Grant County, Washington
Policies & Procedures

POLICY NUMBER 1500

General Financial Policies

DATE ISSUED: 03/07/2016	EFFECTIVE DATE: 03/07/2016
APPROVED: Cindy Carter, Chair, Board of County Commissioners	March 7, 2016 Date Signed
LAST REVISED: 02/16/2016	CONTACT: Accounting Dept.

POLICY NUMBER 1500, General Financial Policies

TABLE OF CONTENTS

1501 – General Overview and Goals

The financial integrity of Grant County government is of utmost importance. To maintain a set of financial policies is a key element to maintaining this integrity. The County has evolved with a variety of financial policies that can be found in many different sources including: Board of County Commissioner resolutions and ordinances, budget documents, and its Capital Facilities Plans. Policy 1500 serves as a central reference point of the most important of the County's policies, which are critical to the continued financial health of our local government.

This policy serves to assist County elected officials and staff in the financial management of the County, saving time and energy when discussing financial matters, engendering public confidence, and providing continuity over time as elected officials and staff members change. While these policies will be amended periodically, they will provide the basic foundation and framework for many of the issues and decisions facing the County. They will promote sound financial management and assist in the County's stability, efficiency, and effectiveness.

Grant County requires uniform procedures for capital outlay designations and purchase approval authority in regard to dollar amount thresholds. This policy does not address purchasing as related to bidding requirements, contracting for goods and/or services, or advertising requirements/exemptions for purchasing and contracting.

The below-listed financial goals of the County are the foundation for its financial policies and procedures:

- Ensure the financial integrity of the County;
- Manage the financial assets in a sound and prudent manner;
- Improve financial information for decision makers at all levels:
  - ✓ Policy makers as they contemplate decisions that affect the County on a long- term basis; and
  - ✓ Officials and staff as they implement policy on a day-to-day basis.
- Maintain and further develop programs to ensure the long term ability to pay all costs necessary to provide the level and quality of service required by the citizens of Grant County; and
- Maintain a spirit of openness and transparency while being fully accountable to the public for the County's fiscal activities.

1502 – Definitions

1502.1 Capital Outlay: Any capitalized asset(s), as defined herein below, categorized by one or more BARS code(s) that have been identified by an Elected Official or Department Head for purchase that is outside his/her standard office or department budget funds. Examples include, but are not limited to, REET or Law & Justice funds.

1502.2. Capital Assets: Grant County has three types of capital assets:

1502.2.1 Depreciable assets are those held and used in County operations that have a service life of more than one year and a unit cost of $5,000.00 or more. Capitalized Assets shall be classified as land, buildings, equipment, computer equipment, and capital leases (*see* Policy 500, Standards of Conduct, Section 512.6, *Asset Inventory*).

1502.2.2 Inventoried assets are those held and used in County operations that have a service life of more than one year and a unit cost of $1,000.00 or more.

1502.2.3 Small and attractive assets are those assets with values less than $1,000.00 and are inventoried and maintained by Elected Officials/Department Heads.

1502.2.4 Assets acquired by way of lease agreements are considered a capital asset.

1503 – Procedure

1503.1 General Policies

1503.1.1 The Board of County Commissioners (BOCC) may adopt resolutions or ordinances to set financial policies to assure the financial strength and accountability of the County.

1503.1.2 The BOCC and/or its designee shall develop administrative directives and general procedures for implementing the County's financial policies.

1503.1.3 All County offices and departments will share in the responsibility of meeting policy goals and ensuring long-term financial health. Future service plans and programs will be developed to reflect current policy directives, projected resources, and future service requirements.

1503.1.4 To attract and retain employees necessary for providing high quality services, the County shall establish and maintain a competitive compensation and benefit package with public and private sectors.

1503.1.5 Efforts will be coordinated with other governmental agencies to achieve common policy objectives, share the cost of providing governmental services on an equitable basis, and support favorable legislation at the state and federal level.

1503.1.6 Grant County will initiate, encourage, and participate in economic development efforts to create job opportunities and strengthen the local economy.

1503.1.7 The County will strive to maintain fair and equitable relationships with its contractors and suppliers.

1503.2 Revenue Policies – These are designed, maintained, and administered to ensure a reliable, equitable, diversified, and sufficient revenue stream to support desired and necessary County services.

1503.2.1 General Revenues

(a) Current expenditures will be funded by current revenues. The County will try to maintain a diversified and stable revenue system to protect programs from short-term fluctuations in any single source.

(b) Budgeted revenues will be estimated conservatively using accepted standards and estimates provided by the state, other governmental agencies, or reliable economic forecasters when available.

(c) General Fund and other unrestricted revenues will not be earmarked for specific purposes, activities or services unless otherwise authorized by the BOCC or as required by law, or through Generally Accepted Accounting Principles (GAAP). All non-restricted revenues will be deposited into the General Fund and appropriated by the budget process.

(d) If revenues from "one-time" or limited duration sources are used to balance the County's annual operating budget, it is to be fully disclosed and explained at the time the budget is presented. It is the County's goal to not rely on these types of revenues to balance the operating budget.

(e) The County will not use deficit financing and borrowing to support on-going operations in the case of long-term (greater than one year) revenue downturns. Revenue forecasts will be revised and expenses will be reduced to conform to the revised long-term revenue forecast or revenue increases will be considered.

(f) The County will follow an aggressive and professional policy of collecting revenues. When necessary, discontinuing service, small claims court, collection agencies, foreclosure, liens and other methods of collection – such as imposing penalties, collection and late charges – may be used.

1503.2.2 Fees and Charges

(a) All Enterprise operations will be self-supporting.

(b) The County retains the right to maximize the use of service users' charges in lieu of ad valorem (property) taxes and subsidies from other County funds, for services that can be identified and where costs are directly related to the level of service provided.

(1) Charges for providing services shall be sufficient to finance all operating, capital outlay, and debt service expenses of the County's enterprise funds, including operating contingency, planned capital improvements, and reserve requirements.

(2) Other reimbursable work performed by the County (labor, meals, contracted services, equipment and other indirect expenses) shall be billed at actual or estimated actual cost.

(3) Charges for services shall accurately reflect the actual or estimated cost of providing a specific service. The cost of providing specific services shall be recalculated periodically, and the fee adjusted accordingly. The County shall maintain a current schedule of fees and charges, showing when the fees were last reviewed and/or recalculated. Fees and charges will be reviewed every three years at a minimum.

(4) The County will consider market rates and charges levied by other municipalities for like services in establishing rates, fees, and charges.

(5) Certain fees, such as rental fees, will be based upon market conditions and are not subject to the limitations of cost recovery.

1503.2.3 Grants and Gifts

(a) Grant funding for programs or items which address the County's current priorities and policy objectives should be considered to leverage County funds. Inconsistent and/or fluctuating grants should not be used to fully fund on-going programs.

(b) Before accepting any grant the County shall thoroughly consider the implications in terms of ongoing obligations that will be required in connection with acceptance of said grant.

(c) All grants and other federal and state funds shall be managed to comply with the laws, regulations, and guidance of the grantor.

1503.3 Expenditure Policies - These are designed, maintained, and administered to identify priority services, establish appropriate service levels, and administer the expenditure of available resources to assure fiscal stability and the effective and efficient delivery of services.

1503.3.1 The County will strive to adopt an annual General Fund budget in which current expenditures do not exceed current projected revenues. Capital expenditures may be funded from one-time revenues.

1503.3.2 Elected Officials and Department Heads are responsible for managing their budgets within the total appropriation for their department.

1503.3.3 The County will take immediate corrective actions if, at any time during the fiscal year, expenditure and revenue re-estimates are such that an operating deficit is projected at year-end. Corrective actions can include a hiring freeze, expenditure reductions, fee increases, or use of contingencies. The Board of County Commissioners may approve a short-term interfund loan or use of one-time revenue sources to address temporary gaps in cash flow, although this will be avoided if possible.

1503.3.4 Long-term debt or bond financing shall not be used to finance current operating expenditures.

1503.3.5 The County will assess funds for services provided internally by other funds. Interfund service fees charged to recover these costs will be recognized as revenue to the providing fund.

1503.3.6 Emphasis will be placed on improving individual and work group productivity rather than adding to the work force. The County will invest in technology and other efficiency tools to maximize productivity. The County will hire additional staff only after the need for such positions has been demonstrated and documented.

1503.3.7 All compensation planning and collective bargaining will focus on the Total Cost of Compensation (TCC) which includes direct salary, health care benefits, pension contributions, and other benefits which are a cost to the

County, to the extent that the data is available. The rate of increase of TCC of negotiated labor contracts will be based, more or less, on salary/compensation comparables as determined by the Director of Human Resources. Contracts presented for approval by the Director of Human Resources that do not meet these requirements will have specific operational, legal or other compulsory items identified and discussed before ratification by the Board of County Commissioners will be considered.

1503.3.8 Periodic comparisons of service delivery will be made to ensure that quality services are provided to our citizens at the most competitive and economical cost. Privatization and contracting with other governmental agencies will be evaluated as alternatives to service delivery where appropriate. Programs that are determined to be inefficient and/or ineffective shall be reduced in scope or eliminated.

1503.3.9 Whenever feasible, government activities will be considered enterprises if so doing will increase efficiency of service delivery or recover the cost of providing the service from the benefiting entity by user fees.

1503.3.10 The County will make every effort to maximize any discounts offered by creditors/vendors.

1503.4 Operating Budget Policies

1503.4.1 The County will adopt and maintain a balanced annual operating budget.

1503.4.2 The County will strive to adopt a budget where current annual operating revenues will be equal to or greater than current operating expenditures.

1503.4.3 Balanced revenue and expenditure forecasts will be prepared to examine the County's ability to absorb operating costs due to changes in the economy, service demands, contractual obligations, and capital improvements. The forecast will encompass five years and will be updated annually.

1503.4.4 In the event a balanced budget is not attainable, and the cause of the imbalance is expected to last for no more than one year, the planned use of reserves to balance the budget is permitted. In the event that a budget shortfall is expected to continue beyond one year, the planned use of reserves must be developed as part of a corresponding strategic financial plan to close the gap through revenue increases or expenditure decreases.

1503.4.5 Any year-end operating surpluses will revert to unappropriated balances for use in maintaining reserve levels set by policy and will be available for capital expenditures and/or "one-time" only General Fund expenditures.

1503.4.6 The County will provide for adequate maintenance and the orderly replacement of capital assets and equipment. Fleet and equipment replacement will be accomplished through the use of a "rental" rate structure. The rates will be revised annually to ensure that charges to operating departments are sufficient for the replacement of the vehicles and equipment.

1503.4.7 The operating budget shall serve as the annual financial plan for the County. It will serve as the policy document of the Board of County Commissioners for implementing its goals and objectives. The budget will provide County officials and staff the resources necessary to accomplish Board of County Commissioner determined service levels.

1503.4.8 As mandated by RCW 36.40.010, the Auditor shall annually present a proposed operating budget to the County Commissioners on or before the first Monday in December. The County Commissioners must adopt by resolution a final balanced budget no later than December 31 of each year.

1503.4.9 Funds may not be expended or encumbered for the following fiscal year until the budget has been adopted by the Board of County Commissioners.

1503.4.10 Budget control and accountability is maintained at the departmental level.

1503.4.11 In no case may total expenditures of a particular fund exceed that which is appropriated by the Board of County Commissioners without a budget amendment. Amendments to the budget are approved by the Board of County Commissioners.

1503.5 <u>Accounting Policies</u> – Comply with prevailing federal, state, and local statutes and regulations. Confirm to a comprehensive basis of accounting in compliance with Washington State statutes and with Generally Accepted Accounting Principles (GAAP) as promulgated by the Governmental Accounting Standards Board (GASB) and the Government Finance Officers Association (GFOA), where applicable.

1503.5.1 The County uses the cash basis of accounting which is a departure from Generally Accepted Accounting Principles (GAAP).

1503.5.2 The County will maintain expenditure categories according to state statute and administrative regulation. The County will use the "Budgeting, Accounting & Reporting System" (BARS) prescribed by the State Auditor for its revenue and expenditure classification.

1503.5.3 Monthly budget reports showing the current status of revenues and expenditures will be prepared and distributed to appropriate legislative, staff and management personnel in a timely manner and made available for public inspection.

1503.5.4 Monthly financial updates will be presented to the Board of County Commissioners.

1503.5.5 Electronic financial systems will be maintained to monitor revenues, expenditures, and program performance on an ongoing basis.

1503.5.6 The Annual Financial Report will be prepared and submitted to the State Auditor's Office no later than 150 days from the end of the preceding fiscal year.

1503.5.7 The Annual Financial Report will be prepared on the basis of accounting that demonstrates compliance with Washington State statutes and the BARS manual prescribed by the State Auditor, which is a comprehensive basis of accounting other than Generally Accepted Accounting Principles. The report will provide full disclosure of all financial activities and related matters.

1503.5.8 An annual financial audit shall be performed by the Washington State Auditor's Office, which will issue an official opinion on the annual financial statements. The accountability audit (*i.e.,* accountability for public resources and compliance with state laws and regulations and its own policies and procedures) shall be performed every two years by the Washington State Auditor's Office.

1503.5.9 The County's budget should satisfy criteria as a financial and programmatic policy document, as a comprehensive financial plan, as an operations guide for all organizational units, and as a communications device for all significant budgetary issues, trends and resources. It should be a goal of the Accounting Department to submit the budget document to the Washington Finance Officers Association

(WFOA) or Government Finance Officers Association (GFOA) Distinguished Budget Presentation program.

1503.6 Capital Management Policies – These are established to review and monitor the state of the County's capital equipment and infrastructure, setting priorities for its replacement and renovation based on needs, funding alternatives, and availability of resources.

1503.6.1 Capital Facilities Plan

(a) The County will continue to follow, update, and revise as necessary the goals and policies adopted in the Grant County Comprehensive Plan.

1503.6.2 Capital Asset Plan

(a) The County will maintain its capital assets at a level adequate to protect the County's capital investment and to minimize future maintenance and replacement costs. The budget will provide for adequate maintenance and orderly replacement of capital assets from current revenues where possible.

(b) The capitalization threshold used in determining if a given asset qualifies for capitalization is $1,000 per item with a useful life of over one year. All capital assets shall have a County property tag affixed to it when placed into service.

(c) Minor equipment that falls below the $1,000 threshold but is subject to shrinkage shall have a County property tag affixed to it when placed into County service and will be accounted for on the "Small and Attractive" inventory list.

(d) The Accounting Department will oversee an annual physical count/inspection of all capital assets.

(e) Adequate insurance will be maintained on all capital assets consistent with the results of the annual physical count/inspection.

1503.7 Capital Outlay Budgeting

1503.7.1 Current Expense (General Fund): All budgeted capital must be listed on the "Computer Capital Outlay" tab or "Capital Outlay" tab in the Excel worksheet provided by the Accounting Department for County office/department budget submittal. Totals for capital outlay are not to be included in an office/department's standard budget request/ spreadsheet.

1503.7.2 Special Revenue Funds, Internal Service Funds, and Proprietary Funds (those County offices/departments outside of Current Expense): Totals for Capital Outlay will be included in an office/department's standard budget request/spreadsheet. It is still advisable to list these outlays on the "Computer Capital Outlay" tab or "Capital Outlay" tab in the Excel worksheet provided by the Accounting Department for budget submittal.

1503.8 Purchasing Approval Thresholds

1503.8.1 Current Expense/General Fund Purchases: Any item that has been previously approved in a Capital Budget that is over $2,500.00 must have secondary Board of County Commissioner authorization at the time of purchase.

1503.8.2 Special Revenue Funds, Internal Service Funds, and Proprietary Funds Purchases: Any item that has been previously approved in an office/department budget that is over $2,500.00 must have secondary Board of County Commissioner authorization at the time of purchase.

1503.9 Debt Policies – These are intended to establish guidelines for debt financing that will provide needed capital equipment and infrastructure improvements while minimizing the impact of debt payments on current revenues.

1503.9.1 Purpose and Overview: The Debt Policy for the County is established to help ensure that all debt is issued both prudently and cost effectively. The Debt Policy sets forth comprehensive guidelines for the issuance and management of all financings of the Board of County Commissioners. Adherence to the policy is essential to ensure that the County maintains a sound debt position and protects the credit quality of its obligations.

1503.9.2 Capital Planning: The County shall integrate its debt issuance with its Capital Improvement Program (CIP) spending to ensure that planned financing conforms to policy targets regarding the level and composition of outstanding debt. This planning considers the long-term horizon, paying particular attention to financing priorities, capital outlays and competing projects. Long term borrowing shall be confined to the acquisition and/or construction of capital improvements and shall not be used to fund operating or maintenance costs. For all capital projects under consideration, the County shall set aside sufficient revenue from operations to fund ongoing normal maintenance needs and to provide reserves for periodic replacement and renewal. The issuance of debt to fund operating deficits is not permitted.

1503.9.3 Legal Governing Principles: In the issuance and management of debt, the County shall comply with the state constitution and with all other legal requirements imposed by federal, state, and local rules and regulations, as applicable.

(a) State Statutes – The County may contract indebtedness as provided for by State law, subject to the statutory and constitutional limitations on indebtedness.

(b) Federal Rules and Regulations – The County shall issue and manage debt in accordance with the limitations and constraints imposed by federal rules and regulations including the Internal Revenue Code of 1986, as amended; the Treasury Department regulations thereunder; and the Securities Acts of 1933 and 1934.

(c) Local Rules and Regulations – The County shall issue and manage debt in accordance with the limitations and constraints imposed by local rules, policies, and regulations.

1503.9.4 Roles & Responsibilities

The Board of County Commissioners shall:

(a) Approve indebtedness;

(b) Approve appointment of the bond underwriter and bond counsel;

(c) Approve the General Financial Policies, which incorporate Section 1503.6, Debt Policy;

(d) Approve budgets sufficient to provide for the timely payment of principal and interest on all debt; and

The Treasurer, or his/her designee, in consultation with the Finance Committee, Chief Accountant, and Board of County Commissioners shall:

(a) Assume primary responsibility for debt management;

(b) Provide for the issuance of debt at the lowest possible cost and risk;

(c) Determine the available debt capacity;

(d) Provide for the issuance of debt at appropriate intervals and in reasonable amounts as required to fund approved capital expenditures;

(e) Recommend to the Board of County Commissioners the manner of sale of debt;

(f) Opportunities to refund debt and recommend such refunding, as appropriate, will be sought;

(g) Comply with all Internal Revenue Service (IRS), Securities and Exchange (SEC), and Municipal Securities Rulemaking Board (MSRB) rules and regulations governing the issuance of debt;

(h) Provide for the timely payment of principal and interest on all debt and ensure that the fiscal agent receives funds for payment of debt service on or before the payment date;

(i) Provide for and participate in the preparation and review of offering documents;

(j) Comply with all terms, conditions and disclosure required by the legal documents governing the debt issued;

(k) Submit to the Board of County Commissioners all recommendations to issue debt;

(l) Comply with undertakings for ongoing disclosure, pursuant to SEC Rule 15c2-12; and

(m) Apply and promote prudent fiscal practices.

The Budget Director shall:

(a) Provide for the distribution of pertinent information to rating agencies.

1503.9.5 Ethical Standards Governing Conduct: All County staff and the Board of County Commissioners will adhere to the standards of conduct as stipulated by the Public Disclosure Act, RCW 42.17 and Ethics in Public Service, RCW 42.52.

1503.9.6 Types of Debt Instruments: The County may utilize several types of municipal debt obligations to finance long-term capital projects. Subject to the approval of the Board of County Commissioners, the County is authorized to sell:

(a) **Unlimited Tax General Obligation Bonds** – The County shall use Unlimited Tax General Obligation Bonds (UTGO), also known as "Voted General Obligation Bonds" for the purpose of general purpose, open space and parks, and utility infrastructure. Voted issues are limited to capital purposes only.

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. UTGO Bonds are payable from excess tax levies and are subject to the assent of 60% of the voters at an election to be held for that purpose, plus validation requirements.

(b) **Limited Tax General Obligation Bonds** – A Limited-Tax General Obligation debt (LTGO), also known as "Non-Voted General Obligation Debt", requires the County to levy a property tax sufficient to meet its debt service obligations but only up to a statutory limit. The County shall use LTGO Bonds as permitted under State law for lawful purposes only. General Obligation debt is backed by the full faith and credit of the County and is payable from non-voter approved property taxes and other money lawfully available. LTGO Bonds will only be issued if:

(1) A project requires funding not available from alternative sources;

(2) Matching fund monies are available which may be lost if not applied for in a timely manner; or

(3) Emergency conditions exist

(c) **Revenue Bonds** – The County shall use Revenue Bonds as permitted under State law for the purpose of financing construction or improvements to facilities of enterprise (i.e., utility) systems operated by the County in accordance with the Capital Improvement Plan.

(d) **Special Assessment/Local Improvement District Road Improvement District Bonds** – The County shall use Special Assessment Bonds as permitted under State law for the purpose of assuring the greatest degree of public equity in place of general obligation bond where possible. Local Improvement District (LID) and Road Improvement District (RID) Bonds represent debt that is repaid by the property owners who specifically benefit from the capital improvements through annual assessments paid to the County. LIDs and RIDs are formed by the Board of County Commissioners after a majority of property owners agree to the assessment. No taxing power or general fund pledge is provided as security, and LID or RID Bonds are not subject to statutory debt limitations. The debt is backed by the value of the property within the district and an LID/RID Guaranty Fund, as required by State Law.

(e) **Short Term Debt** – The County shall use short term debt as permitted by State law for the purpose of meeting any lawful purpose of the municipal corporation, including the immediate financing needs of a project for which long term funding has been secured but not yet received. The County may use interfund loans rather than outside debt instruments to meet short-term cash flow needs for the project. Interfund loans will be permitted only if an analysis of the affected fund indicates excess funds are available and the use of the funds will not impact the fund's current operations. All interfund loans will be subject to Council approval and will bear interest at prevailing rates.

(f) **Leases** – The County is authorized to enter into capital leases under State law, subject to the approval of the Board of County Commissioners.

(g) **Public Works Trust Fund Loans** – The County shall use Public Works Trust Fund Loans as provided under State law for the purpose of repairing, replacing or creating domestic water systems, sanitary sewer systems, storm sewer systems, roads, streets, solid waste/recycling facilities and bridges.

1503.9.7 <u>General Requirements</u>

(a) The County will not use long-term debt to pay for current operations. The use of bonds or certificates of participation will only be considered for significant capital and infrastructure improvements.

(b) The term of the debt shall never extend beyond the useful life of the improvements to be financed.

(c) General obligation debt will not be used for self-supporting enterprise activity. The general policy of the County is to fund general-purpose public improvements and capital projects that cannot be financed from current revenues with voter-approved general obligation debt. Non-voter approved debt may be utilized when a dedicated revenue source other than general revenue can be identified to pay debt service expenses.

(d) The general policy of the County is to establish debt repayment schedules that use level annual principal and interest payments.

(e) Interest earnings on bond proceeds will be limited to: (1) funding the improvements specified in the authorizing bond ordinance; or (2) payment of debt service on the bonds. Proceeds from debt will be used in accordance with the purpose of the debt issue. Funds remaining after the project is completed will be used in accordance with the provisions stated in the bond ordinance that authorized the issuance of the debt.

(f) The County will use the most prudent methods of acquiring capital outlay items, including the use of lease-purchase agreements. In no case will the County lease-purchase equipment whose useful life is less than the term of the lease.

(g) The County will maintain its bond rating at the highest level fiscally prudent, so that future borrowing costs are minimized and access to the credit market is preserved. The County will encourage and maintain good relations with financial bond rating agencies and will follow a policy of full and open disclosure.

(h) The County shall use refunding bonds in accordance with the Refunding Bond Act, RCW 39.53. Unless otherwise justified, the County will refinance debt to achieve true savings as market opportunities arise. Refunding debt shall never be used for the purpose of avoiding debt service obligations. A target 4% cost savings (discounted to its present value) over the remainder of the debt must be demonstrated for any “advance refunding”, unless otherwise justified.

(i) With Board of County Commissioner approval, interim financing of capital projects may be secured from the debt financing marketplace or from other funds through an interfund loan as appropriate in the circumstances.

(j) When issuing debt, the County shall strive to use special assessment, revenue or other self-supporting bonds in lieu of general obligation bonds.

1503.9.8 Limitations on General Obligation Debt Issuance: The County shall remain in compliance with all debt limitations. As part of the annual budgeting process, a current summary of outstanding debt and compliance targets is prepared. The County shall observe the following limitations on debt issuance:

- **General Obligation** – 2.5% of Assessed Value, from such amount 1.5% may be non-voted general obligation debt.

Debt payments shall not extend beyond the estimated useful life of the project being financed. The County shall keep the average maturity of general obligations bonds at or below 20 years, unless special circumstances arise warranting the need to extend the debt schedule.

1503.10 Financial Communication Policy

1503.10.1 It is the policy of the County to remain as financially transparent as possible.

1503.10.2 The County shall manage relationships with the rating analysts assigned to the County's credit, using both informal and formal methods to disseminate information.

1503.10.3 The County's Basic Financial Statements and Notes shall be a vehicle for compliance with continuing disclosure requirements. The Notes to the Financial Statements may be supplemented with additional documentation as required. Each year included in the Notes to the Financial Statements, the County will report its compliance with debt targets and the goals of the Debt Policies.

1503.10.4 The County shall seek to maintain and improve its current bond rating.

1503.11 Governmental Bonds Post Issuance Compliance

1503.11.1 Specifics: To guide Grant County in meeting its obligations under applicable statutes, regulations and documentation associated with publicly offered and privately placed securities of the County. This policy addresses obligations of the County that arise and will continue following the issuance of securities. These obligations may arise as a result of federal tax law (with respect to tax-exempt securities) and securities laws (with respect to ongoing disclosure) or as a result of contractual commitments made by the County. This policy outlines obligations that may be applicable to each issue of securities and identifies the party to be responsible for monitoring compliance. In the County, the County Treasurer will be responsible for ensuring that the policy is followed and checklists and records are maintained.

1503.11.2 Procedure

(a) Treasurer's Ability to Delegate. The County Treasurer may delegate responsibility to employees and outside agents for developing records, maintaining records and checklists. The County will provide educational opportunities (opportunities to attend educational programs/seminars on the topic) for the parties identified in this policy with responsibilities for post-issuance compliance in order to facilitate their performance of these obligations.

(b) Transcripts

(1) The County's bond counsel shall provide the County with two copies of a full transcript related to the issuance of securities (for each issue). The transcript shall be delivered in the following form: one bound paper copy and one electronic file and transcripts shall be delivered to the County within six months following the date of issuance of securities. It is expected that the transcript will include a full record of the proceedings related to the issuance of securities, including proof of filing an IRS Form 8038-G or 8038-GC, if applicable.

(2) Bond transcripts will be retained by the following parties and in the following location within the County: County Treasurer's office.

(c) Federal Tax Law Requirements (Applicable only if the securities are issued as "tax-exempt" securities).

(1) Use of Proceeds

(1a) If the project(s) to be financed with the proceeds of the securities will be funded with multiple sources of funds, the County will adopt an accounting methodology that:

(i) Maintains each source of funding separately and monitors the actual expenditure of proceeds of the securities;

(ii) Commingles the proceeds and monitors the expenditures on a first in, first out basis; or

(iii) Provides for the expenditure of funds received from multiple sources on a proportionate basis.

(1b) Records of expenditures (timing of expenditure and object code) of the proceeds of securities will be maintained by the County Treasurer.

(1c) Records of investments and interest earnings on the proceeds of securities will be maintained by the County Treasurer. Such records should include the amount of each investment, the date each investment is made, the date each investment matures and, if sold prior to maturity, its sale date and its interest rate and/or yield. Interest earnings on proceeds will be deposited in the fund in which the proceeds of the securities were deposited (if not, then the plan for use of interest earnings will be discussed with the County's bond counsel).

(1d) Records of interest earnings on reserve funds maintained for the securities.

(2) Arbitrage Rebate. The County Treasurer or his/her designee ("Rebate Monitor") will monitor compliance with the arbitrage rebate obligations of the County for each issue ("issue") of securities which are described in further detail in the tax certificate if any, executed by the County for each issue and included in the transcript for the issue. If the County did not execute a tax certificate in connection with an issue, the Rebate Monitor should consult with the County's bond counsel regarding arbitrage rebate requirements. The County will provide educational opportunities (opportunities to attend educational programs/seminars on the topic) for the County Treasurer in order to facilitate his/her performance of these obligations.

(2a) If the Rebate Monitor determines that the total principal amount of tax-exempt governmental obligations (including all tax-exempt leases, etc.) of the County issued by or on behalf of the County and subordinate entities during the calendar year, including the issue, will not be greater than $5,000,000, the Rebate Monitor will not be required to monitor arbitrage rebate compliance for the issue, <u>except</u> to monitor expenditures and the use of proceeds after completion of the project (see Sect. 1503.11.2(c)(3) below). For purposes of this paragraph, tax-exempt governmental obligations issued to currently refund a prior tax-exempt governmental obligation will only be taken into account to the extent they exceed the outstanding amount of the refunded bonds.

(2b) If the Rebate Monitor determines that the total principal amount of tax-exempt governmental obligations (including all tax-exempt leases, etc.) of the County issued or incurred any calendar year is greater than $5,000,000, the Rebate Monitor will monitor rebate compliance for each issue of tax-exempt governmental obligations issued during that calendar year.

(i) <u>Rebate Exceptions</u>. The Rebate Monitor will review the tax certificate, if any, in the transcript in order to determine whether the County is expected to comply with a spending exception that would permit the County to avoid having to pay arbitrage rebate. If the tax certificate identifies this spending exception (referred to as the six-month exception, the 18 month exception or the 2-year exception), then the Rebate Monitor will monitor the records of expenditures (see paragraph 1503.11.2(c)(1) above) to determine whether the County met the spending exception (and thereby avoid having to pay any arbitrage rebate to the federal government). If the County did not execute a tax certificate in connection with an issue, the Rebate Monitor should consult with bond counsel regarding the potential applicability of spending exceptions.

(ii) <u>Rebate Compliance</u>. If the County does not meet or does not expect to meet any of the spending exceptions described in (i) above, the County will:

- Review the investment earnings records retained as described in paragraph 1503.11.2(c)(1) above. If the investment earnings records clearly and definitively demonstrate that the rate of return on investments of all proceeds of the issue were lower than the yield on the issue (see the tax certificate in the transcript), then the County may opt not to follow the steps described in the following paragraph.

- Retain the services of an arbitrage rebate consultant in order to calculate any potential arbitrage rebate liability. The rebate consultant shall be selected no later than the completion of the project to be financed with the proceeds of the issue. A rebate consultant may be selected on an issue by issue basis or for all securities issues of the County. The Rebate Monitor will obtain the names of at least three qualified consultants and request that the consultants submit proposals for consideration prior to being selected as the County's rebate consultant. The selected rebate consultant shall provide a written report to the County with respect to the issue and with respect to any arbitrage rebate owed, if any.

- Based on the report of the rebate consultant, file reports with and make any required payments to the Internal Revenue Service, no later than the fifth anniversary of the date of each issue (plus 60 days), and every five years thereafter, with the final installment due no later than 60 days following the retirement of the last obligation of the issue.

(2c) Yield Reduction Payments. If the County fails to expend all amounts required to be spent as of the close of any temporary period specified in the tax certificate (generally 3 years for proceeds of a new money issue and 13 months for amounts held in a debt service fund), the County will follow the procedures described in paragraph 1503.11.2(c)(2)(2a)(ii) above to determine and pay any required yield reduction payment.

(3) Unused Proceeds Following Completion of the Project. Following completion of the project(s) financed with the issue proceeds, the County Treasurer will:

(3a) Review the expenditure records to determine whether the proceeds have been allocated to the project(s) intended (and if any questions arise, consult with bond counsel in order to determine the method of re-allocation of proceeds); and

(3b) Direct the use of remaining unspent proceeds (in accordance with the limitations set forth in the authorizing proceedings, *i.e.*, bond ordinance, and if no provision is otherwise made for the use of unspent proceeds, to the redemption or defeasance of outstanding securities of the issue.

(4) Use of the Facilities Financed with Proceeds. In order to maintain tax-exemption of securities issued on a tax-exempt basis, the financed facilities (projects) are required to be used for governmental purposes during the life of the issue. The County Treasurer or his/her designee will monitor and maintain records regarding any private use of the projects financed with tax-exempt proceeds. The IRS Treasury Regulations prohibit private business use (use by private parties, including nonprofit organizations and the federal government) of tax-exempt financed facilities beyond permitted *de minimus* amounts unless cured by a prescribed remedial action. Private use may arise as a result of:

(4a) Sale of the facilities;

(4b) Lease of the facilities (including leases, easements or use arrangements for areas outside the four walls; *e.g.,* hosting of cell phone towers);

(4c) Management contracts (in which the County authorizes a third party to operate a facility; *e.g.*, cafeteria; and/or

(4d) Preference arrangements (in which the County grants a third party preference of the facilities; *e.g.*, preference parking in a public parking lot).

If the County Treasurer or his/her designee identifies private use of tax-exempt debt financed facilities, the County Treasurer will consult with the County's bond counsel to determine whether private use will adversely affect the tax-exempt status of the issue and, if so, what remedial action is appropriate.

(5) Records Retention

(5a) Records with respect to matters described in paragraph (e)(2) below will be retained by the County for the life of the securities issue (and any issue that refunds the securities issue) and for a period of three years thereafter.

(5b) Records to be retained:

(i) The transcript;

(ii) Arbitrage rebate reports prepared by outside consultants;

(iii) Work papers that were provided to the rebate consultants;

(iv) Records of expenditures and investment receipts (showing timing of expenditure and the object code of the expenditure and, in the case of investment, timing of receipt of interest earnings). Maintenance of underlying invoices should not be required provided the records include the date of the expenditure, payee name, payment amount and object code; however, if those documents are maintained as a matter of policy in electronic form, then the County should continue to maintain those records in accordance with this policy;

(v) Copies of all certificates and returns filed with the IRS (*e.g.,* for payment of arbitrage rebate); and

(vi) Copies of all leases and/or user agreements for use of the financed property (agreements that provide for use of the property for periods longer than 30 days), whether or not the use was within the four walls (*e.g.,* use of the roof of the facility for a cell phone tower).

(d) Ongoing Disclosure. Under the provisions of SEC Rule 15c2-12 (the "Rule"), underwriters are required to obtain an agreement for ongoing disclosure in connection with the public offering of securities. Unless the County is exempt from compliance with the Rule as a result of certain permitted exemptions, the transcript for each issue will include an undertaking by the County to comply with the Rule. The County Treasurer or his/her designee will monitor compliance by the County with its undertakings. These undertakings may include the requirement for an annual filing of operating and financial information and will include a requirement to file notices of listed "material events." (For some types of material events (early bond calls), the State's fiscal agent has undertaken the responsibility of filing notice of the applicable material event).

(1) On an annual basis, the County Finance Committee (comprised of the County Treasurer, County Auditor, and the Chair of the Board of County Commissioners) and Chief Accountant will begin compiling information for the continuing disclosure requirement at the regular County Finance Committee meeting in May, and continue compiling and updating that information, and reporting on the status of the information at the June and July meetings, with all the information completed by the August meeting. The information will be uploaded by the Chief Accountant on the EMMA website by or before September 1st of each year.

(e) Other Notice Requirements. In some instances, the proceedings authorizing the issuance of securities will require the County to file information periodically with other parties; *e.g.*, bond insurers, banks, rating agencies. The types of information required to be filed may include: (1) budgets; (2) annual financial reports; (3) issuance of additional debt obligations; and (4) amendments to financing documents. The County Treasurer or his/her designee will maintain a listing of those requirements and monitor compliance by the County.

1503.12 Investment and Cash Management Policies: Manage and invest the County's operating cash to ensure its legality, safety, provide for necessary liquidity, avoid imprudent risk, and optimize yield.

1503.12.1 The County will develop and adopt an investment policy. The County Investment Policy is reviewed and approved the beginning of each year by the Board of County Commissioners. In 1995, the County Treasurer created a County Investment Pool to the benefit of the County and all taxing districts the Treasurer is the ex-officio treasurer for. The County Investment Pool was also made available to cities and other governmental entities in Grant County. As part of a diversified portfolio, the County puts monies in the Washington State Investment Pool (LGIP). The remaining portion of investment portfolio consists of Federal Agency securities but can be expanded to other investment vehicles allowed by state, if needed. The County Treasurer is the investment manager where the pool is handled on only a passive mode, with no intent of active selling and replacing securities prior to their call or maturity.

1503.12.2 The County will develop and adopt an investment policy. Currently the Local Government Investment Pool (LGIP), which is an investment vehicle maintained by the State Treasurer's Office to help local governmental entities achieve higher rates of return by pooling local funds for economies of scale, is the only authorized investment vehicle available to the County.

1503.12.3 The County will maintain written guidelines on cash handling, accounting, segregation of duties, and other financial matters.

1503.12.4 Monthly reports will be prepared and distributed to all departments and the Board of County Commissioners showing cash position, and year-to-date budgeted and actual expenditures.

1503.12.5 Any County department that receipts cash will be responsible to conduct annual reviews of its internal controls and cash handling procedures.

1503.13 Reserve Fund Policies: Adequate financial reserves are an essential element of Grant County's financial management strategy. They insulate the County from unanticipated economic shortfalls and demonstrate responsible budget practices to outside interests assessing the County's credit-worthiness.

1503.13.1 At each fiscal year end the remaining dollars left in each fund that are undesignated and unencumbered constitute available reserves of the County.

1503.13.2 The County will include all fund balances in the annual budget.

1503.13.3 Reserve Fund Determination

(a) The Board of County Commissioners (BOCC) shall determine the level of reserve funds necessary to affect fiscally sound management practices, comply with legal and contractual covenants, ensure service levels to citizens, maintain reliable cash-flows, and protect against economic downturns and fiscal emergencies.

(b) Prudent management of reserve funds enables the County to address hidden or unanticipated costs, take advantage of matching grant fund opportunities, and exercise flexible financial planning for future needs.

(c) Just as maintaining adequate financial reserves indicates sound fiscal stewardship, so does avoiding excess reserve funds. An excess of accumulated reserve funds over several years indicates excess taxation of County residents.

(d) Therefore, it shall be the policy of the Grant County BOCC to ensure adequate funding for legitimate needs while rejecting unnecessary spending in the interest of delivering effective, affordable County governance.

(e) Unless otherwise approved by action of the BOCC, an aggregate total of no less than twenty percent (20%) of the current year's operating budget shall be held in fund balance within Current Expense accounts at all times.

1503.13.4 Fund Balance Distributions

(a) County fund balances shall be distributed as may be directed by law, and in accordance with County fiscal needs, into the following four (4) categories:

(1) Restricted Fund Balance consists of funds mandated for a specific purpose by external parties, constitutional provisions or enabling legislation. These limitations are imposed by creditors (*e.g.,* bond proceeds used for construction), grantors (*e.g.,* state and federal assistance), or laws and regulations of other governments (*e.g.,* Distressed

County Sales Tax used only for economic development). The County's restricted funds are held in Special Revenue, Debt Service, and Capital Projects Funds.

(2) Committed Fund Balance consists of funds set aside for a specific purpose by the County's highest level of decision-making authority (BOCC). Formal action must be taken prior to the end of the fiscal year to set limitations on the use of these funds. The same formal action must be taken to remove or change the limitations placed on the funds.

(3) Assigned Fund Balance consists of funds set aside for a specific purpose by the BOCC. Assigned funds cannot cause a deficit in an unassigned fund balance. **The Current Expense reserved fund balance falls into this category.**

(4) Unrestricted Fund Balance in the Current Expense fund represents the total fund balance in excess of any assigned fund balance (reserves).

1503.13.5 Surplus or Replenishment of Reserves

(a) Reserve Surplus. In the event the annual total reserve level as determined by the BOCC is exceeded, these additional funds will be deemed as surplus reserves and may be designated for any County General Fund one-time expense use as deemed appropriate by the BOCC.

(b) Replenishment. Replenishment of the County's reserves following planned or unanticipated expenditures shall be a primary fiscal priority for the County. The BOCC shall direct appropriate budgetary actions to keep the total level of reserve funds at prudent levels consistent with this policy. If the level of total reserves is at any time projected to drop below adopted reserve fund levels, the BOCC will institute budgetary actions necessary to bring those total reserves up to established levels as soon as practical and no later than two subsequent annual budget cycles.

1503.14 Enterprise Funds

1503.14.1 The County's Enterprise Funds will maintain reserves equal to at least 10 percent of their adopted operating expenditures.

1503.15 Equipment Rental & Replacement Fund

1503.15.1 Sufficient reserves will be maintained to provide for the scheduled replacement of County vehicles and capital equipment at the end of their useful lives.

1503.15.2 Contributions will be made through assessments to the operating departments and maintained on a per asset basis.

1503.16 Additional Reserves

1503.16.1 Additional reserve accounts may be created by the Board of County Commissioners to be set aside for specific purposes or special projects, for known significant future expenditures, or as general operational reserves.