REQUEST FOR BOARD ACTION

HENDERSON COUNTY
BOARD OF COMMISSIONERS

MEETING DATE: March 23, 2005

SUBJECT: Financial Management Policies

ATTACHMENTS: Fund Balance Reserve Policy
Debt Management Policy

SUMMARY OF REQUEST:

As a part of the County's 2005 Strategic Plan, Goal #3, Strategies 3.1 and 3.2, Staff is presenting two financial management policies for the Board's consideration and approval.

The first policy deals with the County's General Fund Balance Reserves and the minimum and desired levels that should be available for appropriation in a fiscal year. This policy also discusses what reserves should be used for and the budgetary/financial options available to maintain available fund balance at desired levels. As a part of this policy, the County Manager will include annually in his proposed budget a plan to increase fund balance reserves to meet the Board's fund balance goal.

The second is a Debt Management Policy to be used as a guideline in managing future debt issuances by the County. It addresses areas such as the purpose and different types of debt that may be issued, maximum debt levels, investment of financing proceeds, bond rating agencies, arbitrage and disclosure requirements, enterprise fund debt, capital project funds and the County's Capital Improvement Plan.

Staff is asking the Board's consideration and approval of these very important financial management policies, with any necessary changes, to serve as guidelines during the budget process and future debt issuance decision-making.

COUNTY MANAGER'S RECOMMENDATION:
Since these two important financial management policies are a part of the Board's 2005 Strategic Plan, I would recommend that the Board approve them at today's meeting.

HENDERSON COUNTY

FUND BALANCE RESERVE POLICY

A. The County will strive to maintain a minimum level of fund balance available for appropriation in the General Fund. This minimum, as set forth by the Local Government Commission, is defined as eight (8.0%) percent of prior year expenditures in the General Fund or one-half of the average of like sized counties' unreserved fund balance.

B. The Board of Commissioners' goal is to maintain a <u>minimum</u> fund balance available for appropriation in the General Fund of twelve (12%) percent of the prior year expenditures.

C. Fund balance available for appropriation in the General Fund will be used for unanticipated emergencies, to avoid cash flow interruptions, to generate interest income, to reduce the need for short-term borrowing, to pay capital project expenditures in advance of borrowing money for the project and to assist in maintaining an investment grade bond rating.

D. The County will use all budgetary and financial accounting options available to maintain the minimum level of fund balance available for appropriation in the General Fund including but not limited to the following or a combination thereof:

   a. A specific budgeted revenue increase (i.e. ad valorem tax increase)
   b. Reduction of expenditures in the budget
   c. Appropriation of transfers from other funds
   d. Sale of capital assets

E. Annually as a part of his recommended budget, the County Manager shall submit a plan that addresses the Board's fund balance goal.

HENDERSON COUNTY

DEBT MANAGEMENT POLICY

The County recognizes the importance of proper long-range planning in order to meet capital improvement needs as they arise without experiencing dramatic impacts on operational cost and debt service. The following policy statements will provide guidance on the issuance of debt to help insure that the County maintains a sound debt position and that its credit quality is protected. In conjunction with the County's Strategic Plan and Capital Improvements Plan, these policy statements rationalize the decision making process, identify objectives for staff to implement, and demonstrate a commitment to long term financial planning objectives. In addition, this debt management policy will allow for an appropriate balance between establishing debt parameters and providing flexibility to respond to unforeseen circumstances and new opportunities.

POLICY STATEMENTS

Purpose and Type of Debt

1. Incurrence of debt or long-term borrowing will only be used for the purpose of providing financing for capital projects to include, but not be limited to:

    a. Construction of new School and County facilities
    b. Renovation and repair of existing School and County facilities
    c. Acquisition of real property (land and/or buildings)
    d. Construction or expansion of Sanitary Sewer Systems
    e. Construction, acquisition and development of Parks
    f. Purchase of major pieces of equipment

2. Debt issuance will not be used to finance current operations or normal maintenance.

3. The types of debt instruments to be used by the County include but are not limited to:

    a. General Obligation Bonds
    b. Bond Anticipation Notes
    c. Installment Purchase Agreements (private placement)
    d. Special Obligation Bonds (purpose restricted)
    e. Certificates of Participation
    f. Revenue Bonds

4. All debt issued will be repaid within a period not to exceed the expected useful life of the improvements or equipment financed by the debt.

5. The County will strive to maximize the use of pay-as-you-go financing for smaller scale capital improvements and equipment purchases.

Issuance of Debt

6. The County will strive to issue bonds no more frequently than once in any fiscal year. The scheduling of sales, the amount to be financed and the financing instrument will be determined each year by the Board of Commissioners. These decisions will be based upon the identified cash flow requirements for each project financed, market conditions, and other relevant factors presented by the School System, Community College and County Departments. The Board may front funds to pay project costs and reimburse these costs when financing is completed. In these situations the Board will adopt Reimbursement Resolutions prior to the expenditure of project funds.
7. The County will seek level or declining debt repayment schedules and will avoid issuing debt that provides for balloon principal payments reserved at the end of the term of the issue.
8. Variable rate debt will only be considered when market conditions favor this type of issuance. When variable rate debt is considered, careful analysis will be performed and techniques applied that will ensure that the County's sound debt position will be maintained.
9. In the planning process for debt issuance the County will assess the possibility of maintaining "Bank Qualification" status if borrowing less than 10 million dollars in a calendar year.

Level of Debt

10. The County will strive to maintain its net bonded debt at a level not to exceed three percent (3%) of the assessed valuation of taxable property within the County.
11. The County will strive to maintain its annual debt service costs at a level no greater than fifteen percent (15%) of general fund revenues, including installment purchase debt.

Investment of Capital Funds

12. Investment of capital funds will be performed in accordance with the North Carolina General Statute 159-30. Funds will be invested in instruments that will provide the liquidity required to meet the cash flow needs of each project funded.

13. Investment earnings on capital funds, after subtracting required or potential arbitrage, will be used for project costs and/or debt service.

Bond Ratings

14. The County will maintain good communications with bond rating agencies about its financial condition and will follow a policy of full disclosure on every financial report and offering statement.

15. The County will strive to maintain bond ratings at or better than A1 (Moody's), A+ (Standard & Poor's) and A+ (Fitch Ratings)

Arbitrage Rebate and Secondary Market Disclosure Requirements

16. The County will comply with all arbitrage rebate requirements as established by the Internal Revenue Service and all secondary market disclosure requirements established by the Securities and Exchange Commission.
17. Arbitrage will be calculated at the end of each fiscal year and interest earned on investment of bond or installment purchase proceeds will be reserved to pay any penalties that may be due.

Enterprise Funds

18. For any Enterprise Fund that is supporting debt, rate studies will be performed annually to ensure that fees or rates are sufficient to meet the debt service requirements.

Capital Project Funds

19. The County will create and maintain capital project funds as appropriate, such as for school and county projects, using any available revenue sources that the Board of Commissioners may choose.
20. Funds accumulated in the Capital Project Funds will be used on pay-as-you-go projects, to fund debt service, reduce the amount of borrowing for a capital project, to finance renovations and repairs to existing buildings or to purchase major equipment.

5-Year Capital Improvement Plan

21. The County Manger shall submit a five-year Capital Improvement Plan as a part of his annual budget presentation including any plans to issue debt.
22. This Debt Management Policy will be incorporated into the Capital Improvement Plan.