Appendix F: County Fiscal Policies and Procedures

Fiscal Policies

County of Lexington, South Carolina
2016

COUNTY OF LEXINGTON

FISCAL POLICIES

Procedures and goals to guide financial management practices

Fiscal Policies

County of Lexington, South Carolina
2016

ADOPTED BY

COUNTY OF LEXINGTON COUNCIL

Authority:	South Carolina Code of Laws and other public finance law
Review Responsibility:	Finance Department
Review Schedule:	Annually or as needed
Approved needed:	County Council

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I. OBJECTIVES

This fiscal policy is a statement of the guidelines and goals that will influence and guide the financial management practices of the County of Lexington, South Carolina. A fiscal policy that is adopted, adhered to, and regularly reviewed is the cornerstone of sound financial management. Effective fiscal policy:

1. Contributes significantly to the County's ability to insulate itself from fiscal crisis,
2. Enhance short-term and long-term financial credit ability by helping to achieve the highest credit and bond rating possible,
3. Promotes long-term financial stability by establishing clear and consistent guidelines,
4. Directs attention to the total financial picture of the County rather than single issue areas,
5. Promotes the view of linking long-run financial planning with day to day operations, and
6. Provides the Citizens, County Council, and the County's professional management team a framework for measuring the fiscal impact of government services against established fiscal parameters and guidelines.
7. This policy will be reviewed annually by County Staff and any changes approved by County Council.

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II. BUDGET DEVELOPMENT

1. The County budget process begins with all departments doing a formal submission of their requested budgets to the County Administrator in early February.
2. County Council meets no later than March each year to review the combined requested budget prepared by the Finance Department.
3. The County's budget process will be in accordance with the zero based budgeting method.
4. The Finance Department will maintain a system for monitoring the County's budget during the fiscal year. This system will provide opportunity for departments and management to monitor and evaluate monthly financial information on expenditures and performance at both the department and fund level.
5. The County will focus on using one-time or other special revenues for funding one-time expenses, not continuing County operations.
6. The County will pursue an aggressive policy seeking the collection of current and delinquent property taxes, permits and other fees due to the County.
7. For services that benefit specific users, the County shall establish and collect fees to recover the costs of those services. The County Council shall determine the appropriate cost recovery level when establishing user fees. Where feasible and desirable. County shall seek to recover full direct and indirect costs. User fees shall be reviewed on a regular basis to calculate their full recovery attainment levels, to compare them to the current fee structure, and to recommend adjustments where necessary.
8. The County shall take immediate corrective actions if at any time during the fiscal year expenditure and revenue updates are such that an operating deficit is projected at year-end. Corrective actions can include a hiring freeze, expenditure reductions, fee increases, or use of fund balance. Expenditure deferrals into the following fiscal year, short-term loans, or use of one-time revenue sources shall be avoided to balance the budget, for recurring expenditures.
9. The County will review the financial position of nonprofit corporations or organizations receiving funding to determine the entity's ability to carry out the intended purpose for which funding was granted. For organizations receiving $5,000 or more in any fiscal year, the County may require the nonprofit to have an audit or review performed for the fiscal year in which the funds are received and to file a copy with the County.

III. CAPITAL IMPROVEMENT/REPLACEMENT BUDGET

1. It is the responsibility of the County to provide the funding for capital facilities necessary to deliver services to the citizens of the County.
2. The County will consider all capital improvements in accordance with an adopted Capital Improvement/Replacement Plan.
3. The Capital Improvement/Replacement Plan is inclusive of Capital Improvements (renovations), Capital Replacement (vehicles and heavy equipment) and Major Capital Projects (new buildings).
4. The County will develop a five-year Capital Improvement schedule showing any renovations (i.e.; new offices, new roofs, etc) that are either needed or requested; this schedule is reviewed and updated annually.
5. The County will develop a five-year Capital Replacement schedule showing any capital assets (i.e.; computers, vehicles, heavy equipment, HVAC units, etc.) that need to be replaced due to the asset being at end of useful life; this schedule is reviewed and updated annually.
6. The County will enact an annual capital budget based on the five-year Capital Improvement/Replacement Plan, while considering changes in population, changes in real estate development, or changes in assumptions in the capital budget projections.
7. The County will coordinate development of the capital improvement budget with development of the operating budget. Future operating costs associated with new capital improvements will be projected and included in operating budget forecasts.
8. The Capital Improvement/Replacement Plan will include the estimated costs for the County to maintain all County assets at a level adequate to protect the public's welfare and safety, the County's capital investment and to minimize future maintenance and replacement costs. A maintenance and replacement schedule will be developed and followed based upon these estimates.
9. The County will identify the estimated costs and potential funding sources for each capital project proposal before it is submitted for approval.
10. The County will adopt the most cost effective financing consistent with prudent financial management.

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IV. FINANCIAL RESERVES

1. Unrestricted Fund Balances (as defined by GASB Statement 54) will be funds that remain available for appropriation by County Council after all "non-spendable amounts, restrictions and required reserves defined by State statutes, have been calculated. The County will define these remaining amounts as "available fund balances."
2. The County will strive to maintain an available General Fund balance at the close of each fiscal year of at least **25%** of the total annual operating budget.
3. The County Council may, from time-to-time, appropriate available fund balances that will reduce available fund balances below the **25%** threshold in the event of a declared fiscal emergency or other such global purpose as to protect the long-term fiscal security of the Lexington County. In such circumstances, the County Council will adopt a plan to restore the available fund balance to or above the threshold within 36 months from the date of the appropriation. If restoration cannot be accomplished within such time period without severe hardship to the County, then County Council will establish a different but appropriate time period.
4. The excess available fund balance may be used to fund one-time capital expenditures or other one-time costs, or may be transferred to a Capital Reserve Fund for future use for a specific purpose within a specified time frame.

V. CASH MANAGEMENT AND INVESTMENT

1. It is the intent of the County that public funds will be invested to the extent possible to reduce the dependence upon property tax revenues. Funds will be invested with the chief objectives of safety of principal, liquidity, and yield, in that order. All deposits and investments of County funds will be in accordance with South Carolina Statute.

    a. Safety of principal is the highest objective of the Investment Policy. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. The objective will be to minimize credit risk and interest rate risk.
    b. The investment portfolio shall remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated. This is accomplished by structuring the maturity of investments to meet the anticipated cash needs. Since all possible cash demands cannot be anticipated, the portfolio will consist largely of securities with active resale markets.
    c. The portfolio shall be designed with the objective of attaining a market rate of return. Return on investment is of secondary importance compared to the above described safety and liquidity objectives. The investments prescribed in this policy are limited to relatively low risk securities; therefore, management anticipates investment portfolio will earn a fair return relative to risk being assumed.
2. The Chief Financial Officer (CFO) will establish a Cash Management Program that maximizes the amount of cash available for investment. The Program shall address at a minimum; Accounts Receivable/Billings, Accounts Payable, Receipts, Disbursements, Deposits, Payroll and Debt Service Payments.
3. Cash Flows will be forecasted and investments will be made to mature when funds are projected to be needed to meet cash flow requirements.
4. Liquidity: No less than 20% of funds available for investment will be maintained in liquid investments at any point in time.
5. Maturity: All investments will mature in no more than thirty-six (36) months from their purchase date.

CASH MANAGEMENT AND INVESTMENT – con't

6. Custody: All investments will be purchased "delivery versus payment" and if certified will be held by the CFO in the name of the County. All non-certificated investments will be held in book-entry form in the name of the County with the County's third party Custodian (Safekeeping Agent), if necessary and cost effective.
7. Authorized Investments: The County may deposit County Funds into: Any Board approved Official Depository if such funds are secured in accordance with NCGS-159 (31). The County may invest County Funds in: the South Carolina Capital Management Trust, US Treasury Securities, US Agency Securities specifically authorized in GS-159 and rated no lower than "AAA". And Commercial Paper meeting the requirements of NCGS-159 plus having a national bond rating.
8. Diversification: No more than 5% of the County's investment funds may be invested in a specific company's commercial paper and no more than 20% of the County's investments may be invested in commercial; paper. No more than 25% of the County's investments may be invested in any one US Agency's Securities.
9. Reporting: Not less than twice a year the CFO will report to the County Administrator on the Cash Flow Forecast for the ensuing twelve months. The CFO also will report on the interest earned in the past six months and on the current investment portfolio including: type of investment, purchase date, price, par amount, maturity date, coupon rate, and any special features. The CFO will also provide a Financial Summary inclusive of Investment Reporting to County Council monthly from July through June.

VI. DEBT MANAGEMENT

1. The County will confine long-term borrowing to capital improvement or projects that cannot be paid from current revenues or fund balance except where approved justification is provided.
2. The County will use a balanced approach to capital funding utilizing debt financing, draws on capital reserves and current-year (pay-as-you-go) appropriations.
3. When the County finances capital improvements or other projects by issuing bonds or entering into capital leases, it will repay the debt within a period not to exceed the expected useful life of the project.
4. Debt structures that result in significant "back loading" or deferring of debt should be avoided.
5. Prior to the issuance of new General Obligation (GO) debt, consideration shall be given to forecasted tax rate requirements, ratio of net GO debt to assessed taxable value, net GO debt per capita, and debt service payments to General Fund operating budget.
6. Direct net debt of total assessed value of taxable property shall not exceed the county legal debt limit. Direct net debt is defined as any and all debt that is tax-supported.
7. The ratio of direct debt service expenditures as a percent of total governmental fund expenditures shall not exceed 15%.
8. Debt ratios will be calculated annually and included in the review of financial trends.
9. The County may undertake refinancing of outstanding debt:
    a. When such refinancing allows the County to realize significant debt savings without lengthening the term of refinanced debt and without increasing debt service in any subsequent year; or
    b. When the public policy benefits outweigh the costs associated with the issuance of new debt and any increase in annual debt service; or
    c. When a restrictive covenant is removed to the benefit of the County.
10. The CFO shall maintain a system of record keeping and reporting to meet the arbitrage rebate compliance requirements for the federal tax code.

DEBT MANAGEMENT – con't

11. The County may employ municipal finance professionals to assist in developing a bond issuance strategy, preparing bond documents, and marketing bonds to investors.
12. The CFO will maintain good communication with bond rating agencies and provide periodic updates on the County's financial condition.

VII. OTHER POST EMPLOYMENT BENEFITS

1. The County will use a deliberative process to ensure the sustainability of any OPEB it offers to employees. The County will carefully evaluate and design benefits to ensure benefits are sustainable.
2. The County will provide retiree healthcare pay-as-you-go OPEB cost.

1995 Plan Description

The County provides a single-employer defined benefit healthcare medical & dental insurance coverage ("the 1995 A & B Plan") for employees retiring under the South Carolina Retirement systems and for employees terminating their employment with the County after having worked for the County for 10 years with the last 5 years being consecutive. As amended on October 28, 2008, the eligibility requirements change from 10 years with last 5 being consecutive to 20 years consecutive of county services. Employees retiring with reduced retirement benefits or disability after 10 years of County service, pay COBRA rates. The plan design for former employees covered under the plan is the same as for active employees. Coverage terminates if other insurance is acquired through participants or spouses employment or upon Medicare eligibility.

2009 Plan Description

Effective July 1, 2009, Lexington County significantly modified its Post Employment Health Plan. At that time, the benefit structure for a substantial number of active participants was modified, and thereafter those participants received benefits under the terms of a new plan (referred to as the "2009 Plan"). Detail of the eligibility and benefit provisions of the 2009 Plan are set forth; full retirement under SCRS (at least age 65 or 28 years of service) or PORS (at least age 55 or 25 years of service) and 25 years of service with Lexington County. Under the plan's grandfather clause for employees with 10 years of service with the County as of October, 1, 2008 are eligible for benefits once they reach age 55, and after completing 15 years of service.

Benefit of coverage under the County Health Insurance until Medicare eligibility. Spouse benefit coverage is also available when the retiree becomes Medicare eligible up to five years from the date of retirement or until spouse becomes Medicare eligible. The County replaced the County paid medical coverage with a retiree healthcare reimbursement arrangement (RHRA) for employees who retire from the County. All other participates in the RHRA premiums are based on the applicable age-related premiums. Retirees may request reimbursements for premiums until reimbursement credits are depleted, or when the retirees reach age 65 or 10 year expires.

OTHER POST EMPLOYMENT BENEFITS – con't

Funding Policy

The contribution requirements of participants and the County are established and may be amended by the County Council. The required contribution is based on projected pay-as-you-go financing requirements.

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VIII. REVENUES

1. Ad Valorem Tax – estimated revenue from the AD Valorem Tax Levy will be budgeted as follows:
   a. Assessed valuation will be estimated based on the actual values and growth patterns and will be estimated in a conservative manner.
   b. The estimated percentage of collection will not exceed the actual collection percentage of the preceding fiscal year.
   c. The property tax will be set each year based upon the cost of providing general government services, including meeting debt service obligations.
2. User Fees – The County Council will set user fees annually by listing such fees within the Annual Budget Polices. The user fees will maximize charges for services that can be individually identified and where costs are directly related to the provisions of the service or the level of services provided. Emphasis of user fees results in the following benefits:
   a. The burden of the Ad Valorem tax is reduced
   b. User fees are paid by all users, including those exempt from tax
   c. User fees help minimize the subsidizing in any instance where there are requirements in order to qualify for the use of the service and the service is not provided to the general public.
3. Revenue initiating departments shall develop initial budget estimates of applicable revenues. Those estimates are to be supported by variables that comprise such revenue. Monitoring of the revenue budget shall be performed monthly by the Finance Department and quarterly by the revenue initiating department throughout the fiscal year. Compliance of revenues with all laws and regulations is primarily the responsibility of the revenue initiating department.

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IX. EXPENDITURES

1. Departmental budgets – Departmental budgets shall be monitored throughout the year by department heads, the CFO, and the County Administrator. Budget compliance is the responsibility of these leaders.
2. The Departmental Fiscal Procedures, as maintained and updated annually by the County Finance Department, will address internal expenditure procedures and will be made available to all departments.
3. Contracts – The County Administrator has the authority to execute necessary agreements up to $25,000 within the term of the Budget Ordinance each fiscal year, any agreements above this must be approved by County Council. For continuing contracts, funds will be appropriated in the annual budget ordinance to meet current year obligations arising under contract.
4. Payroll will be processed in accordance with the requirements of the Fair Labor Standards Act. Overtime and benefit payments will be made in accordance with the County's Personnel Policy.

X. INTERNAL CONTROLS

1. The CFO is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the County are protected from loss, theft, or misuse.
2. The internal control structure shall be designed to provide reasonable assurance that these objectives are met.
3. The concept of reasonable assurance recognizes that the cost of a control should not exceed the benefits likely to be derived and that the valuation of costs and benefits requires the use of estimates and judgments by management.
4. Individual departmental internal control procedures are maintained in the finance office.
5. During the annual audit, the external auditors do a sample to check the internal controls of the County.