

HENRICO COUNTY'S BUDGET PROCESS

THE BUDGET CYCLE

August through September

AUGUST 2019

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September 2019

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Revenue Estimates

Henrico County's budget process begins with an estimate of revenues in order to develop a budget balanced within resources. Revenue estimates begin in August of the year prior to the fiscal year being adopted. This process includes the review of current County finances, local and regional economic conditions, and a re-examination of key local economic indicators. This includes such specifics as building permits, tax assessments, business license records, retail sales by category and type. The questions that are asked in this review are aimed at acquiring relevant financial information that will set the broad limits of budgetary possibilities. From a fiscal perspective, the basic question is whether current revenues support the necessary budgetary outlays.

October

OCTOBER 2019

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Target Development

The next step in the budget process is to create a funding or target allocation for each department, which is calculated by the Office of Management and Budget in October. Debt service requirements are the top priority before targets are created for the individual departments. Payroll expenditures are the next "fixed" obligation. The target allocation provides the funding for all of the current positions in the County's personnel complement. The target allocation assigned to the individual department also provides funding for operating and capital outlay items, which are based on the prior year approved budget. It does not automatically include an inflation factor for operating expenditures, nor does it fund any new services or positions. The target allocations do, where applicable, include the operating costs of new facilities approved in prior year budgets. This "link" between the operating and capital budgets is performed through an annual crosswalk that determines all such costs. The FY2020-21 Operating budget includes all operating costs arising from new facilities that are anticipated to become operational during the fiscal year. For additional information, please see "Capital Improvement Program – Implications on Operating Budget", found elsewhere in this document.

THE BUDGET CYCLE

November

NOVEMBER 2019

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Budget Call for Estimates

Each year all County departments receive the County Manager's "Call for Estimates" (i.e., budget call) in November, which contains the budget policy, special budget instructions, various revisions to the budget manual, a budget calendar, and the target allocation. The Call for Estimates is accompanied by information on using the County's Automated Budget System, which enables the departments to prepare their budget requests on their departmental personal computers and submit them to the Office of Management and Budget (OMB) electronically. The budget

request consists of expenditure estimates in detail by line item, and in summary, together with supporting narrative information. When expenditure needs exceed the target allocation, departments must submit a request for additional funding. Certain County departments such as Education, Police, and Fire are considered priorities when allocating new funds among departments. Each request must be prioritized and prepared with detailed justification to support the need for additional funding.

November through December

DECEMBER 2019

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Financial Trend Monitoring System

An important step of the budget process involves the completion of the Financial Trend Monitoring System Trends Document, which represents an eleven-year evaluation of past financial and economic indicators. These indicators, over time, may reflect fluctuations, which when analyzed, prove to be extremely valuable as a management tool. The document allows staff to monitor changes in all aspects of the local economy and provides an insight into possible trends that may impact future decision making. This document, which analyzes historical trends, is utilized as a forecasting tool and provides a logical way of introducing long-range considerations into the annual budget

process. The County benefits by examining historical trends of financial and economic indicators prior to initiating the budget process. For more information regarding the Trends document, please see: <http://henrico.us/finance/divisions/office-of-management-and-budget/financial-trends/>

Budget Submissions

All County departments submit their budgets in the first week in December for initial review by the Office of Management and Budget. This includes both the target allocation as well as any supplemental requests for funding. The Budget Director and the OMB staff prepare the revenue estimates, and work closely with the County Manager and department administrators in reviewing expenditure estimates both in program and financial terms.

December through January

JANUARY 2020

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Review of Budget Submissions

The Office of Management and Budget reviews each department's budget submission and provides recommendations, as appropriate, to the County Manager. These recommendations include expenditure analyses and evaluations of budget submissions. As a result of this review, a narrative for each department is created.

THE BUDGET CYCLE

January through February

FEBRUARY 2020

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departments are present at the time of these reviews and have the opportunity to make presentations and answer questions relative to their budget requests. The Budget Office finalizes recommendations based on the Executive Review Committee results.

Executive Budget Reviews

After the expenditure estimates are analyzed, department requests are presented to the Executive Budget Review Committee. This Committee holds hearings to discuss budget submissions with departments in the last week of January through the first week in February. The Executive Budget Review Committee consists of the County Manager, (four) Deputy County Managers, the Director of Finance, the Director of Human Resources, one department director on a rotating basis, the Director of the Office of Management and Budget (OMB), and the supporting (six) budget analysts. The representatives from the

March

MARCH 2020

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comprehensive picture of proposed operations for the budget year, expressed in both verbal and statistical terms. During the hearings, the Board of Supervisors examines all line items in each of the department's budgets and all associated operational premises. These hearings are held during the course of one week, in the middle of March, approximately eight hours per day. Based on these hearings, the County Board of Supervisors may amend the County Manager's Proposed Budget.

Legislative Budget Reviews

Based on information exchanged during the Executive Budget Reviews, a balanced budget is recommended by the County Manager to the County Board of Supervisors as the Proposed Budget in early March. (The Code of Virginia requires that the County Manager submit a balanced budget to the Board of Supervisors). The Legislative Budget Review Committee is comprised of the County Board of Supervisors, which represents each of the County's five magisterial districts. The budget document that is presented to the County Board of Supervisors during these hearings represents the culmination of long periods of intensive research and analysis. The purpose of the document is to present to the legislative body and the public a

April (Second and Fourth Tuesdays)

APRIL 2020

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Public Hearing and Adoption of Budget

Once the County Board of Supervisors has received the County Manager's Proposed Budget, advertisements in the local newspaper are ordered and a date is set for the Budget Public Hearing in April. The FY2020-21 Public Hearing was held on April 14, 2020. The public hearing that sets the tax levies was held on April 28, 2020. The Code of Virginia requires that the County advertise a synopsis of the budget in the newspaper and that one or more public hearings be held before the Board adopts the budget. The Board of Supervisors adopts the Annual Fiscal Plan during this month and sets tax levies for the Calendar Year.

THE BUDGET CYCLE

May

MAY 2020

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Publish and Distribute Budget

During the month of May, the final Annual Fiscal Plan is compiled, published, and distributed.

June

JUNE 2020

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Appropriation of Budget

In the final month of the current fiscal year (last Board meeting in June), the Board of Supervisors appropriates funding for the next Annual Fiscal Plan, which is required by the Code of Virginia.

During the Fiscal Year

Transfers

The County Manager is authorized to transfer budgeted amounts between departments within any Fund; however, any revisions that alter the total budgeted amounts and/or appropriations of any Fund require an amendment to the budget. The Code of Virginia requires that the Board of Supervisors approve any amendment request. If the total amendment requested at any one time is over one percent of the current total appropriation, the request also must be advertised in the newspaper and a public hearing must be held before the Board can act.

FINANCIAL GUIDELINES

The following informal guidelines represent principles and practices that have guided the County in the past and have helped foster the County's current financial stability. These guidelines allow the Board maximum flexibility each year when determining how best to meet the needs of County residents when adopting the Annual Fiscal Plan.

General Guidelines:

The County of Henrico will maintain its AAA General Obligation Bond ratings with Standard and Poors, Moody's Investor Service and Fitch IBCA. Currently, Henrico County is one of 47 Counties in the nation that maintains a AAA/AAA/Aaa General Obligation Bond rating.

The County of Henrico will continue its efforts of "Changing the way Henrico does business", as a means of ensuring the County's residents an efficient and highly effective local government.

The County of Henrico will utilize technological advances as a means of providing more convenient and streamlined services to citizens, increasing employee productivity and reducing the need for new positions.

The County of Henrico will allocate new dollars (after meeting fixed commitments such as debt service requirements and benefits changes) to the areas of Education and Public Safety first.

The County of Henrico will attempt to utilize benefits of new economic development successes as a means of maintaining the low tax rate environment the residents currently enjoy. In addition, the County will maintain a balance between the need for real estate tax relief for residents with the long-term operational needs of the County. In that regard, **the FY2020-21 Annual Fiscal Plan is based on a Real Estate Tax rate of \$0.87/\$100 of assessed valuation for CY2020 real estate tax levies.**

The County of Henrico will continue its proactive efforts to bolster the quality of life our residents now enjoy.

Budgetary Guidelines:

The County's budgetary policies are based upon guidelines and restrictions established by State and County Code and Generally Accepted Accounting Principles (GAAP) for Governmental entities. These provisions set forth the County's fiscal year, public hearing and advertising requirements, restrictions on taxation, and also stipulate that the County must maintain a balanced budget.

The County's budget may be considered balanced if estimated revenues meet planned expenditures.

Cash Management:

The County will invest public funds in a manner that provides the highest investment return with the maximum safety while meeting daily cash flow demands. The County will deposit available funds on the same day they are received.

Capital Improvement Program Guidelines:

The County will develop a Five-Year Capital Improvement Program annually. The first year of this plan or a portion thereof will be approved by the Board of Supervisors after legal advertising and public hearing requirements have been met.

The County's Capital Improvement Program will utilize debt financing as a funding source only after it has been determined that the County can afford to service this debt and associated operating costs in subsequent years. The County will attempt to maximize the use of pay-as-you-go financing for capital projects.

Financial Guidelines (continued)

The County will continue to enhance the level of pay-as-you-go funding in the annual Capital budget as a means of reducing reliance on debt financing for capital projects.

The County will ensure that all operating costs arising from approved capital projects are accounted for in the operating budget, through the compilation of an annual crosswalk analysis that captures all such costs.

The County will maintain its physical assets at a level adequate to protect the County's capital investment and minimize future maintenance and replacement costs. The operating budget will provide for the adequate maintenance of these facilities and infrastructure.

Debt Guidelines:

A long-term debt affordability analysis will be completed on an annual basis as a means of ensuring that the County does not exceed its ability to service current and future debt requirements. This analysis will verify that the County is maintaining the following prescribed ratios and will be performed in conjunction with the County's Capital Improvement Program Process. The guidelines that are utilized are as follows:

Debt Service as a Percentage of General Fund Expenditures: 7.75%
Debt as a Percentage of Assessed Value: 1.49%

The County will adopt annual water and sewer rates that will generate sufficient revenues to meet the legal requirements of Enterprise Fund bond covenants. These rates will also allow for adequate capital replacement in water and sewer systems.

Revenues:

Multi-Year revenue and expenditure forecasts for all County funds will be included as a part of the Adopted Annual Fiscal Plan.

The County of Henrico will attempt to maintain a stable but diversified revenue base as a means of sheltering it from fluctuations in the economy.

The County will continue to strive to exceed a 70% residential – 30% commercial real estate assessment ratio. Maintaining a healthy commercial ratio will help the County maintain current tax rates while continuing to enhance service delivery efforts – particularly in the area of Education.

While revenues are monitored continually, a report is compiled quarterly that depicts current year trends, receipts, and explains any unanticipated revenue variances.

With the approval by the voters of a referendum on November 5, 2013 and subsequent ordinance approved by the Board of Supervisors on February 25, 2014, all revenues generated by a 4% tax on food and beverages sold in restaurants, commonly known as a "meals tax", will support the operations and capital infrastructure of Henrico County Public Schools.

Financial Guidelines (continued)

Fund Balance Guidelines:

The County has, over time, maintained a healthy unassigned fund balance – as compared to similar sized Virginia localities. As a percentage of actual General Fund expenditures, the County’s unassigned (formally undesignated) fund balance has been:

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| FY99: | 10.67% |
| FY00: | 12.90% |
| FY01: | 15.54% |
| FY02: | 16.69% |
| FY03: | 17.79% |
| FY04: | 18.04% |
| FY05 to FY11: | 18.00% |
| FY12 to FY18: | 15.00% |

During the FY2005-06 budget, the Board of Supervisors agreed with a policy recommendation to maintain the undesignated fund balance at a level of 18.0 percent of General Fund expenditures effective June 30, 2006. During the fiscal year-end closing of the County’s books, any funding over the agreed upon level of unassigned fund balance will be allocated to a Capital Reserve Fund for future allocation as a pay-as-you-go funding source in the Capital Budget. The policy of maintaining this reserve will be examined on an annual basis, during the budget process.

During the FY2012-13 Approved Budget, the Board of Supervisors agreed to reduce the amount of unassigned fund balance maintained from 18.0 percent to 15.0 percent of General Fund expenditures. The one-time funding generated due to this reduction as of June 30, 2012 was assigned to a dedicated vehicle replacement reserve that was used to replace police vehicles, fire apparatus and school buses.

The County will not use its unassigned fund balance to subsidize current operations.

Note: The fund balance portrayal above is different than the analysis performed annually in the Trends document. The Trends portrayal examines the Unassigned Fund Balance as a percentage of revenues in the Operating Funds – which includes the General, Special Revenue and Debt Service Funds. The portrayal above reflects the County’s Unassigned Fund Balance as a percentage of General Fund Expenditures.

Inter-Fund Guidelines:

The General Fund will be reimbursed annually by the Enterprise Fund for general and administrative services provided such as finance, personnel, and administration.

The General Fund will reimburse the Enterprise Fund, on an annual basis, for debt service requirements associated with the Elko Tract Infrastructure Improvement Bonds.

The General Fund will subsidize the Solid Waste Operation for costs not recouped from user fees associated with curbside recycling, bulky waste pickup, neighborhood cleanups and bagged leaf collection.