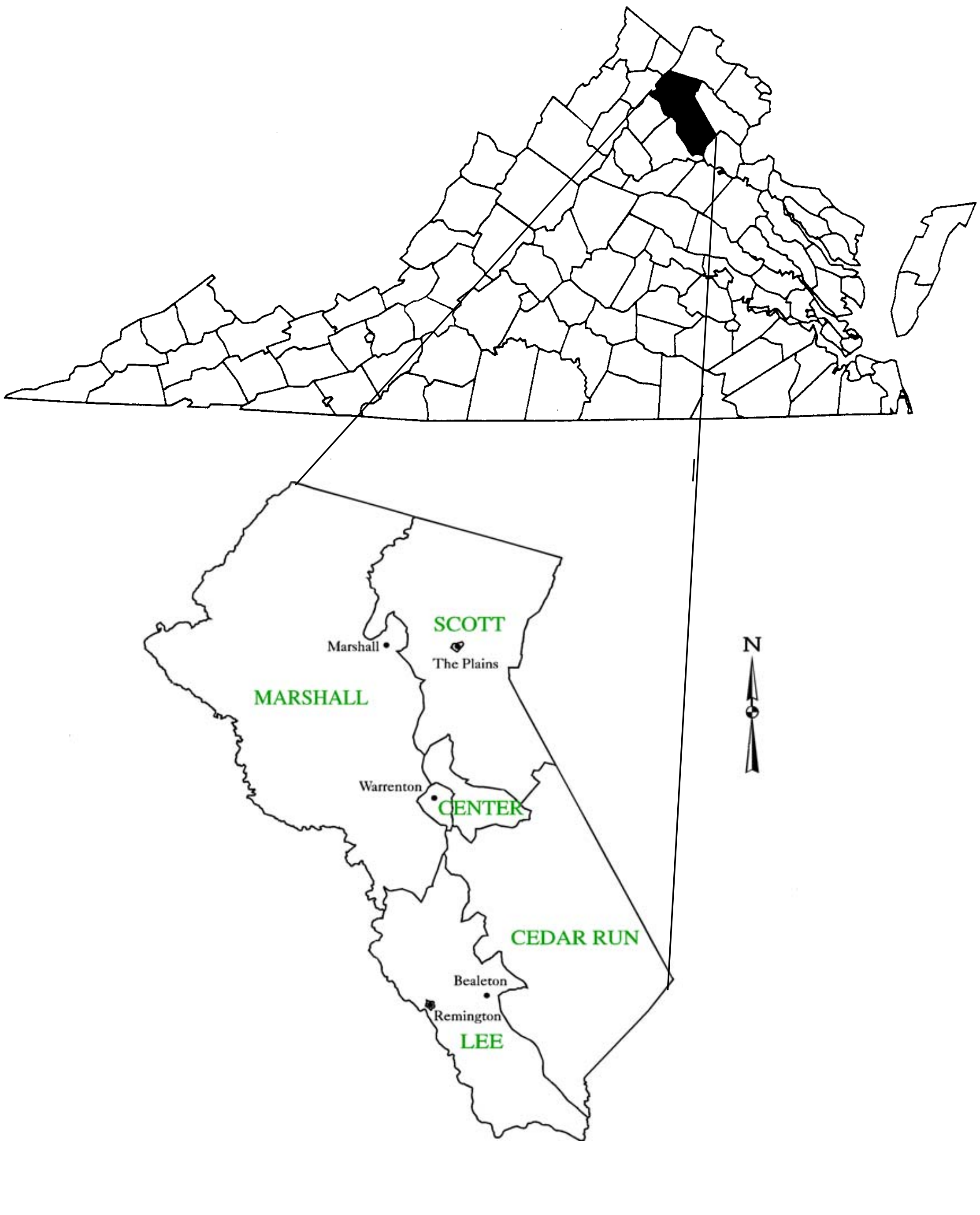
County of Fauquier, Virginia



FAUQUIER COUNTY, VIRGINIA HISTORY

The County of Fauquier is located in the north central Piedmont region of Virginia, approximately 40 miles southwest of the nation's capital and approximately 80 miles northwest of Richmond, the state's capital. The County encompasses a land area of approximately 660 square miles. Fauquier County is bordered by the counties of Prince William, Stafford, Culpeper, Warren, Clarke, Loudoun and Rappahannock. The Rappahannock River forms the county's Western border. Interstate 66 runs East-West through the northern portion of the County. In addition, five U.S. primary routes and two state primary routes traverse the County.

Once part of the Northern Neck Proprietary, a vast English land grant held by the 6th Lord Fairfax, Fauquier County was created in 1759 from Prince William County and named for Sir Francis Fauquier, the Colonial Lieutenant Governor at that time.

Originally populated by the Manohoacs, Sioux tribe, and later used as a hunting ground by the Iroquois, Fauquier's first immigrants were of German and English ancestry. Brent Town, the first settlement, was established in 1686 in Southern Fauquier. The first settlement in Northern Fauquier was near The Plains in 1726.

During the American Revolution, many County citizens served in the Continental Army, including Captain John Marshall who would later serve the country as Chief Justice of the U.S. Supreme Court.

During the Civil War the county was frequently traversed by both Northern and Southern armies. The history of the war in Fauquier County is dominated by tales of the escapades of Colonel John S. Mosby, a Partisan Ranger whose unorthodox and highly effective maneuvers would now be called guerrilla warfare. Significant Civil War sites and activities are documented in Fauquier's twelve sites on the Virginia Civil War Trails.

Recovery from devastation to the agricultural economy following the war was helped by the arrival in the early 1900s of several prosperous Northern businessmen who came to fox hunt during the winter months. Their enthusiasm and investments, combined with Virginia's long history of fine horses, established the area as the Hunt Country capital of Virginia, which continues to this day.

The Fauquier County government is organized under the traditional form of government as defined under Virginia law. The governing body of the County is the Board of Supervisors, which makes policies for the administration of the County. The Board of Supervisors consists of five members representing the five Magisterial Districts in the County: Center, Lee, Scott, Marshall, and Cedar Run. The Chairman of the Board of Supervisors is elected from within the Board of Supervisors and serves generally for a term of one year in addition to being a District Supervisor. The Board of Supervisors appoints a County Administrator to act as the administrative head of the County, who serves at the pleasure of the

FAUQUIER COUNTY, VIRGINIA HISTORY

Board of Supervisors, carries out the policies established by the Board, and directs business and administrative procedures in the County government. An organizational chart of Fauquier County government may be found on page 17.

In Virginia, cities and counties are distinct units of government and do not overlap. Fauquier County includes the Towns of Warrenton, Remington, and The Plains. The towns provide additional services within their corporate limits as authorized by Virginia General statues. Property in these towns is subject to County taxation.

Because of its proximity to Washington, D.C., the County has experienced consistent population growth rates over the past ten years. Despite the population growth, the County remains primarily rural in nature.

DEMOGRAPHICS

Formed as an Independent County	Chartered in 1759
Present Form of Government	Traditional Board of Supervisors-County Administrator (Five Board Members by Magisterial District)
Area	660 square miles
Population (2010)	68,379
Registered Voters (March 2009)	44,190
Median Age (April 2008)	39.8
Unemployment Rate (February 2010)	6.6%
County Civilian Labor Force (February 2010)	38,446

Education (Public):

Number of Elementary Schools	11
Number of Middle Schools	5
Number of High Schools	3
Number of Governor's Schools	1
Number of Alternative Schools	1
Enrollment 2010 (as of 3/31/10)	11,070

Libraries:

Number of Facilities	3
Patrons Registered (March 2010)	39,723
Total Circulation (March 2010)	351,403

Sheriff's Office Protection:

Administration	6
Law Enforcement	65
Court Services/Civil Process	17
Detention Center	37
Support Services	5
Number of Calls for Which a Deputy was Dispatched	62,491
Total Calls for Service	106,246

Fire and Rescue Protection:

Number of Fire Stations	1
Number of Rescue Stations	1
Combination Fire & Rescue	9
Career Personnel	38
Volunteer Personnel	620

Parks and Recreation (Public):

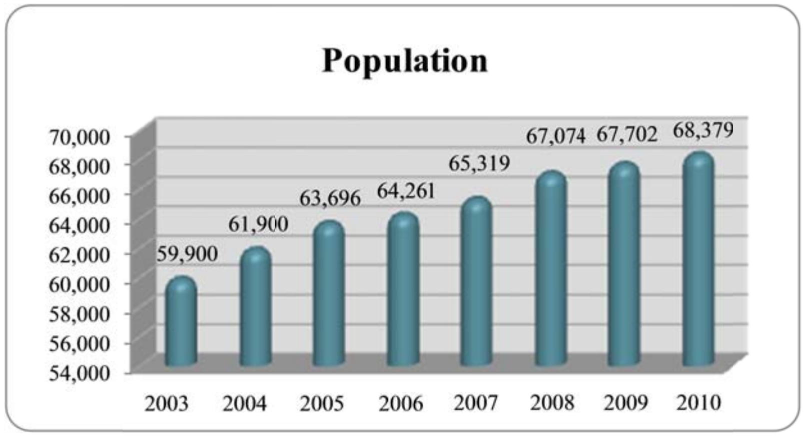
State Parks	1
State Forests	1
County Parks	32
Wild Life Management Areas	3
Swimming Pools	2

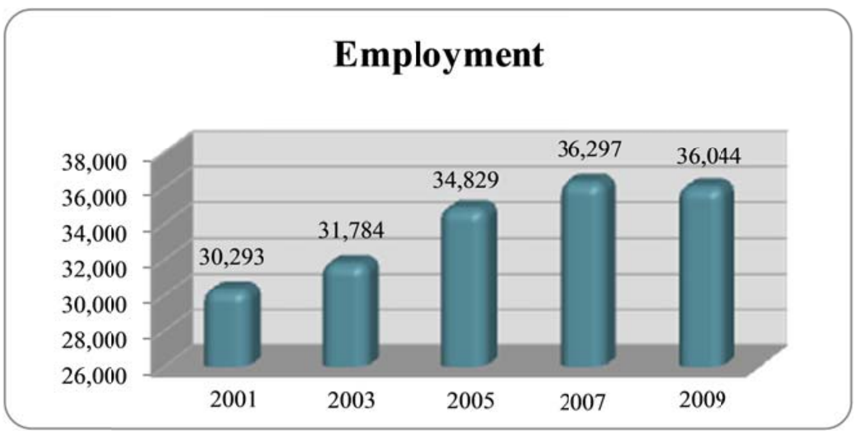
Full-Time Equivalents:

General Government	582.58
School Division	1,711.50

DEMOGRAPHICS

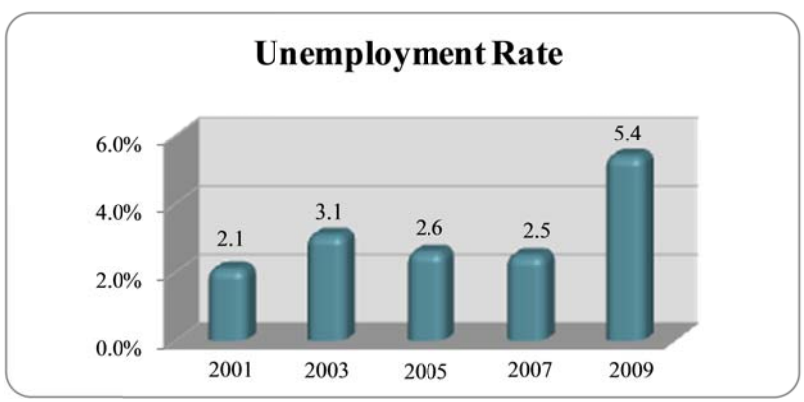
Population growth, which averaged 3% annually from 2000 through 2004, has slowed substantially in recent years as a result of reduced residential construction and the general slowdown in the regional economy.



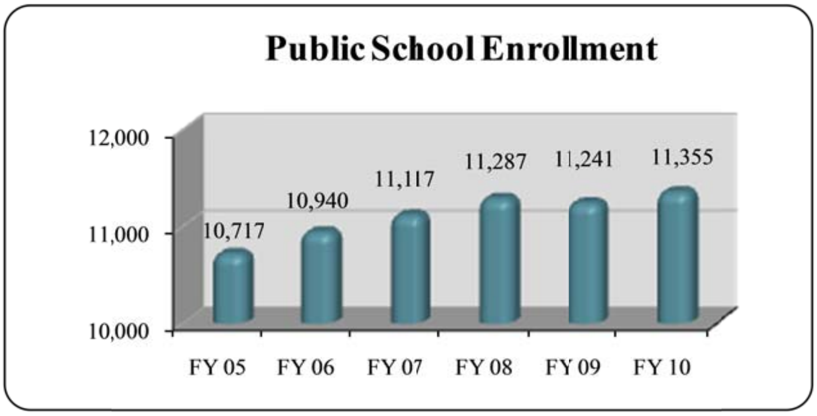


Overall employment in the County began to decline in 2009 after growing by about 20% from 2000 through 2008.

Fauquier County's unemployment rate has remained well below the national average, although the slowdown in the economy has had a significant impact on the local workforce.

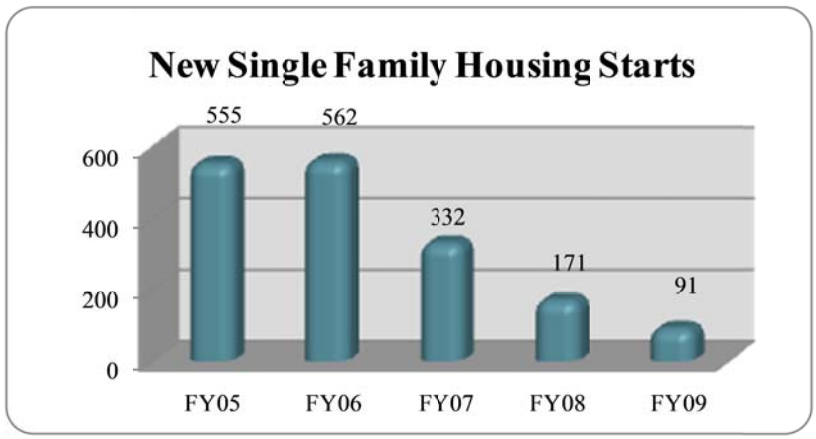


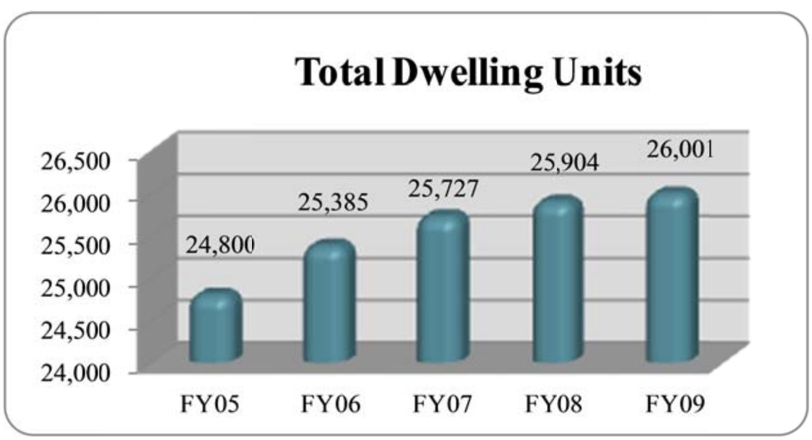
DEMOGRAPHICS



Enrollment in the School Division has remained stable since 2007, following a long-term period of annual increases.

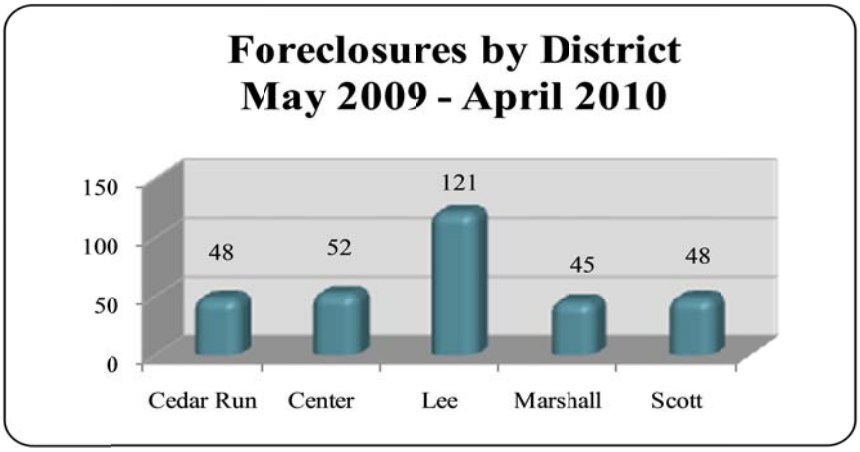
Residential construction declined substantially from the averages that typified the first half of the decade. Construction activity is anticipated to remain below previous averages throughout 2010.





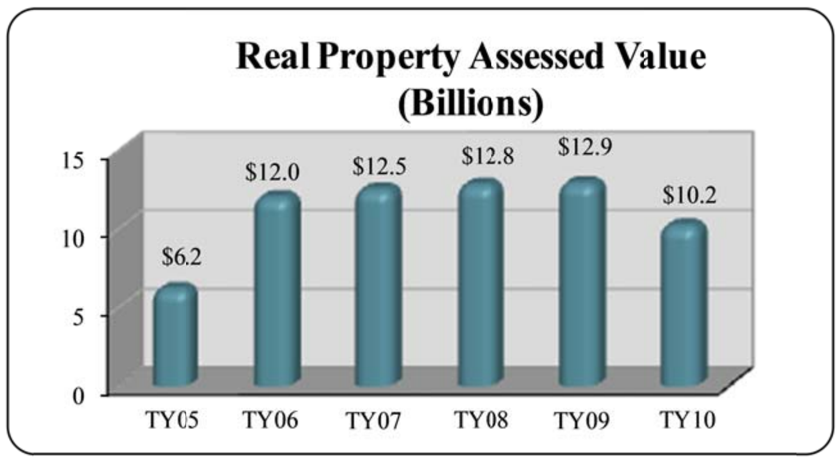
1,201 new dwellings were constructed from FY 2005 through FY 2009. Residential construction decreased significantly in FY 2009.

DEMOGRAPHICS



There were 314 foreclosures in Fauquier County from May 2009 through April 2010, compared with 333 during the previous 12 month period.

Assessment data for Tax Year 2010 reflects the impact of the county-wide reassessment. The Board of Supervisors adopted an overall tax rate of $0.97 for the current year.



Assessment data for Tax Year 2010 reflects a continuing decline in the County's personal property tax base, principally due to reduced vehicle purchases by County residents.

BOARD OF SUPERVISORS' MISSION STATEMENT STRATEGIC GOALS AND PRIORITIES

Fauquier County Mission Statement

Working within the theme of "Progress with Reverence for Heritage" and with a strong commitment to the accomplishment of meaningful improvements to the efficient, effective, and open conduct of the County government, and to the public health, safety, and welfare and educational opportunities, the Fauquier County Board of Supervisors seeks, within the bounds of fiscal integrity, to preserve the physical beauty, historical heritage and environmental quality of the county while ensuring that population growth and development is a positive force on the general welfare of the community.

In late FY 2002 the Board of Supervisors approved the development of objectives and measures to achieve three primary strategies based on the County's Vision Statement.

Strategies

1. Balance Quality Service with Fiscal Integrity.
2. Manage Growth in a Manner which Protects the County's Agriculture, Environment, Quality of Life, and Historic Resources.
3. Conduct County Government Openly.

Additionally, in 2007 the Board of Supervisors approved a number of short and long range priorities, most of which directly impacted the adopted strategies.

Priorities

1. Work closely with the School system to jointly plan County and School facilities.

2. Reduce the overall County growth rate from 3 percent to 1 percent by recommending strategies that are based on an evaluation of the Comprehensive Plan, Zoning Ordinance and the build-out.

3. Continue to improve the process for approving and expediting industrial and commercial development.

4. Continue collaboration efforts with Fauquier Housing and Fauquier Habitat and identify opportunities for affordable building lots. Implement recommendations of Affordable Housing Task Force.

BOARD OF SUPERVISORS' MISSION STATEMENT STRATEGIC GOALS AND PRIORITIES

5. Continue refinements to the Purchase of Development Rights (PDR) program and focus on establishing a hard edge of open land around service districts.

6. Economic Development will work closely with the Vint Hill Economic Development Authority and the Town of Warrenton to encourage promotion of local business.

7. Enhance relations with the Town of Warrenton.

8. Work closely with Virginia Department of Transportation and neighboring jurisdictions to meet the strategic transportation needs of the County.

9. Work to ensure the security of all County facilities.

The Board's mission statement and strategic goals provide a guiding framework for the county government to align activities and resources in response. Departments and offices track their progress toward management objectives through the use of performance measurement and operational feedback mechanisms. The management objectives serve as the focal point for the allocation of resources throughout the year and during budget development. Combined with the County's performance measurement regime, these data have proved instrumental in managing the County's operations during the current economic recession.

BOARD OF SUPERVISORS' LEGISLATIVE PRIORITIES

The Board of Supervisors adopted the following legislative goals as part of its 2010 package for the General Assembly:

- Fair-share State funding for public education to include the full funding of the Standards of Quality.

- Recognition by the Commonwealth that localities employing land use valuation are penalized by its current policy of using full assessed value in the calculation of the Composite Index, which is inconsistent with its land preservation goals and policies.

- Establishment of an appeals process for local governments to challenge the computation of their Composite Indexes.

- Continued and increased state funding to assist localities with school-related capital costs and full implementation of Cost-of-Competing funding.

- Oppose the continued imposition of unfunded state mandates upon local governments—particularly in the areas of the Standards of Quality, teacher salaries, increases in the local share of road maintenance, State and Federally-imposed environmental mandates, and costs related to the Comprehensive Services Act.

- As a general policy position, oppose any measure that would eliminate or reduce any local government zoning, land use, or revenue authority.

- Support the granting by the General Assembly of local authority to impose a 0.5% sales and use tax to offset State budget reductions and equal taxing authority for cities and counties.

- Support the creation of fair and equitable impact fee legislation allowing localities to implement cash proffers and impact fees simultaneously, with provisions that give full credit for cash proffers agreed to in the rezoning process to any same-facility impact fee adopted by a locality.

- Increase State funding for the purchase of conservation easements and other land conservation needs and a comprehensive, State-funded study of the Commonwealth's surface and groundwater resources.

- Oppose further reductions to State library funding and funding for library technology.

BOARD OF SUPERVISORS' LEGISLATIVE PRIORITIES

- Address the annual shortfall in State road maintenance funding, which continues to negatively affect capital funding for secondary roads and streets, and adjust the formula for distribution of road construction funding statewide to reflect the disproportionate burden on faster-growing areas.

- Support continued, adequate funding for the State Revenue Sharing Program and for the County's top transportation priorities.

FY 2011 BUDGET PROCESS

Fauquier County's Fiscal Year 2011 begins on July 1, 2010 and ends on June 30, 2011. The County initiated its budget process in September 2009 with a formal budget kickoff. The County Administrator held meetings with individual departments to discuss potential reduction measures in October and November. The Board of Supervisors was fully engaged in the budget process, directing staff to develop contingency reduction plans and holding two work sessions prior to the introduction of the proposed budget.

The FY 2011 Proposed Budget was presented to the Board of Supervisors on February 25, 2010. The Board conducted a series of work sessions and a public hearing in March, culminating with the adoption of the FY 2011 Adopted Budget on March 30, 2010.

Date	Action
September 30, 2009	FY 2011 Budget Kickoff
January 6	FY 2011 Budget Submissions to Management & Budget
January 6 to February 3, 2010	FY 2011 Budget Development Meetings
January 14	Board of Supervisors' Work Session on Contingency Reduction Plans
January 28	Joint Board of Supervisors/School Board Work Session
February 8	Superintendent's FY 2011 Proposed Budget presented to School Board
February 25	County Administrator Presents FY 2011 Proposed Budget to Board of Supervisors
March 8	School Board adopts FY 2011 School Division Budget
March 9 to 25	Board of Supervisors' Budget Work Sessions
March 23	Board of Supervisors Public Hearing on FY 2011 Proposed Budget and Tax Rates
March 30	Board of Supervisors Adopts FY 2011 Budget and Tax Rates
April 12	School Board Reconciles FY 2011 School Division Budget
May 13	Board of Supervisors Adopts FY 2011-2016 Capital Improvement Program
July 1	Beginning of FY 2011 and Implementation of FY 2011 Adopted Budget

FUND STRUCTURE AND BASIS OF BUDGETING

Fauquier County's budget is organized on a fund basis, with each fund considered a separate accounting and reporting entity. Fund types consist of the Governmental Funds (General Fund, School Division funds, Capital Improvement Fund, and the Debt Service Fund) and the Proprietary Funds (Fleet Maintenance, Landfill, Airport and Health Insurance).

Governmental Funds

Governmental funds are accounted for using modified accrual accounting and are budgeted on the same basis. Under modified accrual accounting, revenue is considered available when deemed collectible during the current period. Similarly, expenditures are recorded at the time liabilities are incurred. The modified accrual basis is consistent with generally accepted accounting principles (GAAP).

Most of the County's financial activities are financed through the governmental funds. The County's budget contains eleven distinct governmental funds. These funds embody appropriation decisions regarding the allocation of resources among programs and expenditure type (personnel, operating, capital, and debt service). Some of the funds are attached to specific revenue sources and designated for a specific purpose, while others are more wide-ranging. Each fund is specifically reviewed and appropriated by the Board of Supervisors during its annual budget process.

The following funds are categorized as governmental funds:

General Fund

The General Fund is the primary operating fund for all non-education governmental activities. The General Fund is supported by a combination of local tax revenue, fees, charges for service and outside grant funding. Most other governmental functions, such as education, are supported by a transfer from the General Fund.

School Operating Fund

The School Operating Fund is the primary fund for all education-related governmental activities. The majority of revenue to the School Operating Fund comes from a transfer from the County's General Fund. In addition, the School Operating Fund is supported by aid from the State and Federal governments, as well as various charges for service. The School Board has direct control over the allocation of resources within this fund, as well as the non-major educational funds. The Board of Supervisors provides a lump sum appropriation to the fund to finance the School Division's operations.

Capital Improvement Fund

The Capital Improvement Fund provides for the acquisition, construction or total replacement of physical facilities using a combination of cash funding and debt financing. The Capital Improvement Fund, along with the Utility Fund, provides the mechanism for implementing the Board of Supervisors' Adopted Capital Improvement Program.

Debt Service Fund

The Debt Service Fund was established in FY 2011 to provide for the payment of debt service on municipal debt issued to construct facilities. The Debt Service Fund is appropriated by the Board of Supervisors as part of the annual budget process, representing the long-term financing costs resulting from the policy decisions made by the Board of Supervisors and the School Board as expressed by the Capital Improvement Program.

Non-major Governmental Funds

This category consists of funds that are dedicated to specific purpose and generally minor in scale compared with the larger major governmental funds. The Non-major Governmental Funds category includes the following:

1. Affordable Housing Fund – This fund supports the County's efforts to increase opportunities for work force housing. The Affordable Housing Fund is supported by a transfer from the General Fund.

2. Ambulance Billing Fund – This fund was established by the Board of Supervisors in FY 2008 to implement the County's ambulance revenue recovery program. Revenue generated from the County's ambulance fee supports career and volunteer emergency medical service expenses.

3. Asset Replacement Funds - The asset replacement funds were established by the Board of Supervisors in FY 2011. The County maintains separate asset replacement funds for the General Government and the School Division. The Asset Replacement Funds provide for the financing of major maintenance and systems replacement, renovations and major asset replacements, principally through the accumulation of cash funding and various grants.

4. Conservation Easement Service District – This fund was established by the Board of Supervisors to administer the County's purchase of development rights program. The PDR program is funded by a dedicated real estate tax levy.

5. Volunteer Fire and Rescue Association Fund (VFRA) – This fund supports expenditures for the County's volunteer fire and rescue system. The VFRA Fund is supported by a dedicated real estate tax levy. Revenue from the levy is transferred to volunteer companies to subsidize the cost of operations and to the Capital Improvement Fund to support ongoing facility improvement needs.

6. Non-major School Division Funds – The School Nutrition Fund, Textbook Fund, and Regional Governor's School have been established as separate entities for accounting purposes, and are subsidized by a combination of outside grants, fees and a transfer from the School Operating Fund.

FUND STRUCTURE AND BASIS OF BUDGETING

Proprietary Funds

The proprietary fund category includes four funds that either account for specific self-funded business enterprises or the provision of internal services to other governmental units. The proprietary funds employ a full accrual accounting method, where revenue is recognized on the date of occurrence and expenditures in the accounting period during which a liability is incurred. All proprietary funds are reviewed and appropriated by the Board of Supervisors during the annual budget process. The following funds are categorized as proprietary funds:

1. Internal Service Funds – Internal service funds are used to account for goods or services provided by one department or agency to another governmental unit on a cost reimbursement basis. The County maintains two internal service funds: Fleet Maintenance and Health Insurance.

2. Enterprise Funds – Enterprise funds house activities that are financed and operated as self-supporting activities. The County maintains enterprise funds for the landfill and the Warrenton-Fauquier Airport.

Basis of Budgeting

Budgets for all funds are adopted on a basis consistent with generally accepted accounting principles, as applied to governmental units. Annual appropriation resolutions and budgets are adopted for the governmental and proprietary funds discussed in the preceding section. Governmental accounting activities are directed toward ensuring effective expenditure control and budgetary compliance. All appropriations are legally controlled at the department level for the General Fund and County proprietary funds, while School Division funds are appropriated at the fund level and allocated by the School Board. All annual appropriations, aside from the Capital Improvement Fund and the Utility Fund, lapse at the end of the fiscal year. The annual appropriations resolution also specifies that grant appropriations and certain projects may be continued into the following year until the expiration of the grant or completion of the project. Consistent with State requirements and County policy, the Board of Supervisors adopts an annual budget that balances overall expenditures with projected revenue. The County employs the same financial principles for budgeting and accounting purposes.

Budget Process

The Board of Supervisors adopts an annual appropriations resolution that sets the funding levels for each fund. The Board's fiscal policies authorize the County Administrator to approve transfers of appropriations and estimated revenues between departments and agencies as long as aggregated appropriations or estimated revenues at the fund level do not change. Approval by the Board of Supervisors is required for changes to aggregated appropriations or estimated revenues.

FUND STRUCTURE AND BASIS OF BUDGETING

Changes to appropriations are accomplished through the budget adjustment process. Budget adjustments that do not revise overall appropriations are approved by the Director of Management and Budget and the County Administrator, subject to sufficient justification. The County Administrator submits budget adjustments that change appropriations or estimated revenues at the fund level to the Board of Supervisors' Finance Committee for consideration. The Board of Supervisors takes action on budget adjustments subject to the Finance Committee's recommendation.

COUNTY FISCAL POLICIES

County Funds Structure & Uses (Adopted December 10, 2009)

I. Purpose

The purpose of the County Fund~~s~~ Structure and Uses policy is to establish and identify the structure and relationship between County funds. The Fauquier County Board of Supervisors is committed to the prudent management of County finances, promoting fiscal integrity and planning for the adequate funding of services desired by the public. The County Fund~~s~~ Structure and Uses policy establishes the framework for the County's overall fiscal planning and management.

II. Scope

This policy applies to the County's governmental and proprietary funds. For the purposes of this policy, a fund is defined as a mechanism employed for budgeting and accounting purposes to segregate resources related to specific activities. Fund types described in this policy consist of two major categories:

A. Governmental Funds - General use funds typically consisting of activities supported by taxes, grants and similar resources.
B. Proprietary Funds – Business-type activities consisting of self-funded enterprises or the provision of internal services to other governmental units.

Resource requirements for both types of funds are reviewed and appropriated by the Board of Supervisors during its annual budget process and revisited as circumstances require over the course of the fiscal year. This policy becomes effective on July 1, 2010.

III. Governmental Funds

The County's governmental funds employ modified accrual accounting and are budgeted on the same basis. This category also includes special revenue funds that are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditures for specific purposes other than debt service or capital projects. Accounting and budgeting procedures must be consistent with generally accepted accounting principles (GAAP). The following funds are categorized as governmental funds:

A. General Fund – The primary operating fund for all non-education governmental activities. The General Fund is supported by a combination of local tax revenue, fees, charges for service, intergovernmental revenues, and outside grant funding.
B. School Operating Fund – The primary fund for all education-related governmental activities. School Operating Fund revenue consists of a transfer from the County's General Fund, aid from the State and Federal governments, as well as various charges for service. The School Board has direct control over the allocation of resources within this fund.

A. Debt Service Fund – This fund provides for the repayment of debt service on municipal debt issued to construct facilities. Additional information regarding the Debt Service Fund may be found in the Debt Issuance and Management Policy (FC-4).
B. Asset Replacement Funds – The County maintains separate asset replacement funds for the General Government and the School Division. The Asset Replacement Funds provide for the financing of major maintenance and systems replacement, renovations and major asset replacements, principally through the accumulation of cash funding and various grants.
C. Capital Improvement Fund – This fund provides for the acquisition, construction or total replacement of physical facilities to include additions that increase the square footage of an existing facility using a combination of cash funding and debt financing.
D. Affordable Housing Fund – This fund supports the County's efforts to increase opportunities for work force housing. The Affordable Housing Fund is supported by grants, proffers, and a transfer from the General Fund.
E. Ambulance Billing Fund – This fund provides for the administration of the County's ambulance revenue recovery program. Revenue generated from the County's ambulance fee supports career and volunteer emergency medical service expenses.
F. Conservation Easement Service District Fund – This fund provides for the administration of the County's purchase of development rights program. The PDR program is funded by a dedicated real estate tax levy.
G. Volunteer Fire and Rescue Association Fund – This fund supports expenditures for the County's volunteer fire and rescue system. The VFRA Fund is supported by a dedicated real estate tax levy.
H. Parks and Recreation Fund – This fund is used for private donations to support parks and recreation facilities and programs.
I. Library Fund – This fund is used to account for private donations to support library facilities and programs.
J. Proffer Fund – This fund is used for contributions from developers to support the impact on infrastructure from new housing growth.
K. Vint Hill Transportation Fund – This fund accounts for the contributions received from developers to support the expansion of roads in the Vint Hill area.
L. Non-Major School Division Funds – The School Division maintains several non-major funds for accounting purposes, consisting of the School Nutrition Fund, Textbook Fund and the Regional Governor's School Fund, which is a fiduciary fund. These funds are supported by a combination of outside grants, fees and a transfer from the School Operating Fund.

IV. Proprietary Funds

The County's proprietary funds employ a full accrual accounting method that recognizes the financial effect of transactions, events and interfund activities when they occur, regardless of the timing of related cash flows. The following funds are to be categorized as proprietary funds:

A. Internal Service Funds – These funds are used to account for goods or services provided by one department or agency to another governmental unit on a cost reimbursement basis. Examples of internal service funds include the Fleet Maintenance and Health Insurance funds.
B. Enterprise Funds – These funds house activities that are financed and operated as self-supporting activities. Examples of enterprise funds include the Environmental Services Fund and the Warrenton-Fauquier Airport Fund.

Debt Issuance & Management (Adopted December 10, 2009)

I. Purpose

The purpose of the Debt Issuance and Management policy is to establish procedures for the financing of major capital projects and policies for the issuance and management of debt.

II. Scope

This policy applies to the financing of all General County Government and School Division capital facilities projects and the management of outstanding debt (including expenses relating to activities associated with the Volunteer Fire and Rescue and Conservation Easement Service District fund).

III. Debt Referendum Policies

Capital Improvement Program: The County will develop and the Board of Supervisors will adopt a multi-year plan for capital improvements.

1. All capital improvement projects will be implemented in accordance with the adopted Capital Improvement Program.

Cash Financing: The Board of Supervisors will attempt to fund not less than 10% of the Capital Improvement Program's construction costs from current financial resources.

Referendum Requirements: The County will consider the use of general obligation debt on facility construction projects or acquisitions requiring at least $25,000,000 in debt issuance. Issues requiring the threshold amount of debt issuance shall be subject to voter referendum regardless of the financial mechanism.

1. The County will confine long-term borrowing and capital leases to capital improvements, projects, and/or equipment that cannot be financed from current financial resources.

2. The Board of Supervisors may, by majority vote, waive the referendum requirement to the extent allowed by law in order to meet a critical health and/or public safety need, or in conjunction with a court order.

3. The Board of Supervisors may authorize cash expenditures for reasonable related expenses in preparation for a referendum. These expenditures may include preliminary architectural and engineering design work needed to provide County citizens with adequate details on the referendum issue. Funding will be made in accordance with existing Finance Committee policies.
4. The County will not fund current operations from the proceeds of borrowed funds.

IV. Debt Management Policies

A. Debt Capacity: The County's debt capacity will be defined as 10% of the aggregate total of budgeted revenue in the General Fund, Volunteer Fire and Rescue Fund and the Conservation Easement Service District Fund.

1. Payments on debt issued for the County's enterprise funds (e.g. the Airport Fund and the Environmental Services Fund) shall be incorporated into the business models for those funds and not considered as part of the annual debt capacity calculation.

B. Debt Service Fund: The Debt Service Fund will provide for the payment of debt service, both principal and interest, on municipal debt issued to construct facilities.

1. The Fund will track debt service payments for educational and non-educational facilities, as well as public safety and conservation projects supported by the Volunteer Fire and Rescue and Conservation Easement Service District funds.
2. Debt service payments on enterprise fund debt shall be included in the respective enterprise funds' annual budgets.
3. The Debt Service Fund will be appropriated by the Board of Supervisors as part of the annual budget process, but will represent the long-term financing costs resulting from policy decisions made by the Board of Supervisors and the School Board as expressed by the Capital Improvement Program.
4. The County will make every effort to apply reductions in annual debt service payments toward future capital needs and/or debt reduction.

COUNTY FISCAL POLICIES

Fund Balance Requirements (Adopted June 20, 2003)

1. Purpose

The Board of Supervisors recognizes the significance of maintaining an appropriate level of fund balance as one component of sound financial management; and, therefore, formally establishes this policy for the County's General Fund. An adequate fund balance level is an essential element in both short-term and long-term financial planning, and serves to mitigate the impact of future risks, sustain operations during economic downturns, and enhance creditworthiness. Through the maintenance of adequate levels of fund balance, the County can help stabilize funding for operations, stabilize taxes and fees, and realize cost savings in issuing debt. The County has achieved a prudent level of fund balance to enable it to set aside the funds needed to meet the target established herein.

2. Scope

This policy establishes the level of fund balance and the contingency reserve required for the County's General Fund. It sets forth the levels deemed appropriate for County operations, and the protocol for the use and maintenance of the established levels. Further, the policy discusses the fund balance of other funds and the impact on the General Fund. This policy is established on the modified accrual basis of accounting for governmental funds.

3. Definitions

A. General Fund – the County's general operating fund, which accounts for all governmental activities, unless required to be accounted for in another fund.

B. Fund Balance – the difference between assets and liabilities reported in governmental funds. It serves as a measure of financial resources available for current operations. It is divided into two elements: reserved and unreserved.

   1. Reserved fund balance – the portion of financial resources that have been restricted for specific uses such as grants. Reservations are often set by those outside the government such as state and federal agencies and can only be spent for those established purposes.

   2. Unreserved fund balance – those amounts that are available for spending. Unreserved fund balance is divided into two components: designated and undesignated.

      a) Designated fund balance – management's intended use of financial resources such as for upcoming projects. Designations are non-binding; and, although earmarked for other purposes, these funds are available, if needed, to appropriate for other uses.

      b) Undesignated – that portion of fund balance that has not been reserved or designated for other uses; therefore, it is available to spend in future periods.

   3. Contingency reserve – an amount appropriated from prior year fund balance to use for needs that may arise during the fiscal year that are deemed sufficiently important to implement during the current budget cycle. Typically, this contingency account recognizes that needs occur that were not known during the budget cycle, or were insufficiently defined to allow for a more specific appropriation.

4. Fund Balance and Contingency Reserve Requirements
   1. The Government Finance Officers Association recommends that at a minimum unreserved fund balance in the General Fund be maintained at no less than five to fifteen percent of regular general operating revenue, or no less than one to two months of regular general fund operating expenditures.

   2. The County sets the level of fund balance needed to mitigate risks and minimize costs associated with debt as follows:
      1. The minimum level of unreserved, undesignated fund balance at each fiscal year end shall be set at ten percent (10%) of general operating revenues.
      2. Ten percent (10%) is identified as the minimum amount needed to safeguard the County's financial stability and as one component in maintaining its bond ratings. This level is consistent with the mid-range recommended by GFOA and the rating agencies as a minimum. This level provides the County with sufficient funds to operate in excess of one month without interrupting service levels.
      3. A contingency reserve of one million dollars ($1,000,000) is established through the Finance Committee and Board of Supervisors at the beginning of each fiscal year.
      4. Fund balances shall be invested in such instruments as deemed appropriate by the County Treasurer, and unless otherwise specified, investment revenue shall accrue to the General Fund.

5. Fund Balance and Contingency Reserve Uses
   1. During the fiscal year, new appropriations will be supported by sources of funds in the following order:

      1. The transfer of existing appropriations for other uses with a higher priority;
      2. New sources of revenue;
      3. Contingency reserves; and
      4. Unreserved, undesignated fund balance.
   2. Appropriations from the fund balance below the minimum of ten percent of operating revenue shall occur only in the event of emergency needs as approved by the Board of Supervisors.
   3. Unreserved, undesignated fund balance amounts that exceed ten percent shall be transferred to the Capital Improvement Fund construction reserve account for future construction needs.
   4. Fund balance shall be evaluated during the annual budget process. It shall be the goal of the Board of Supervisors to adopt a budget that maintains the target established herein.

5. The order of priority for maintaining fund balance is as follows:
    1. Fund balance reserves and designations
    2. Unreserved, undesignated fund balance to meet the County's target of ten percent established herein.
    3. Contingency reserve of $1,000,000.

6. Policy Compliance
    1. The County's Finance Department in coordination with the Budget Department shall submit an annual report to the Finance Committee upon completion of the audit. If the County does not meet its target, a compliance plan shall be submitted to the Board for approval which will meet this policy by the end of the subsequent fiscal year.
    2. The County shall demonstrate compliance with this policy in its annually adopted budget.

7. Fund Balances in Other Funds

    A. Capital Projects Funds
    1. Fund balances in the Capital Projects Funds (Capital Improvement Fund and Utility Fund) are maintained to support the projects adopted in the Capital Improvement Program. The balances in these funds are primarily reserved or designated for specific projects/uses.
    2. Annually, cash transfers are made from the supporting operating fund for projects that are approved as cash basis.
    3. Debt proceeds are maintained in the Capital Projects Funds for those projects funded with debt.
    4. The fund balance in these funds minimizes any potential liability for the General Fund.

    B. Special Revenue Funds
    1. Any revenue in excess of expenditures is retained in these funds.
    2. Fire & Rescue receives a dedicated portion of the real property tax revenue, which supports this operation.

    C. Schools Operating Fund
    1. The Schools Operating Fund does not maintain a fund balance.
    2. At each fiscal year-end if revenue exceeds expenditures, after accounting for carry forward expenditures, the surplus is allocated by resolution with 50% for non-recurring priorities, and 50% transferred to the Capital Improvement Fund for future school construction projects.

3. The General Fund is the primary support for the Schools Operating Fund. In the event, the Schools experience revenue shortfalls or increased costs of operation, the General Fund may be impacted. The fund balance target established for the General Fund takes this liability into account.

D. Proprietary Funds
1. The County currently has four Proprietary Funds: Solid Waste, Airport, Fleet Maintenance and Health Insurance.
2. These operations are intended to be self-supporting. As such, the charges for services should be adjusted to cover any deficits.
3. In the event of deficits, the General Fund may approve a loan to cover the deficit with an appropriate repayment schedule. The fund balance target established for the General Fund takes this liability into account.

Budget Adjustment Guidelines (Adopted June 30, 2007, Rev. February 12, 2009)

I. Purpose

The purpose of the Transfer and Supplemental Appropriation policy is to establish procedures for revising the Board of Supervisors' adopted fiscal plan and to set forth the specific approvals required to implement proposed changes.

II. Scope

This policy applies to all General County Government departments and agencies, and to the School Division in the case of supplemental appropriations and carryovers.

III. Budget Action Form

Agencies and staff requesting revisions to their adopted budgets will submit a Budget Action Form (BAF) to the County Budget Office. Budget staff will either authorize the change or submit recommendations to the County Administrator, depending on the type of request and the requirements described by this policy.

A. Transfers: A transfer involves the movement of budgetary appropriations within a departmental or agency budget or between agency budgets, provided that the proposed action does not impact overall appropriations at the fund level.
   1. To initiate a request for transfer the initiating department(s) shall complete a Budget Action Form (BAF).
   2. This form shall be reviewed by the Budget Office which shall be tasked with reviewing the justification for the transfer and providing a written statement of findings and recommendations.
   3. All requests for budget transfers must provide justification and be signed by the initiating department head(s).
   4. Departments are responsible for ensuring that expenditures are reconciled with budgets for the following categories: personnel, operations, and capital.

B. Transfer Approvals (Between Departments in the Same Fund):
   1. The Budget Office is the approval authority for all intra-departmental transfers (transfers within a department).
   2. The Budget Office is the approval authority for all inter-departmental transfers of less than $50,000.
   3. The County Administrator is the approval authority for all inter-departmental transfer requests of $50,000 and above.
   4. Transferring appropriations between the personnel and non-personnel categories will be allowed on an exception basis only, subject to a positive recommendation from the Budget Office and approval by the County Administrator.
   5. The Board of Supervisors is the approval authority, upon review and recommendation of the Finance and/or Personnel Committees, for all transfer requests to establish full-time or part-time permanent positions or any action that would create a multi-year financial commitment.

6. The Board of Supervisors is the approval authority, upon recommendation of the Finance Committee, for all requests to transfer appropriations from the Undedicated Contingency Reserve or a Dedicated Contingency Reserve.
7. The initiating Department(s) may appeal a determination of the Budget Office to the County Administrator.
8. Initiating Department(s) that do not report to County Administration may appeal a determination of the County Administrator to the Finance Committee.

C. Supplemental Appropriations: Supplemental Appropriations involve actions that increase or decrease the overall budget appropriation for the County Budget or a Fund contained therein. Funding sources for these changes may include grants, unanticipated revenues, inter-Fund transfers or the use of Fund Balance.

D. Supplemental Appropriation Approval:
   1. The Budget Office will prepare an annual appropriations resolution that will authorize staff to carry forward appropriations authority for unexpended grants and encumbrances from the prior fiscal year as part of the annual closeout process.
   2. All requests for supplemental appropriation that do not fall under the preceding guideline require the Board of Supervisors' approval upon recommendation of the Finance Committee.

E. Supplemental Appropriations – Public Hearing
   1. The Code of Virginia (Sec. 15.2-2507) requires a public hearing when supplements to the budget exceed 1% of the total budget.
   2. The Budget Office has administrative responsibility to ensure that statutory requirements are met in regard to budget adjustments.

F. Schools Categorical Transfers: For the purpose of this policy, transfers between School budgetary categories shall also require Board of Supervisors approval, provided that the School budget was approved using categorical appropriations.

G. Capital Projects (CIP and Enterprise Funds):
   1. Intra-Project Transfers: Transfers within project budgets are subject to the same procedures as intra-departmental transfers, described in Section III.A of this policy.
   2. Inter-Project Transfers: The Board of Supervisors is the approval authority, upon recommendation from the Finance Committee, for all requests for transfer between capital projects.

3. Project Activity (CIP Fund): All capital projects having no activity (expenditure) within an 18 month period will be identified and submitted to the Finance Committee for review. Any of the projects for which there is no justified reason for inactivity will be closed and any residual funding will be transferred to the appropriate construction reserve account (County or Schools). These funds will be available for other County/School capital needs as determined by the Board of Supervisors.
4. Project Activity (Enterprise Funds): Inactive capital projects are subject to the same review process as identified in the previous section. Funding from closed projects will be de-appropriated and designated as unobligated fund balance for future use.