

**BEFORE THE BOARD OF COUNTY COMMISSIONERS OF COWLITZ COUNTY, WA.**

**RESOLUTION NO. 04-103**

In the Matter of Rescinding Resolution )  
No. 02-037 dated 2-29-02 )  
and Approving Resolution Adopting )  
Cowlitz County Financial Management )  
Policies )

**WHEREAS**, the Board of Commissioners of Cowlitz County, Washington recognizes the need to rescind Resolution No. 02-037 relating to Cowlitz County Financial Management Policies and establish an updated policy relating to the same; and

**WHEREAS**, the financial health and welfare of Cowlitz County is highly dependent upon establishing and maintaining sound, financial-planning objectives and strategies of implementation; and

**WHEREAS**, financial management policies assist the decision-making process of the Board and the County administration while operating independently of changing service and financial circumstances and conditions; and

**WHEREAS**, these policies also provide guidelines for evaluating both current activities and proposals for future programs and direct the County's financial resources toward meeting the goals and programs of the strategic plan; and

**WHEREAS**, the implementation of wise fiscal policies enables County officials to protect the public interest and ensure public trust and confidence.

**NOW, THEREFORE, BE IT HEREBY RESOLVED** that Resolution No. 02-037 be rescinded and the enclosed Cowlitz County Financial Management document be adopted as policy.

**EFFECTIVE** this 1st day of June, 2004.

**BOARD OF COUNTY COMMISSIONERS  
OF COWLITZ COUNTY, WASHINGTON**

/s/ George Raiter  
George Raiter, Chairman

/s/ J. Bill Lehning  
J. Bill Lehning, Commissioner

/s/ Jeff M. Rasmussen  
Jeff M. Rasmussen, Commissioner

**ATTEST:**

/s/ Tiffany Ostreim  
Tiffany Ostreim  
Acting Clerk of the Board

## **FINANCIAL MANAGEMENT**

### ***Policy.***

The financial health and welfare of Cowlitz County is highly dependent upon establishing and maintaining sound, financial-planning objectives and strategies of implementation. These financial management policies assist the decision-making process of the Board and the County administration while operating independently of changing service and financial circumstances and conditions. These policies also provide guidelines for evaluating both current activities and proposals for future programs and direct the County's financial resources toward meeting the goals and programs of the strategic plan. The implementation of wise fiscal policies enables County officials to protect the public interest and ensure public trust and confidence.

### **Financial Philosophies**

The fiscal policy of Cowlitz County is to establish a sufficient financial base and provide the resources necessary to support and sustain an adequate and responsible level of countywide services to ensure public safety, enhance the physical infrastructure and environment of the County, and improve and sustain quality of life and community.

Cowlitz County's financial policies shall address the following fiscal goals:

- Ensure the County maintains a financial base sufficient to provide a consistent level of County services
- Maintain sound financial practices that meet all applicable standards and direct the County's financial resources toward meeting the goals of the County's strategic plan
- Keep the County in a fiscally sound position in both the long and short term
- Maintain sufficient financial liquidity to meet normal operating and contingent obligations
- Maintain and preserve existing infrastructure and capital assets
- Guide the Board in management and policy decisions that have significant financial impact
- Provide a mechanism to regularly review programs and operational methods to improve productivity and eliminate duplication of functions
- Promote cooperation and coordination with other governmental entities and the private sector in financing and delivery of services
- Ensure the County is able to withstand local and regional economic variations and adjust to changes in the service requirements of the community
- Set forth operating principles that minimize the cost of government and financial risks
- Promote sound financial management by providing accurate and timely information on the County's financial condition
- Provide a framework for the wise and prudent use of debt financing, and maintain a good credit rating in the financial community while assuring taxpayers that

County government is financially well managed and operated in a sound fiscal condition

- Ensure the legal use of financial resources through effective systems of internal controls
- Operate utilities in a responsive and fiscally sound manner
- Expect service users to pay their fair share of program costs

As a cornerstone of Cowlitz County's financial management policy, the "fiscal integrity" of the County will be of the highest priority. The County will strive to:

- Maintain the fiscal integrity of its operating, debt service, and capital improvement budgets, which provide services and maintain certain public facilities, streets and utilities. It is the County's intent to maximize the level of public goods and services while minimizing the level of debt.
- Restrict the expenditure of ongoing operating programs by not exceeding the amount of ongoing revenue to finance those costs. The ongoing revenue will be identified along with new program costs. Any available carryover balance may be used to offset one-time or non-recurring costs.
- Cash balances in excess of the amount required to maintain strategic reserves may be used to fund one-time or non-recurring costs

### ***Procedure.***

### **Budget Process**

The budget process is designed to meet the operations and service needs of the County by integrating the planning and implementation of County programs and objectives with the allocation of funds sufficient to support such services and programs. The framework of the County budget was developed with the following basic purposes:

- Establish a Plan of Policy and Operation that allocates resources of the County to achieve specific County goals and objectives and guides the County's activities.
- Facilitate the Evaluation of County Programs by providing a means to measurably examine the financial activities of the County departments over time.
- Provide Management Information as a comprehensive recording of information relative to both the character and scope of County activity.
- Establish Financial Control by controlling the allocation of revenue to various activities through prioritization of programs/projects and allowing policy officials to ensure legality, accuracy and conformity to legislative and administrative objectives.

The Revised Code of Washington, RCW 36.40.250, allows counties to adopt an ordinance or resolution providing for biennial budgets with a mid-biennium review and modification for the second year of the biennium. In May, 2001, the Cowlitz County Board of County Commissioners approved the implementation of a "biennial" budget process in an effort to improve the method of budgeting, comprehensive planning, and

financial management of the County. Cowlitz County's biennial budget shall be prepared according to the following schedule during the odd year preceding the biennial budget period:

- Prior to May 1, the Board of Commissioners shall conduct a goal-setting retreat with the county's Elected Officials and Department Heads.
- In June, the Board of County Commissioners, County Auditor, and Director of Office of Financial Management meet to discuss budget schedule, process, Board budget guidelines, and budget preparation tasks.
- In July, the Director of Office of Financial Management prepares the budget preparation package and meets with Department Heads to distribute budget packets and discuss budget preparation.
- On or before the third Monday of August, Elected Officials and Department Heads submit to the Office of Financial Management the budget estimate requests and forms.
- Beginning in early September through October, Elected Officials and Department Heads meet with the County Commissioners and Director of Office of Financial Management to review budget requests.
- On or before November 15, the Board sets the County's tax levies.
- On or before the first Tuesday in December, the Director of Office of Financial Management submits a recommended balanced County Budget to the Board.
- On or before the second Monday of December, the final public hearing on the proposed budget is commenced.
- On or before December 31, the Board adopts the final budget resolution.
- On January 31, the Final Budget Document is published and copies of final budgets will be sent to the State Auditor's Office and Municipal Research Service Center.

The main feature in the development of a budget format is to make the budget document readable and understandable to the general public and County officials. The budget must be developed in a format that will also provide sufficient detail in financial, program and policy information to guide the departments in program performance, and assist the Board of County Commissioners and administrative/finance staff in program evaluation and monitoring.

- The budget should be a performance, financing and spending plan agreed to by the Board, Director of Office of Financial Management, Elected Officials and Department Heads. It should contain information and data regarding expected revenues and expenditures.
- The County shall prepare and refine written policies and goals on a biannual basis to guide the preparation of performance, financing and spending plans for the County budget. Adopted budgets will comply with the adopted budget policies and Board's priorities.
- As a comprehensive business plan, the budget should contain the following critical elements as recommended by the Government Finance Officers

Association (GFOA): public policies, financial plan and operations guide to act as a financial communications device.

- The County's budget presentation should display the County's service delivery and performance plan in a Board/constituent-friendly format. The County, therefore, will use a department budgeting format to convey the policies and purposes of County operations.
- Decision-making for capital improvements will be coordinated with the operating budget to make effective use of the County's limited resources for operating and maintaining facilities and capital projects.
- Under the Board and Director of Office of Financial Management direction, Elected Officials and Department Heads will formulate budget programs in line with the Board's priority direction by implementing such programs once they are approved.

The Board adopts the budget by resolution or ordinance at the fund and department level. Elected Officials and Department Heads have management control over budgeted line items; however, the departments: 1) may not purchase capital equipment items in excess of \$5,000 unless such items have been approved in the department's budget, or subsequently approved by the Board and 2) must obtain approval from Central Services of all computer and information system equipment/software purchases. Any revisions that alter the total expenditures of a department or affect the number of authorized employee positions, salary ranges, hours, or other conditions of employment must be approved by the Board. If a budget amendment is deemed necessary due to extraordinary department expenses or the addition of state/federal grants, such amendment will generally occur only one time during the year at year-end with the adoption of a supplemental budget resolution.

### **Basis of Accounting and Budgeting**

#### **Basis of Accounting**

- The basis of accounting used determines when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. All governmental funds are accounted for using the modified accrual basis of accounting. Revenue is recognized when it becomes measurable and available. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred. All Proprietary Funds are accounted for using the accrual basis of accounting. Under this basis of accounting, the revenues are recognized when earned and expenses are recognized when incurred.

#### **Budgets and Budgetary Accounting**

- Cowlitz County's accounting and budgeting systems are organized and operated on a fund basis. Funds are accounting entities used to record revenues and expenditures. Each fund is balanced, meaning total revenues equal total expenditures. The budgeted funds are grouped into categories: General Fund,

Special Revenue, Debt Service, Capital Projects, Enterprise, Internal Service, and Fiduciary/Trust.

- Legal budgetary control is established at the fund level (i.e., expenditures for a fund may not exceed that fund's total appropriation amount). The Director of Office of Financial Management may authorize transfers of appropriation within a fund, but the Board must approve by resolution any increase in total fund appropriations. Any unexpended appropriation balances lapse at the end of the budget period.

### **Accounting, Financial Reporting, Forecasting, Information System Integrity, and Auditing Policies**

Cowlitz County will establish and maintain the highest standard of accounting practices. Accounting and budgetary systems will, at all times, conform to Generally Accepted Accounting Principles, the State of Washington Budgeting Accounting Reporting System (B.A.R.S.) and local regulations.

#### **Accounting System**

- A comprehensive accounting system will be maintained to provide all financial information necessary to effectively operate the County.
- The County will meet the financial reporting standards set by the Governmental Accounting Standards Board.

#### **Financial Reporting**

- Full disclosure will be provided in all County financial reports and bond representations.
- The County's budget documents shall be presented in a format that provides for logical comparison with prior budget period actuals wherever possible.
- Reports outlining the status of revenues and expenditures shall be done monthly in a format prepared by the Director of Office of Financial Management that will be distributed to the Board, Elected Officials, Department Heads, and any interested party.
- The budget will be produced so that it can be directly compared to the actual results of the fiscal year and presented in a timely quarterly report.
- All budget amendments - both revenues and expenditures - will be noted in the quarterly report.

#### **Information Systems Integrity**

- Provide the technology tools and information systems to support an uninterrupted level of information systems service to sustain the successful implementation and maintenance of a sound, reliable and efficient financial management system

- Ensure reliability and stability in the use of financial software, information systems networks and support services in order to secure trust and confidence in the County's financial management system
- Seek compatibility of financial software products, applications and support services with the financial management team and users in an effort to adhere to the County's fiscal goals and maintain fiscal integrity
- Fully integrate systems software to provide all financial information in a format consistent with County policy to Elected Officials and Department Heads so they may ensure that government programs achieve desired goals by improving data reporting, creating more efficient workflows, and enhancing speed and effectiveness in policy and management decision-making
- Provide a comprehensive and dependable communications system through a sound networking infrastructure between interconnected devices
- Protect County departments against unauthorized access through information systems security and controls while allowing staff the ability to access information directly from the system
- Increase ability to attain results from the information system which are required through the appropriate application of the County's policies resulting in increased effectiveness of technology expenditures

### **Forecasting**

- Each year, the County will update expenditure and revenue forecasts for the operating funds on a two-year cycle and for the capital improvement project budgets for the next six years. Projections will include estimated operating costs for future capital improvements that are included in the capital budget.
- These estimates will be presented to Elected Officials and Department Heads in a form that will facilitate budget decisions and strategic planning, based on a multi-year strategic planning perspective.

### **Accounting Policies**

- An annual audit will be performed by the State Auditor's Office and include the issuance of a financial opinion. A Comprehensive Annual Financial Report shall be prepared in accordance with generally accepted accounting principles and shall be distributed to the Board, Elected Officials, Director of Office of Financial Management, Department Heads, any interested party, and to the Government Finance Officers Association for certification.
- The annual financial report will be prepared on a timely basis and in a comprehensive and cooperative fashion to meet or exceed the State Auditor's Office standards and expectations.

### **Operating Budget Policies**

The County Budget is the central financial planning document that encompasses all operating revenue and expenditure decisions. It establishes the level of services to be provided by each department within the restrictions of anticipated County revenues.

- The County will maintain a budgetary control system to ensure compliance with the budget. The County will prepare monthly status reports and quarterly financial reports comparing actual revenues and expenditure to budgeted amounts.
- The Board will establish County service levels and priorities for the ensuing two-year prior during the development of the budget. The Director of Office of Financial Management will then incorporate the Board's objectives and priorities in the County's budget proposal.
- The County will provide for adequate maintenance and appropriate replacement of capital facilities and equipment. The County will provide for maintenance schedules to ensure that facilities and equipment are maintained so as to maximize useful life span.
- The County will pay for all current expenditures with current revenues. The County will strive to not balance the general fund budget through the use of transfers from other ad valorem (based on value) funds, appropriations from fund balances, or growth revenue such as service expansion fees.
- No operating deficits in any fund balance shall be incurred at year-end with the exception of carryover expenditures. Any deficiencies must be remedied in the following year.
- The County will project capital outlay expenditures for a six-year period. Projections will include estimated operating costs of future capital improvements included in the capital improvement budget, which will be reviewed on a biannual basis.
- The administrative transfer fee from non-general funds to the general fund is a payment for various services provided by the general fund. The amount of each year's transfer fees will be based on estimated, reasonable general fund costs incurred by the non-general funds.
- The County will strive to pay competitive salaries and benefits and provide a quality-working environment in order to attract and retain quality, experienced and dedicated employees.
- The County will prepare a concise summary and guide to the key issues and aspects of the operating and capital components of the budget to provide education and involvement of the public. The summary should be publicly available for both the proposed budget and the adopted budget.
- An appropriate balance will always be maintained between resources allocated for direct services to the public and resources allocated for the costs of administration.

### **Revenue and Expenditure Policies**

Cowlitz County will seek to maintain the highest level of affordable and reliable services while maintaining fiscal responsibility based on the constraints of the County's revenue resources and direction provided under the County's expenditure policies.

## Revenue Policies

- Revenue forecasts will assess the full spectrum of resources that can be allocated for public services. The revenue system will be diversified as protection from short-run fluctuations in any one revenue source. Should economic downturn develop which could result in (potential) revenue shortfalls or fewer available resources, the County will immediately make adjustments in anticipated expenditures to compensate.
- Revenue estimates shall not assume any growth rate in excess of inflation for taxes, such as property tax, sales tax, fuel taxes, which will be based on projections provided by the state. Real growth that occurs will be recognized through budgetary adjustments only after it takes place. This practice imposes short-term constraint on the level of public goods or services. In the event, however, those revenues are less than expected, it minimizes the likelihood of severe cutback actions, which may be profoundly disruptive to the goal of providing a consistent level of quality services.
- The Board of County Commissioners shall authorize the investment of county funds under RCW 36.29.020 and Cowlitz County Treasurer's Investment Policy as adopted by the Finance Committee. Investment income earned through the County's pool of invested funds shall be budgeted based upon the anticipated participation of each fund.
- The County will establish and maintain Special Revenue Funds to account for proceeds from specific sources to finance designated activities that are required by statute, ordinance, resolution, or executive order.
- Revenues of a limited or indefinite term should be used for capital projects or one-time operating expenditures to ensure that no ongoing service program is lost when such revenues are reduced or discontinued.
- Grant applications to fund new service programs with State or Federal funds will be reviewed by the County, as they become available, with due consideration being given to whether locally generated revenues will be required to support these programs when outside funding is no longer available.
- State and Federal funds may be utilized, but only when the County can be assured that the total costs and requirements of accepting funds are known and judged not to adversely impact the County's General Fund. Future impacts on the budget will be considered in all grant requests.
- The County will annually review all fees for licenses, permits, fines and other miscellaneous charges as part of the budget process. User charges and fees will be established based at a level related to the full cost of providing the service, unless otherwise provided by statute or regulation. The full cost of providing a service should be calculated in order to provide a basis for setting the charge or fee. Full cost incorporates direct and indirect costs, including operations and maintenance, overhead, and charges for the use of capital facilities. Other factors for fee or charge adjustments may also include the impact of inflation, other cost increases, the adequacy of the coverage of costs, current competitive rates, and contractual or statutory restrictions.
- The County will follow a vigorous policy of collecting all County revenues.

- Deficit financing and borrowing will not be used to support on-going County services and operations. Expenses will be reduced to conform to the long-term revenue forecast. Interfund loans are permissible to cover temporary gaps in cash flow, but only when supported by a well-documented repayment schedule of short duration based on an interest rate at least equivalent to the rate paid by the Washington State Local Government Investment Pool.
- Current revenues will be sufficient to support current expenditures.
- The County will maintain revenue and expenditure categories according to State Statute and County administrative regulations.

### **Expenditure Policies**

- High priority will be given to expenditures that will reduce future operating costs, such as increased utilization of technology and equipment and prudent business methods.
- If expenditure reductions are necessary, complete elimination of a specific, non-mandatory service is preferable to lowering the quality of existing programs.
- An appropriate balance will be maintained between budget funds provided for direct public services and funds provided for sound administration and legal compliance.
- Before the County undertakes any agreement that would create significant, fixed ongoing expenses, the cost implications of such agreement will be fully determined for current and future years with the aid of strategic financial planning models.
- All externally mandated services for which full or partial funding is available will be fully costed out to allow for reimbursement of expenses. The estimated direct costs of service will be budgeted and charged to the fund performing the service. Interfund service fees charged to recover these direct costs will be recognized as revenue to the providing fund.
- The budget shall balance recurring operating expenses to recurring operating revenue.
- Expenditures should be controlled and must stay within the amount of appropriated funds.
- The County will attempt to maintain its present service level for essential services within existing revenues. There will be no new services without an appropriate trade-off of services and financial impact.
- Should General Fund revenue projections fall short of projected expenditures, the Director of Office of Financial Management shall convey service alternatives to the Board to match the projected revenues.
- The County will attempt to fund human service programs and organizations, which meet significant community needs or problems.
- Organizations that are not part of the County, but which receive funding from the County, shall not have their appropriation carried forward from budget-cycle to budget-cycle unless authorized and directed by the Board. Annual review and reauthorization of funding is required.

## Capital Improvement Policies

Cowlitz County shall establish as a primary fiscal responsibility the preservation, maintenance and future improvement of the County's capital facilities, equipment and assets. Proper planning and implementation of sound capital policies and programs will assist the County in avoiding fiscal emergencies and unplanned capital costs in the future.

- A comprehensive multi-year (minimum six-year) plan for County capital improvements will be prepared and updated biennially. A biennial Capital Improvement Budget will be developed and adopted by the Board as part of the County budget.
- The Board will review the Capital Improvement Budget on a biannual basis and establish criteria against which capital proposals should be measured. Included among the factors which will be considered for priority-ranking are the following:

Projects which have a positive impact on the operating budget (reduced expenditures, increased revenues)

Projects which are programmed in the Six-Year Capital Improvement Plan

Projects which can be completed or significantly advanced during the Six-Year Capital Improvement Plan

Projects which can be realistically accomplished during the year they are scheduled

Projects which implement previous Board-adopted reports and strategies.

- With the exception of public works capital projects (roads and utilities), the County's Capital Improvement Plan shall be prepared through use of a CIP Advisory Committee for ongoing capital improvements, updated on a biannual basis, and implemented in accordance with the plan.
- Capital project proposals should include cost estimates that are as complete, reliable, and attainable as possible. Project cost estimates for the Capital Budget should be based upon a thorough analysis of the project and are expected to be as reliable as the level of detail known about the project. Project cost estimates for the Six-Year Capital Improvement Plan will vary in reliability depending on whether they are to be undertaken in the first, third, or sixth year of the Plan.
- Financial analysis of funding sources will be conducted for all proposed capital improvement projects, in addition to listing the total project costs.
- The County will project its equipment (i.e., vehicle replacement and maintenance needs for the next several years) and will update these projections biannually. From this projection, a maintenance and replacement schedule will be developed and followed. The intent of the maintenance program shall be to maintain all assets at an adequate level in order to protect the County's capital investment and

to minimize the impact of significant fluctuations in future maintenance and replacement costs.

- Although the County will generally finance projects on a “pay-as-you-go” basis, the Board may conclude that the most equitable way of funding a project that benefits the entire community will be debt financing (pay-as-you-use) in order to provide capital improvements or services in a timely manner.
- New private community development (including residential, commercial and industrial projects) shall pay for its fair share of the capital improvements that are necessary to serve the development in the form of system development charges, impact fees, mitigation fees, or benefit districts.
- Funding of repair and replacement schedule projects will be the funding priority before discretionary capital projects.
- All revenues collected from the Real Estate Excise tax shall be deposited into the General Government Capital Improvement Fund and shall be used in accordance with state law and the adopted County capital facilities plan.
- Capital improvement projects that do not follow the principles and concepts of an adopted County capital improvement plan, or which duplicate other public and/or private services, will not be considered.
- All proposals for the expenditure of capital funds shall be formulated and presented to the Board within the framework of a general capital budget and, except in exceptional circumstances, no consideration will be given to the commitment of any capital funds, including reserve funds, in isolation from a general review of all capital budget requirements.
- Project proposals should indicate the project's impact on the operating budget, including, but not limited to, long-term maintenance costs necessary to support the improvement.
- The Annual Capital Budget shall include only those projects which can reasonably be accomplished in the time frame indicated. Each budgeted capital project should include a projected schedule.
- Capital projects, which are not encumbered or completed during the fiscal year, will be re-budgeted or carried over to the next fiscal year except as reported to and subsequently approved by the Board. All re-budgeted capital projects should be so noted in the Adopted Capital Budget. Similarly, multi-year projects with unencumbered or unexpended funds will be carried over to the subsequent year(s).
- Capital projects will not be budgeted unless there are reasonable expectations that revenues will be available to pay for them.
- Projects that involve intergovernmental cooperation in planning and funding should be established by an agreement that sets forth the basic responsibilities of the parties involved.
- A comprehensive inventory of all capital assets shall be conducted and maintained to include estimates of actual value, replacement cost and remaining useful life.
- All projects included in the Capital Improvement Plan shall not be inconsistent with the County's Comprehensive Plan. The goals and policies for services, facilities, and transportation should be followed in the development of the Capital

Improvement Plan. The Comprehensive Plan service level goals should be included in the Capital Improvement Plan.

- Capital projects shall be financed to the greatest extent possible through user fees and benefit districts when direct benefit to users results from construction of the project.
- The County will manage County-owned property proactively and strategically to promote the public interest and, whenever possible, to enhance the County's overall financial resources.
- The County will promote accountability to the public in its management of County-owned property and will be consistent and predictable to enhance the private sector's confidence in the County as a reliable partner in development.

### **Reserve and Fund Policies**

Sufficient fund balances and reserve levels are a critical component of the County's financial management policies and a key factor in the measurement of the County's financial strategies for external financing. Cowlitz County will establish reserve funds to pay for needs caused by unforeseen events. Reserves may also be used to recover from catastrophic events, whether natural or man-made. Operational reserves provide additional funds for unexpected service needs. Liquidity reserves are limited funds used to smooth fluctuations in revenues caused by changes in economic conditions or uneven flow of revenues.

- Maintenance of an adequate fund balance for each fund to ensure sufficient resources for cash flow and to mitigate revenue shortages or emergencies shall be a priority. Prudent use of reserve funds enables the County to defray future costs, take advantage of matching grant funds and provides the County with the ability to exercise flexible financial planning in developing future capital projects.
- The minimum fund balance will be attained and maintained through prudent management of expenditures, revenue management and/or contributions from the General Fund.
- The County will maintain reserves required by law, ordinance, resolution and/or bond covenants to ensure service levels, stability and protect against economic downturns and emergencies. The County will maintain reserves in the General Fund in an amount not to exceed the amount established by current ordinance or resolution. The County shall strive to maintain a General Fund balance of no less than 8.3% of projected revenues in order to provide sufficient cash flow.
- Replacement reserves based on historical value will be established for equipment, vehicles, and computers. An amount equal to the depreciation will be included in the service charges paid by County departments to the various Internal Service funds (Equipment Rental and Revolving, Motor Pool and Central Services). The furnishings reserve may be used for building rehabilitation and will be replenished until cost is fully recovered. This will permit the accumulation of cash to cost-effectively replace these assets and smooth out future budgetary impacts. The County will also maintain a fixed asset system that will identify all County assets and their condition.

- The County will strive to have sufficient premiums paid annually by the insured County departments to cover the cost of insurance and all of the actuarial estimated current claims, eliminate any prior claims payment deficiencies as scheduled by the actuarial estimate, and build up the County's reserve accounts to the actuarially recommended levels.
- Premiums paid into other self-insurance funds must remain with the fund until the fund is dissolved. Premium payment schedules shall be updated and rates revised as necessary at least biennially.
- The County shall strive to have funds set aside in a designated reserve fund to provide financial support to cover unforeseen or catastrophic events and emergencies.

### **Internal Service Fund Policies**

- The County shall fund certain asset replacement reserves through depreciation charges paid to Special Revenue, Capital or Internal Service Funds.
- Vehicle replacement, Central Services, General Government Facilities, Benefits Administration, Unemployment Compensation, Worker's Compensation and Risk Management funds may be considered part of the County's Fiscal Reserves. Restriction to fund reserves will be judged as to their adequacy in terms of projected needs:

The County will maintain an Equipment Rental and Revolving fund and Motor Pool fund and will transfer appropriate funds annually to provide for the maintenance and timely replacement of equipment. The reserve portion will be maintained in an amount adequate to finance the replacement of equipment. The replacement of equipment will be based upon either an adopted equipment replacement schedule or on an as-needed basis.

The County will maintain a Central Services fund and will appropriate funds to it annually for the facilitation of data processing, computer hardware and software needs and replacement or upgrading of obsolete or deficient items.

The County will maintain a CIP/General Government Facilities fund and will appropriate funds to it annually for the maintenance and repairs of existing County facilities and reserves for proposed structural improvements, replacements or building acquisitions as approved by the Board based on a recommended plan from the CIP Advisory Committee.

The County will strive to maintain a Benefits Administration fund and will appropriate funds to it on a biannual basis to provide for the payment and administration of benefits of eligible retired County employees and adequate amount of reserves for cash flow purposes.

The County will maintain a Risk Management fund for the purpose of centralizing, funding and tracking all insurance premiums, deductible payments, adequate reserves for projected claims loss on an annual basis, and other costs relating to risk management.

### **Utility Fund Policies**

- The County shall strive to establish and maintain separate utility funds and budgets for each of its utility operations and capital improvements in order to provide for long-term solvency of each County operated utility.
- Utility rate studies shall be conducted at least every four years to update assumptions and ensure the long-term solvency and viability of the County's utilities.
- Utility rates shall be reviewed annually and necessary adjustments made to reflect inflation, construction needs, maintain bond covenants, and avoid major periodic increases.
- Fund balances shall be maintained at levels established through rate studies.
- Excess fund balances shall be used to off-set rate increases where possible with any remaining balances being used for approved capital purposes.

### **Investment Policies and Cash Management**

Careful financial control of the County's daily operations is an important part of the County's overall fiscal management practices. Achieving adequate cash management and investment control requires sound financial planning to ensure that sufficient revenues are available to meet the current expenditures of any operating period.

- The County shall manage and invest its residual cash through the County Treasurer on a continuous basis in accordance with the County's investment policies and within the guidelines established by the Washington State Statutes, RCW 36.29.020, based upon the following order of priorities: 1) safety, 2) liquidity, and 3) yield
- The County shall maintain a cash management program, which includes collection of accounts receivable, disbursement of funds, and prudent investment of its available cash.
- As permitted by law and County ordinances and to maximize the effective investment of cash, all liquid funds needed for general obligations may be pooled into one account for investment purposes. The income derived from this account will be distributed to the various funds based on their average balances on a periodic basis. Proceeds of the bond issues shall not be pooled with other assets of the County but shall be invested as provided by applicable bond ordinances.
- The OFM Director shall coordinate with the County Treasurer to periodically furnish (i.e. through monthly reporting) the Director of Office of Financial Management and the Board with a report that should include the amount of interest earned to date on all funds. An annual report will be provided which will

- summarize investment activity for the year and will give the rate of return for the year.
- State and local laws require an annual audit of the financial records of the County. That audit will include a review of all investment activity for the year to review compliance with these investment procedures.
  - Sufficient cash shall be maintained to provide adequate funds for current operating expenditures.
  - The County Treasurer will select its official banking institution through a formal bidding process in order to provide the County with the most comprehensive, flexible and cost-effective banking services available. The Finance Committee, in a regularly scheduled meeting, shall formally accept the banking services agreement.
  - The County will deposit all funds promptly which will generally be on the same day the funds are received.

### **Debt Management Policies**

The success of the County funding capital projects and improvements is highly dependent upon sound financial planning objectives and strategy of implementation. The issuance of debt by the County and the amount of debt is an important factor in measuring the County's financial performance and condition. A debt policy can assist the Board and staff to integrate the issuance of debt with other long-term planning, financial and management objectives. The policy also requires an evaluation of the impact of each debt issue on the County's overall financial position, in addition to providing guidance to the Board and staff to not exceed acceptable levels of indebtedness.

- The County will not use long-term debt to finance current operations. Long-term borrowing will be confined to capital improvements or similar projects with an extended life when it is not practical to be financed from current revenues.
- Debt payments shall not extend beyond the estimated useful life of the project being financed. The County will keep the average maturity of general obligation bonds at or below twenty years, unless special circumstances arise warranting the need to extend the debt schedule to twenty-five years.
- The County will maintain good communications with bond rating agencies concerning its financial condition, and will take all appropriate and responsible measures to sustain quality bond ratings with continuous financial management efforts to enhance the County's bond ratings.
- The County will not utilize lease purchases, except for computers, copiers, mail room equipment, telephones and similar technology related equipment and in the case of extreme financial emergency, with specific approval of the Board. If lease purchasing is approved by the Board, the useful life of the item must be equal to or greater than the length of the lease. No lease purchases will be approved by the Board beyond a five-year lease.
- The County will determine the most practical and cost-effective ways of securing interim funding for County capital projects.

- The County may issue interfund loans rather than outside debt instruments to meet short-term cash flow needs. Interfund loans will be permitted only if an analysis of the affected fund indicates excess funds are available and the use of these funds will not impact the fund's current operations. All short-term borrowing will be subject to Board approval by ordinance or resolution and will bear interest at least equivalent to prevailing rates set through the Washington State Local Government Investment Pool.
- Whenever possible, the County shall identify alternative sources of funding and shall examine the availability of those sources in order to minimize the level of debt. The County shall examine and pursue all applicable state and federal grant and low-interest loan programs for funding capital improvement projects before initiating any debt financing of such projects.
- Where possible, the County will use special assessment revenue, or other self-supporting bonds instead of general obligation bonds.
- Long -term Borrowing:  
 General obligation bonds, or G.O. Bonds, are secured by the full faith and credit of the County. General obligation bonds issued by the County are secured by a pledge of the County's ad valorem taxing power. There are two basic types of general obligation bonds:

Limited tax general obligation bonds, also called LTGO bonds or Board-issued bonds, may be issued by a vote of the Board. General fund revenues are pledged to pay the debt service on Board-issued bonds because the voters have not approved a tax increase to pay for the principal and interest.

Unlimited tax general obligation bonds, also called UTGO bonds or voted debt, must be approved by 60 percent of the voters, with a voter turnout that is at least 40 percent of those voting in the most recent general election. Voters are not only voting for the approval to issue bonds, but they are also voting for an excess levy, which raises their property taxes to fund debt service payments.

Certificates of Participation are used to acquire real or personal property with tax-exempt financing using a lease-purchase agreement. The County would make annual installment payments to a third party investor over time, acquiring the property at the end of the lease period for a nominal payment.

Revenue bonds are issued to finance facilities that have a definable user or revenue base, usually a County enterprise that is self-supporting. These debt instruments are secured by a specific source of funds, either from the operations of the project being financed or from a dedicated revenue

stream, rather than the general taxing powers of the County. Generally, no election is required prior to the issuance or validation of revenue bonds.

Special assessment bonds, road improvement districts (RIDs), utility improvement districts (ULIDs) or local improvement districts (LIDs) are obligations payable from special assessment revenue. These bonds are issued to finance improvements that benefit a specific area. Because the benefit is largely enjoyed by a limited segment of the community, a special assessment to pay debt service is levied only on properties or households benefiting from the project. Property owners may petition the County to form a ULID/LID/RID, or the Board may adopt a resolution of intent to form a ULID/LID/RID. A ULID/LID/RID initiated by Board Resolution may be blocked if the property owners who would be paying at least 60 percent of the costs protest. LIDs/RIDs are commonly used for projects such as street improvements, street lights, sidewalks, and water and sewer systems.

Long-term general obligation debt will be incurred when necessary to acquire land or fixed assets, based upon the ability of the County to pay. This debt shall be limited to those capital improvements that cannot be financed from existing revenues and when there is an existing or near-term need for the project. The project should also be integrated with the County's long-term financial plan and Capital Improvement Plan.

Before securing municipal financing for public works capital projects, the County shall investigate the availability and eligibility of funds from the State Public Works Trust Fund Loan program. The County shall also pursue the availability of funds from the State Local Option Capital Asset Lending program for the acquisition of any major equipment or real estate.

- **Short-term Borrowing:**

Notes, such as bond anticipation notes (BANs) or tax anticipation notes (TANs), is a written short-term promise of the County to repay a specified principal amount on a certain date, together with interest at a stated rate, or according to a formula for determining that rate, payable from a defined source of anticipated revenue such as bonds, anticipated taxes, or some other anticipated revenue source expected to be received at a future date.

Lines of credit are another short-term borrowing option that provides an alternative to anticipation notes. A bank and the County agree on the maximum amount that will be available under the line of credit. The County provides a note to the bank that is backed by the full faith and credit of the County.

Short-term lines of credit, tax or Revenue Anticipation Notes may be used only when the County's ability to implement approved programs and

projects is seriously hampered by temporary cash flow shortages. In general, these Notes will be avoided. No other form of debt will be used to finance ongoing operational costs.

- A significantly larger portion of the citizens should benefit from projects financed by general obligation bonds.

General Obligation Bond (Voted):

Every project proposed for financing through general obligation debt should be accompanied by a full analysis of the future operating and maintenance costs associated with the project.

Before general obligation bond propositions are placed before the voters, the capital project under consideration should be included as part of the Capital Improvement Program.

Bonds cannot be issued for a longer maturity schedule than a conservative estimate of the useful life of the asset to be financed.

Limited Tax General Obligation Bond (Non-Voted):

As a precondition to the issuance of limited tax general obligation bonds, all alternative methods of financing should have been exhausted.

Limited tax general obligation bonds should only be issued under certain conditions: 1) a project in progress requires monies not available from alternative sources, and/or 2) matching fund monies are available which may be lost if not applied for in a timely manner; or catastrophic conditions.

- The County will use refunding bonds where appropriate when restructuring its current outstanding debt and/or improving restrictive bond conditions.
- The County shall establish a close financial teamwork environment between the Board, Director of Office of Financial Management, Auditor, Treasurer, Legal Counsel, legally certified and credible bond counsel and managing underwriter in order to effectively plan and fund the County's capital improvement projects. The Board shall select the most qualified managing underwriter and bond counsel through a competitive selection process conducted by the Director of Office of Financial Management with consultation of the Auditor, Treasurer and Legal Counsel. This service shall be regularly monitored by the Director of Office of Financial Management to ensure quality debt funding services.
- The Director of the Office of Financial Management, in collaboration with the Auditor and Treasurer, shall prepare a standard process for planning and establishing debt financing for capital projects which clearly defines: a.) the timing for debt financing, b.) the role of the various participants in the financing

process and c.) the steps of the process, which need to be completed in order to achieve successful, project funding.

- The Director of the Office of Financial Management shall negotiate the most competitive pricing possible on debt issues and broker commissions in order to ensure a favorable value to the County's citizens.
- The Office of Financial Management shall provide special services to assist the County departments improve the planning and understanding of the financing of County capital improvement projects and the financial impact to the citizens.
- Board approval is required prior to the issuance of debt. In addition, an analytical review shall be conducted prior to the issuance of debt to determine if there are reasonable alternatives and to reduce the cost of borrowing.
- Unless otherwise justified, the County will use bond proceeds within the established time frame pursuant to the bond ordinance, resolution, contract or other documents to avoid arbitrage rebates. If arbitrage occurs, the County will pay the amount of arbitrage liability to the federal government as required by IRS regulation. The County will maintain a record and reporting system to meet the arbitrage rebate compliance requirement of the IRS regulations. For bond proceeds not used within the established time frame, the Treasurer shall calculate rebate payments and the County shall remit any rebatable earnings to the federal government in a timely manner in order to preserve the tax-exempt status of the outstanding debt. The County may contract with a firm specializing in arbitrage compliance.