# STRATEGIC AND FISCAL POLICIES

This Section includes **STRATEGIC POLICIES** and **FISCAL POLICIES**. Both are critical to the Government's operations to achieve efficient and effective service deliveries while maintaining a strong fiscal stewardship.

## I. STRATEGIC POLICIES

### THE COUNTY GOVERNMENT VISION AND STRATEGIC PLAN

The County Executive established a **vision** entitled *Path to Greatness*, which, together with a **mission** statement and a set of **principles** added in FY 2012, guides the County Government's services to its residents, businesses and visitors. To help achieve the vision, seven **priority areas** were identified with the top five cross-agency goals listed for each priority area. Each of these cross-agency goals are supported by multiple agencies as indicated in the **strategic linkage** section below.

**Vision – Path to Greatness**

*Prince George's County is a nationally recognized jurisdiction that will be a leader in the Washington Metropolitan Region because of our thriving economy, great schools, safe neighborhoods and high quality healthcare. We will govern with policies and practices that are innovative, results oriented and sustainable. The residents and businesses of Prince George's County will know that this is one of the best places to live, invest, work and visit.*

**Mission**

To transform the quality of life for our residents, visitors and businesses by providing excellent services that achieve high levels of customer satisfaction through integrity, accountability and convenience.

**Principles**

- Customer Service Excellence
- Ethics, Trust and Transparency
- Financial Responsibility
- Communication, Teamwork and Collaboration
- Accountability and Execution with Measurable Results
- Energizing and Visionary Leadership
- Technology-Driven and Innovative
- Efficient Use of Resources
- Can-Do Attitude
- Responsive and Disciplined
- Evidence-Based Decisions
- Sense of Urgency

**Priorities**

1-Thriving Economy
2- Excellent Education System
3- Safe Neighborhoods
4- Quality Healthcare
5- Effective Human Services
6- Clean and Sustainable Environment
7-High Performance Government Operations

**Cross-Agency Organizational Goals and the Strategic Linkage**

For each priority area, two to five cross-agency goals are identified as the Government's strategic focuses. A matrix, connecting individual department/agency goals and the Government's key performance goals, is attached in the Appendix of the book as "STRATEGIC LINKAGE MATRIX".

**Agency Plans**

Agency plans define: (1) how the agency aligns with, and will work on, accomplishing the countywide vision and (2) the agency's intended impact on customers. To accomplish this, each agency has included in its section of this book its mission, core services, goals, objectives and strategy statements. The Strategic Focus was added in FY 2013 to indicate short-term priorities of each department based on the organization's overall strategic priorities.

**Performance Measures**

Performance measures are provided for each objective to illustrate a quantitative picture of the services delivered to customers and their impact. This information is important to evaluate the current status and possible improvements to carry out the countywide vision and agency plans. To accomplish this, performance measures indicate each objective's resources, tasks, services, production, efficiency, quality and impact. Five categories of performance measures provide this information: input (resources), output (workload, demand and production), efficiency (how well resources are utilized given the output), quality (accuracy, timeliness, and customer service) and outcome (impact).

**Performance Budgeting**
In the countywide strategic plan, agency plans and performance measures provide a clear strategic direction and a comprehensive quantitative picture of the services the County delivers to our customers. Performance-informed budgeting uses this information to justify and evaluate the allocation of resources, and seeks to better match funding with the strategic focus and maximize the utility of limited resources. As a result, the allocation of resources can better facilitate the agency's ability to meet its plan and the countywide vision and its ability to positively impact its customers.

**Budget Prioritization**
The budget development process requires prioritizing services and programs to ensure limited resources are dedicated to meeting the most important needs of the County. Agencies identify and prioritize each of their services and programs to facilitate decision making. A vetting process occurs first with the Office of Management and Budget and then with the County's leadership team. A collaborative decision making process takes place when all priorities are considered in the context of current conditions, data trends, emerging priorities and past funding decisions. For example, the FY 2012 – 2014 budgets emphasized needed resources in the public safety agencies. Measured successes in the County's crime rate allowed for needed improvements in economic development and infrastructure to take priority. With the successes created by the establishment of the Department of Permitting, Inspections and Enforcement and increased efforts in blight eradication, the FY 2017 budget is characterized by funding enhancements in the health and human services areas. Only through broad, countywide prioritization of services by leadership, combined with the budget priorities established by each agency, can the resources be appropriately allocated and all service areas be better served.

## ON-GOING IMPROVEMENT OF THE PERFORMANCE MANAGEMENT SYSTEM

Performance Management is utilized as a tool to facilitate decision making and improve service delivery. The Performance Management System is a comprehensive integrated system, including development of the strategic plan, execution of the plan, constant monitoring and feedbacks, on-going training and constant improvement.

Major elements include:

- Development of organization vision, priorities and goals
- Development of agency mission, goals, priorities, strategies and performance measures
- Development of annual budget supporting agency strategic plan
- Development of a centralized data warehouse for automatic data collection and analysis for all agency indicators
- Monthly reporting – tracking, analyzing, recommending and communicating
- CountyStat sessions focusing on priority objectives
- Management studies
- On-going training and constant improvement

In FY 2016, major achievements include:

- Analysis of 3-1-1 – County Click data to align services with incident location for more efficient service delivery.
- Implementation of CountyStat sessions
- Increased emphasis on strategic planning and performance budgeting in the annual budget development process
- Integration of the countywide service inventory for Transforming Neighborhoods Initiative (TNI) areas (this inventory can be found in the Appendix of the book)
- Initiated training and field testing for the deployment of an integrated business process system
- Creation of community based indicators to evaluate programs and services in TNI areas.

In FY 2017, strategic focuses will include:

- Continued data collection and analysis in TNI areas
- Development of a complete program inventory and mapping the inventory with strategic priorities

- Continued implementation of CountyStat sessions
- Migrate performance data for all agencies to online platform through DataPrinceGeorge's
- Training and management studies
- Through the deployment of an integrated business process system, provide agencies with performance dashboards

## FUNDING BY PRIORITY AREA IN SUPPORT OF VISION AND GOALS

The County's budget is a plan to allocate and spend funds in support of achieving the Government's strategic priorities. Each major area of the countywide vision is listed below along with the aligned budget in FY 2017.

### 1-Thriving Economy

The success of our *Path to Greatness* will be measured by the government's ability to grow the local economy. In 2012, the County launched the Economic Development Incentive (EDI) fund with an investment of $50 million in grants and loans to attract and retain businesses. To date, the County has awarded $33.5 million in EDI funding for 33 projects. This investment is estimated to create approximately 3,300 County jobs and retained 4,134 County jobs. So far, EDI funding has leveraged $620.0 million in private investments and State economic development funds in the County cumulatively. This has yielded 7,434 more jobs over the FY 2010. The County approved FY 2017 approved budget includes $9 million from this fund to continue investing in the economy.

The County will continue its efforts to grow the residential, commercial and industrial construction economy by creating efficiencies in the permitting and inspections processes. In FY 2014, the Department of Permitting, Inspections and Enforcement was established to streamline and improve services in that regard. The FY 2017 approved budget includes funding to support the filling of 46 vacant positions, a new permitting system to improve inspection and permitting review processes and the creation of the Enforcement Administrative Hearing Program. The approved budget includes funding for the Department of Public Works and Transportation to provide for a transit study and County-wide litter control initiatives as well as County gateway signage. Additionally in FY 2017, $3.0 million in PAYGO funds from a portion of the video lottery terminal (VLT) funds are dedicated for the maintenance and upgrade of MD 210.

The approved budget also supports the Department of Housing and Community Development and the Redevelopment Authority's efforts to focus on expanding access to a broad range of quality housing, promoting and increasing the supply of affordable housing, and enabling families to become self-sufficient. The approved budget funds additional support for the County Housing Fair, support for grant programs, and funding for a comprehensive housing strategy plan. An additional $3.65 million will be transferred to the Redevelopment Authority's capital budget to support community revitalization efforts in Suitland, Glenarden and other targeted areas.

### 2- Excellent Education System

The FY 2017 approved budget continues to support our goal of excellent education. The FY 2017 budget includes $1.92 billion in funding for the Board of Education, an increase of $90.8 million or 5.0% over the FY 2016 budget. Funding for the Board constitutes 62% of all General Fund spending in the FY 2017 budget. The County's contribution represents an increase of $29.0 million over FY 2016 (from $669.3 million to $698.3 million) and exceeds the Maintenance of Effort requirement. The approved budget supports student's needs by reducing class size for K-2 grades and maintaining and enhancing effective programs. Those programs include pre-kindergarten and other specialty programs at all levels. It also supports the mandatory cost of doing business including employee compensation and benefit commitments.

The County will also make significant investments in a number of school construction projects in FY 2017, including support for the completion of the construction of the new Fairmont Heights High School replacement, planning for the renovation or replacement of William Wirt Middle and Suitland High schools and several systemic replacement projects. Additionally, $2.25 million in PAYGO funds from a portion of the video lottery terminal

(VLT) funds are dedicated for repairs, fire alarm replacement and code correction projects at Crossland High School, Forest Heights Elementary School, Fort Foote Elementary School, Glassmanor Elementary School, Potomac Landing Elementary School, Princeton Elementary School, Tayac Elementary School, Thurgood Marshall Middle School and Valley View Elementary School.

In addition, the FY 2017 approved operating budget includes $108.0 million for the Community College, a 2.4% increase over the FY 2016 budget. The approved budget supports anticipated salary requirements for employees, core operational needs and expansion of student academic support at public high schools and the expansion of dual enrollment programs with the Board of Education. In addition, the CIP budget will begin the construction of the Queen Anne Academic Center and Lanham Hall renovations.

The approved FY 2017 operating budget for the Memorial Library System is $27.9 million, an increase of 5.3% above the FY 2016 budget. The approved budget provides funding to cover maintaining Sunday hours at seven branches, anticipated salary requirements for employees and an on-line career high school diploma program. The FY 2017 CIP funds will support the continued construction of the Laurel, Hyattsville and New Carrollton Branch libraries, planning and design for the Bladensburg branch and various improvement projects.

**3- Safe Neighborhoods**

The County makes a significant investment in FY 2017 to the public safety and court sectors to support various crime reduction initiatives with approved funding for these agencies increased by $35.3 million, or 5.6% from the FY 2016 level. Funding to the Police Department supports three new recruit classes in August 2016, January 2017 and June 2017 that will add 150 new officers to offset attrition. In addition, the approved budget allocates $760,000 ($16.2 million to $17.0 million) in additional overtime to support crime reduction initiatives such as stationary posting at the Police Department and fully funds anticipated fringe benefit increases.

The approved budget for the Fire/EMS Department funds two classes of 35 recruits (October 2016 and March 2017) to increase the number of sworn employees on-board, $14.2 million in overtime to support fire protection and emergency services, and also increases investments in both station management and allocated emergency transportation proceeds to encourage volunteer participation and support daily operations of the volunteer fire commission. The Office of Homeland Security receives funding for certain vacancies, fringe benefit increases, maintain all emergency dispatcher positions to support emergency responses and additional staff dedicated to District VII.

The Department of Corrections' approved budget funds three recruit classes of 35 (July 2016, December 2016, and June 2017) and all sworn vacancies, a $1.8 million increase in overtime and additional funding for the Community Service Program.

The Office of the Sheriff's approved FY 2017 budget supports an increase in overtime of $446,900, a recruit class of 25 new deputy sheriffs with the Prince George's Community College, three new Security Officer positions for the Family Justice Center and filling all civilian vacancies to further support court security and reduce outstanding warrants.

The FY 2017 approved budget for the Circuit Court supports funding vacant positions, a new Strategic and Implementation Plan, mandated juror summons mailings and the maintenance of IT equipment. Funding increases for the Orphans' Court supports salary requirements and fringe benefit increases. The Office of the State's Attorney's receives funding to support salary adjustments, prosecution and jury expenses and operating supplies.

The six-year CIP budget includes funding for: the completion of the new Police Department Administrative Headquarters and planning for the new Forensics Lab; completion of the Hyattsville and Oxon Hill Fire/EMS stations and planning of the Training Facility; renovations at the correctional center medical unit and detention housing units; construction of the new Public Safety Driver Training and Gun Range and limited renovation of various

Court facilities and the Office of the State's Attorney.

**4- Quality Healthcare & 5- Effective Human Services**

The FY 2017 approved budget continues to include $15 million for the Dimensions Health System, including resources for debt service payments for refunded debt. Joint efforts on behalf of the State and the County will ensure financial stability of the system, and plan for the new Regional Medical Center. The six-year CIP includes $208 million for this new state-of-the-art Regional Medical Center in Largo, constructed as a part of a strategy to transform the County's healthcare system into an efficient, effective and financially viable healthcare delivery system. This will improve the health of residents of Prince George's County and the Southern Maryland region.

In this area, the health and human service agencies continue to restructure their service delivery and administrative structures to correctly align staff with functions and utilize grant funding. These efforts have ensured that there will be no diminution of social services, particularly to our most vulnerable and at-risk populations.

The approved FY 2017 budget for the Department of Family Services supports several initiatives to reduce the occurrence of domestic violence, sexual assault and human trafficking, expansion of the Children in Need initiative and continues to support the Family Crisis Center. Funding supports grants for non-profits for domestic violence issues and senior assistance for snow, litter and leaf removal. Additional changes in the Health Department reflect added resources to fill vacant positions to support increased inspection efforts related to new food establishments including truck hubs. The Department of Social Services has funding for nine additional Transforming Neighborhood Initiative (TNI @ Schools) schools ($747,000), staffing for Child Protective Services and funding ($150,000) to support the new Services-Enriched Housing Continuum Program. This program provides crisis intervention, employment training, afterschool programming and family economic stability services. Through agency appropriations and the discretionary grant programs, the County Government will continue its services to support the elderly, at-risk youth, those with no or substandard health insurance, and many others in need. Additionally, the CIP contains funds to complete the rehabilitation of the Prince George's Homeless Shelter.

**6- Clean and Sustainable Environment**

In FY 2017, the County continues its investment into various environmental programs to improve the quality of life and support Federal and State mandates. The approved FY 2017 funding for the Local Watershed Protection and Restoration Enterprise Fund supports various operating expenses needed to meet federal and state mandates. The County also continues its investment in the Stormwater Management Fund in FY 2017 by $0.6 million or 0.8% for different water quality programs. The CIP includes funding for the Clean Water Partnership.

The Solid Waste Management fund increases by $2.3 million or 2.4% over the FY 2016 budget. The budget supports promotion of recycling and new recycling contracts. The CIP continues to support operational and facility improvements and repairs, closure and post-closure requirements for Brown Station Road and Sandy Hill landfills and the upgrade of existing Rural Convenience centers.

The FY 2017 approved budget also includes funding for the FY 2017 annualization of 49 Animal Shelter personal service contracts that were converted into full-time positions in the prior year.

**7- High Performance Government Operations**

General government agencies as a group experience a $8.5 million increase in funding (outside of Internal Service Funds) primarily due to funding added voting sites and early voting days to ensure a timely Presidential Election, additional public safety investigators, critical vacant positions, staffing and operating needs associated with the new facilities purchased by the County. Funds are also allotted for maintaining the case management system for the Office of Ethics and Accountability. The approved budget supports the following initiatives:

- Continuation of the 3-1-1 Call Center, including additional 3-1-1 call takers, and deployment of new customer service request system to better track all service requests and inform the service delivery process

- A fully staffed Office of Ethics and Accountability with a case management system
- Continued implementation of CountyStat sessions to enhance data-informed, evidence-based decision making
- Additional support for staffing and software the Contract Compliance Division in the Office of Central Services
- Continued implementation of the Enterprise Resource Planning (ERP) project to enhance efficiency across functional areas
- Additional maintenance needs (positions and contracts) associated with the County's acquisition of new facilities
- Funding for State-mandated inspection equipment for inspectors at the Board of License Commissioners

## FISCAL AND FINANCIAL POLICIES

The financial integrity of the County government is of utmost importance. The financial policies are a key element to maintaining this integrity. These financial management policies are designed to ensure the fiscal stability, provide long-term sustainability, and guide the development and administration of the annual operating and capital budgets, as well as the debt program.

The objectives of these fiscal policies are:

1. Fund stable and sustainable public services to citizens and ensure the County's fiscal integrity is maintained.

2. Enhance the policy-making ability of the County Executive and County Council by providing accurate, reliable and timely information about County operations in order to guide important decisions which have significant fiscal impact.

3. Set forth operational principles that achieve a structurally balanced budget and maintain the County's AAA bond rating, while minimizing the cost of funding core government services and financial risks.

4. Ensure the appropriate use of all County funds through a sound financial system and strong internal controls.

5. Employ revenue policies that diversify revenue sources, and expenditure policies that distribute the cost of government services fairly, provide adequate funds to operate desired programs and services, and make effective use of all applicable and appropriate sources of funding.

In order to meet these objectives, the County's policies are divided into seven general categories. These categories include: 1) Financial Planning Policies, 2) Revenue Policies, 3) Budget Management Policies, 4) Fund Balance Policies, 5) Debt Management Policies, 6) Cash Management/Investment Policies and 7) Financial Reporting Policies.

## 1. FINANCIAL PLANNING POLICIES

### KEEP THE COUNTY IN A STRONG FINANCIAL CONDITION

The County will continue to maintain sound cash and financial management. Several approaches and models are employed to guide the County in this process. These models assist in revealing possible structural imbalances and provide an opportunity to take corrective actions. As a result, the County can further ensure the efficient use of public funds over the long term.

One approach to accomplish this is achieving and maintaining a balanced budget for all funds. A balanced budget means the total money the government receives in one year, including other financing sources such as transfers in and use of fund balances, is equal to the amount it spends on goods, services and debt payments that year. In addition, the County follows a variety of policies to maintain a healthy balance sheet and to maximize cash management strategies. In balancing the budget, the County considers the nature of the revenues (sustainable, one-time, program specific, etc.) and the anticipated spending needs of the particular program or activity in the out-years.

**LONG-RANGE FINANCIAL PLANNING**

The County implements its long-range financial planning policies using two methods – (1) the legislative approval of its six-year capital improvement program (CIP) budget and (2) internal financial forecasting and modeling. These practices are essential in order to plan for potential liabilities early and allocate resources accordingly. This ensures that County policies and/or decisions do not lead to unexpected financial burdens and measures the fiscal impact of present day decisions on long-term outcomes. The County plans to strengthen its multi-year fiscal planning in FY 2017 to maintain its long-term financial sustainability.

1. Capital Improvement Program

The County develops and adopts a six-year CIP each year. This plan is approved by the County Council through the annual budget adoption process.

2. Internal Financial Forecasting and Modeling

Various forecasting and debt models are used during the County's planning process. These models include six-year revenue, expenditure, and fund balance projections for the general fund, and 30-year debt affordability models. These models are typically updated twice a year and as needed. They take into consideration several critical factors, including national and local economic outlook data, anticipated changes in federal, State and local laws and policies, and long-term governmental obligations. Assumptions include anticipated cost of living and merit increases for employees, maintaining adequate staffing levels across the government, rising health care expenses for active and retired employees, capital spending, risk management, pension and other long-term debt obligations.

**INTERNAL SERVICE AND ENTERPRISE FUNDS**

The goal for internal service and enterprise funds is to provide certain services at rates that ensure self-sufficiency. An annual review of all programs that operate on an internal and enterprise fund basis is prepared to ensure charges are not burdensome to the public or users and revenues continue in a self-supporting nature.

## 2. REVENUE POLICIES

**DIVERSIFY REVENUES**

The County strives to broaden revenue bases and seek alternative revenues to fund programs and services. This mitigates our vulnerability to reductions in programs and services due to economic downturns and decreases our dependence on general taxes for government operations. This policy has become more important in recent years as the State continues to shift costs to local governments.

It is important to note that the County's ability to raise taxes is limited by a 1978 amendment to Section 817, Article VIII of the Prince George's County Charter. The amendment referred to as Tax Reform Initiative by Marylanders (TRIM) limits the County's ability to raise the property tax rate. However, the County is authorized to increase property tax rates based on Chapter 6 of the 2012 Laws of Maryland (Senate Bill 848). This law allows the County's real and personal property tax rates to be set higher than the rate authorized under the County's charter. The bill requires that any additional revenue generated as a result of the higher property tax rate is for the sole purpose of funding the approved budget of the local school system. In FY 2016, the real property tax rate was increased $0.04 to $1.00 per $100 of assessable value. Additionally, the personal property tax rate rose $0.10 to $2.50 per $100 of assessable value. All additional revenues generated from the tax rate increases are dedicated to the Board of Education. The increased property tax rates remain in FY 2017.

Due to the restriction of raising property tax rates only for education, it is essential for the County to seek other revenue sources and maintain an adequate level of fund balance to guard against financial uncertainties and risks.

**USE CONSERVATIVE ASSUMPTIONS IN FORECASTING REVENUE GROWTH**

The fiscal integrity of a government is heavily dependent on the extent to which actual revenues meet or exceed expenditures. It is, therefore, essential that conservative assumptions be used in forecasting revenues. During economic downturns, conservative revenue forecasts are particularly important because the slowdown in one sector of the economy can extend to other sectors, and in those circumstances, the County could experience a broader decline in revenues.

**RELY ON CONTINUING REVENUE SOURCES**

Over the long-term, a local government's fiscal health is greatly dependent on its ability to pay for current expenses with current revenues. Recurring expenditures should be funded from a stable stream of income, such as taxes, service charges and intergovernmental revenues, with little or no reliance on one-time sources. Non-recurring resources are allocated primarily to non-recurring expenditure items to ensure financial stability.

**REVIEW USER FEES AND GRANT FUNDS**

The County completes an annual review of all user fees and charges to determine the extent to which the full cost of services are being recovered. The approval of changes to existing fees and new fees are approved as part of the annual budget process.

Grant funds are utilized to leverage County funds in order to supplement current programs and services. Inconsistent and/or fluctuating grants are not to be used to fund ongoing programs. Programs financed with grant funds are primarily budgeted in Special Revenue funds. Programs are adjusted to reflect the level of funding available.

**ASSESS THE APPROPRIATENESS OF GRANT-FUNDED PROGRAMS**

Grant programs are often seen as ways to implement programs that are fully or mostly paid by other entities, usually the State or Federal governments. However, some grant programs have limited life spans that require the County to pay for the full cost in subsequent years. The County will continue to implement only those grant-supported programs that balance important public services without unnecessary or unsustainable commitments of County funds in future years.

## 3. BUDGET MANAGEMENT POLICIES

**MAINTAIN PERIODIC FINANCIAL REPORTING AND MONITORING**

Financial reports in different formats are generated and systematically reviewed each month. Revenue collections and agency spending are monitored and projections are updated on a regular basis. The County also closely monitors and analyzes changes in the national and local economies and in Federal, State and local laws in order to take preventative measures in a timely manner against negative impacts. Projections and analytical reports are prepared periodically to facilitate management decisions. Particularly during challenging economic conditions and amid fiscal constraints, such periodic reporting and monitoring mechanisms are extremely important for maintaining the fiscal health of the County, and allows the government to take needed fiscal actions in a timely manner.

**MONITOR FRINGE BENEFIT COSTS**

County fringe benefit costs have been increasing, especially in the categories of pension and health insurance. As part of the effort to curtail health insurance costs, the County implemented mandatory prescription drug mail order and adjusted employee co-payments for generic prescription drugs in 2008. Additionally, several steps have been made to address growing pension costs over recent years, including increasing employee contribution rates and vesting timeframe, modifying the retirement eligibility and establishing benefit caps. Additional measures will be explored in future collective bargaining negotiations.

Prudent fiscal management requires awareness of the forces effecting changes in the pension funds so that current and future liabilities can be met. The County strives to maintain a balance between providing quality healthcare benefits while also considering measures to control costs and limit future cost escalation.

**CONTINUE RISK MANAGEMENT FUNDING**

Risk management costs have been increasing in recent years. The County's risk management strategy includes maintaining annual funding at or above the annual payments out of the risk management fund.

### BUDGET FOR LONG-TERM LIABILITIES

The County continues to contribute more funding than the annual PAYGO amount to retiree health benefits in order to meet the Governmental Accounting Standards Board (GASB) requirement and to gradually address the long-term funding of Other Post Employment Benefits (OPEB) liabilities.

## 4. FUND BALANCE POLICIES

### MAINTAIN A GENERAL FUND CONTINGENCY RESERVE (COMMITTED RESERVE)

A Charter amendment adopted by the voters in November 2002 requires that the County maintain a contingency reserve for the general fund. These funds are to be used as a possible source of funding in the event the County Council enacts emergency appropriations in response to unforeseen events. The reserve requirement is 5% of the general fund budget. The County expects to maintain the required balance in the contingency reserve of $144.5 million in FY 2015, and projects a balance of $149.7 million in FY 2016, and $155.8 million in FY 2017.

### MAINTAIN A GENERAL FUND OPERATING RESERVE

To ensure a reasonable degree of stability in its programs over the long-term, the County must have the budgetary flexibility to deal with events that can create instability such as emergency situations, severe economic fluctuations, or State and federal policy changes. The County policy is to retain an operating reserve equal to at least 2% of the general fund budget in addition to the contingency reserve. This reserve is a continuing and non-lapsing source of un-appropriated funds that can be used to offset the impact of one-time budget emergencies as long as a plan exists to replenish the reserves.

The operating reserve was $57.8 million at the end of FY 2015, and is projected to be $59.9 million in FY 2016, and $62.3 million in FY 2017.

### UNASSIGNED FUND BALANCE

The County has an unassigned fund balance created by a combination of effective expenditure controls and higher-than-expected revenues during periods of strong economic growth from last decade. This amount was $34.0 million at the end of FY 2015. It is expected to be $63.2 million in FY 2016 and $54.6 million in FY 2017. In recent years, the County mitigated the combined impact of slower than normal growth of revenues due to the economic downturn and ongoing, non-discretionary expenditure needs by prudently using some undesignated fund balance both to provide one-time PAYGO funding for capital projects and to address fiscal challenges.

The fiscal challenge will likely remain in the near future as the moderate revenue recovery continues to not keep up with expenditure growth driven by collective bargaining agreements, fringe benefit cost increases, unfunded State mandates, and service needs. The County is in the process of taking immediate corrective fiscal actions and developing multi-year strategies to protect its fund balance and address gradually restore balance between revenues and expenditures.

### MAINTAIN FUND BALANCE RESERVES IN OTHER FUNDS

A number of important government functions are financed through funds other than the County's general fund, most notably the County's enterprise funds, internal service funds and special revenue funds (these fund types are described more fully in the Budget Guide section of this document). Although these funds are designed to be self-sustaining, they must contend with certain special factors that threaten their financial stability: they are much smaller than the general fund; they support specific, limited services; and they tend to rely on a narrower and less diverse set of revenue sources. For example, the Stormwater Management Enterprise Fund receives the bulk of its monies from an ad valorem property tax, making this fund vulnerable to potential fluctuations in that single revenue source. To minimize fiscal volatility in these funds, the County policy calls for maintaining adequate reserve levels in each fund group, as well as making needed expenditure reductions to restore a structural balance. The County also strives to maintain a positive fund balance in all special revenue funds.

## 5. DEBT MANAGEMENT POLICIES

### MAINTAIN SOUND DEBT MANAGEMENT

The County is committed to keeping its debt level low despite rising needs for capital projects. Prince George's County debt level remains well below its self-imposed and statutory limits. Article 25A of the Annotated Code of Maryland states that the aggregate amount of indebtedness outstanding at the time of issuance shall not exceed 6% of the County's assessable base of real property plus 15% of the County's assessable base of personal property. In recent years, the County has successfully kept its net direct debt to assessable value ratio below 2%. The ratio was 1.3% in FY 2015 based on full market value. Based on the State law, the County's debt limit at the end of FY 2015 was $5.0 billion. The County's outstanding debt was $944.9 million, leaving a legal debt margin of $4.1 billion.

While the current debt level is well below the Statutory ceiling, the County adopts a more restrictive internal policy that requires that the ratio of debt service to County source revenues not exceed 8%. The ratio was 5.6% in FY 2012 and dropped to 4.1% in FY 2013 primarily due to one-time savings from using bond premiums. The scheduled use of bond premiums will continue to help mitigate the overall growth of debt services and keep the debt service to County source revenue ratio at 5.8% in FY 2014 and 5.1% in FY 2015. However, debt level needs to be monitored closely in coming years as debt service payments are projected to pick up in foreseeable future due to anticipated new debt to fund CIP projects and the expiration of one-time resources in out years. The County also follows a strategy of retiring debt rapidly to mitigate debt obligations in future years and refinancing existing debt where applicable to generate savings. The anticipated bond sales in FY 2016 and FY 2017 will be conducted in accordance with the County's debt policies.

In addition, the County has been utilizing alternative resources other than general obligation bond revenue to fund capital projects. It plans to continue to include school surcharge, telecommunication tax and PAYGO capital revenues in its future CIP programs. Budgeting PAYGO funds annually helps lower long-term debt burdens and allows the County to follow best practices recommended by bond rating agencies. FY 2015 budget included $1.3 million of PAYGO funds and FY 2016 budget included $1.4 million in PAYGO funds. The FY 2017 approved budget includes $8.9 million in PAYGO funds for the Redevelopment Authority ($3.65 million), upgrades for MD 210 ($3.0 million) and for certain Board of Education CIP projects ($2.25 million).

## 6. CASH MANAGEMENT/INVESTMENT POLICIES

### MAINTAIN SOUND INVESTMENT MANGEMENT POLICY

The County Council adopted its investment policy in September 1995 (CR-52-1995). The local policy was subsequently amended in September 1998 and February 2006 due to changes in the Maryland State law.

The policy applies to the investment of all unexpended or surplus funds of the County. These funds are accounted for in the County's Comprehensive Annual Financial Report and include the general fund, special revenue funds, capital project funds, enterprise funds, debt service funds, internal service funds, trust and agency funds. The policy does not cover the investment activities of pension funds. The funds are administered by separate trustees.

The primary objectives for the management of County funds are to (a) protect investment principal in the overall portfolio, (b) ensure sufficient liquidity to meet all cash flow requirements which might be reasonably anticipated, and (c) maximize investment return consistent with risk limitations and prudent investment policies.

These objectives are met by implementing the following policies:

1. The County's investment officials shall use the "prudent person" standard in the context of managing an overall portfolio, considering the probable safety of their capital as well as the probable income to be derived.

2. The investment officials involved in the investment process will refrain from personal business activity that could conflict with the proper execution of the investment program

or which could impair their ability to make impartial investment decisions.

3. The County will diversify its investments by security type and institution. With the exception of U.S. Treasury securities, authorized pools and money market funds, no more than 50% of the County's total investment portfolio will be invested in a single security type or with a single financial institution.

4. To the extent possible, the County will attempt to match investments with anticipated cash flow requirements. The County will not directly invest in securities maturing more than one year from the date of purchase, except for the investment of bond proceeds which may be invested up to three years.

5. Regarding suitable investments, the County's investments will conform without exception to Article 95, Section 22 and Section 6-222 of the State Finance and Procurement Article of the Annotated Code of Maryland.

6. The County will maintain a system of adequate internal controls to be compliant with the investment program policy and procedures.

7. The County will hold periodic investment strategy meetings with officials and document the resulting investment strategy approved to meet the policy.

## 7. FINANCIAL REPORTING POLICIES

The County's accounting and financial reporting systems will be maintained in conformance with all State and federal laws, generally accepted accounting principles (GAAP) and standards of the GASB and the Government Finance Officers Association (GFOA). Each year, an independent accounting firm performs an annual audit and issues an audit opinion that is included in the County's published Comprehensive Annual Financial Report (CAFR). The County aims to achieve an unqualified audit opinion, meaning that the financial records and statement are fairly and appropriately presented. The County Government's FY 2015 CAFR received an unqualified audit opinion.

The County's CAFR is submitted to the GFOA Certification of Achievement in Excellence in Financial Reporting Program annually. The financial report should be in conformity with finance related legal and contractual provisions, disclose thoroughness and detail sufficiency, and minimize ambiguities and potentials for misleading inferences. It is important to note that the County has been participating in GFOA's Certification of Achievement in Excellence in Financial Reporting Program and Distinguished Budget Presentation programs for over 20 years.

The County's budget is submitted to GFOA Distinguished Budget Presentation Program annually. The budget should satisfy criteria as a financial and programming policy document, as a comprehensive financial plan, as an operation's guide for all organizational units, and as a communication device for all significant budgetary issues, trends and resource choices. The County's budget has received the GFOA's Distinguished Budget Presentation Award for many years. Moreover, its FY 2015 budget received a special recognition from GFOA for its performance measures, making the County the only government in Maryland and in DC metropolitan areas that received this special recognition that year.

Financial systems will maintain and enhance internal controls to monitor revenues, expenditures and program performance on an ongoing basis. In FY 2017, bimonthly financial reports will continue to be provided to elected officials and senior management with the implementation of the new ERP system to help make immediate budget and policy adjustments where needed.