

TITLE 5	REVENUE, FINANCE & ACCOUNTING.....	170
5.1	Financial Management Policies	170
5.1.1	Financial Philosophies	170
5.1.2	Budget Process.....	171
5.1.3	Basis of Accounting and Budgeting	173
5.1.4	Accounting, Financial Reporting, Forecasting, Information System Integrity and Auditing Policies.....	174
5.1.5	Operating Budget Policies	175
5.1.6	Revenue and Expenditure Policies.....	176
5.1.7	Capital Improvement Policies.....	178
5.1.8	Utility Fund Policies:	180
5.1.9	Internal Service Fund Policies:	182
5.1.10	Investment Policies and Cash Management	183
5.1.11	Debt Management Policies	184

TITLE 5 REVENUE, FINANCE & ACCOUNTING

5.1 Financial Management Policies

The financial health and welfare of West Sound Utility District (District) is highly dependent upon establishing and maintaining sound, financial-planning objectives and strategies of implementation. These financial management policies direct the decision-making process of the District's Board of Commissioners and the District administration while operating to provide stability 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 District's financial resources toward meeting the goals and programs identified in the District water and wastewater utility system's comprehensive plans. The implementation of wise fiscal policies enables the District officials to protect the public interest and ensure public trust and confidence in the District's management of water and wastewater operations.

5.1.1 Financial Philosophies

The fiscal policy of the District is to establish a sufficient financial base and provide the resources necessary to support and sustain a responsible level of water and wastewater utility services to ensure public health, and enhance the physical infrastructure and environment of the District.

West Sound Utility District's financial policies shall address the following fiscal goals:

1. Ensure the District maintains a financial base sufficient to provide a consistent level of District utility services.
2. Maintain sound financial practices that meet all applicable standards and direct the District's financial resources toward meeting the goals set forth in the District's utility system plans.
3. Keep the District in a fiscally sound position in both the long and short term.
4. Maintain sufficient financial liquidity to meet normal operating and contingent obligations.
5. Maintain and preserve existing infrastructure and capital assets.
6. Set forth operating principles that minimize the cost of utility services and financial risks.
7. Promote sound financial management by providing accurate and timely information on the District's financial condition.
8. Provide a framework for prudent use of debt financing and maintain a good credit rating in the financial community assuring ratepayers that the District is financially well managed.

9. Ensure the legal use of financial resources through effective systems of internal controls.
10. Promote cooperation and coordination with other governmental entities and the private sector in financing and delivery of services.
11. Establish capital improvement project priorities based on long-range plans that are consistent with the District's comprehensive plans.
12. Expect service users to pay their fair share of program costs.

As a foundation of the District's financial management policy, the "fiscal integrity" of the District will be the highest priority. The District will strive to maintain the fiscal integrity of its enterprise, debt service, internal service and capital improvement budgets. It is the District's intent to maximize the level of utility services while minimizing the level of debt. In order to achieve successful financial management, maintain fiscal integrity and ensure the highest credit rating for the District, the District will pursue the following objectives: 1) utilize conservative but reasonable revenue forecasting; 2) initiate budgeting practices which tie recurring expenditures to recurring revenues; 3) establish contingency planning to deal with uncertainties; 4) implement strong budget controls; 5) utilize conservative investment practices emphasizing the preservation of capital and liquidity; and 6) engage department managers in the development and management of their individual areas of budget responsibility.

5.1.2 Budget Process

The budget process is designed to meet the operations and service needs of the District by integrating the planning and implementation of District programs and objectives with the allocation of funds sufficient to support such services and programs. The framework of the District budget was developed following the Government Finance Officers Association's (GFOA) standards identified below:

1. **Establishes a Plan of Policy and Operation** which allocates resources to achieve specific District goals and objectives and guides the District's activities.
2. **Facilitates the Evaluation of District Programs** by providing a means to measurably examine the financial activities of the District's departments over time.
3. **Provides Management Information** as a comprehensive recording of information relative to both the character and scope of District activity, delivered in a format which facilitates easy recognition of potential budget performance problems and offers solution options from the management staff.
4. **Establishes 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 District's annual (or biennial) budget shall be prepared according to the following schedule during the year proceeding the annual budget period:

1. Prior to August 1, the Board will conduct a goal-setting retreat with the General Manager and department managers.
2. In August, the Board of Commissioners will meet with the General Manager and District's chief financial officer to discuss budget schedule, process, budget guidelines and budget preparation tasks.
3. In August, the General Manager and District's chief financial officer will prepare the budget preparation package, distribute the packets and discuss budget preparation with the department managers.
4. On or before the second Monday of September, department managers submit to the General Manager the budget estimates and requests, goals and objectives statements and budget forms.
5. In late-September, the Department managers meet with the General Manager to review budget requests. The General Manager submits a preliminary balanced budget to the Board on or before October 15.
6. On or before the first Monday of November, the first public meeting on the proposed budget is conducted.
7. On or before December 31, the Board adopts the final budget resolution.

The main feature in the development of a budget format is to make the budget document readable and understandable to the general public and District 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 and administrative/finance staff in program evaluation and monitoring.

1. The budget should be a spending, financing and performance plan agreed to by the General Manager, District's chief financial officer and department managers. It should contain information and data regarding expected revenues, expenditures and program performance.
2. The District shall prepare and refine written policies and goals on an annual basis to guide the preparation of spending, financing and performance plan for the District budget. Adopted budgets will comply with the adopted budget policies and Board's priorities.

3. The District's budget presentation should display the District's utility services delivery and performance plan in a Board/customer-friendly format. The District, therefore, will use a department budgeting format to convey the policies and purposes of District operations.
4. Decision-making for capital improvements will be coordinated with the operating budget to make effective use of District's resources for operating and maintaining facilities and capital projects.
5. Under the Board and General Manager's direction, department managers will formulate budget programs in line with the Board and General Manager's priority direction by implementing such programs once they are approved.

The Board adopts the budget by resolution at the Fund and Department level. Departments have management control over their budgeted line items; however, the departments: 1) may not purchase capital equipment items in excess of two thousand five hundred (\$2,500) unless such items have been approved in the Department's budget, and 2) must obtain approval from the Information Technology manager 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 of Commissioners. If a budget amendment is deemed necessary due to extraordinary Department expenses or the addition of state/federal grants, such budget amendment will generally occur only one time during the year at year-end with the adoption of a supplemental budget resolution.

5.1.3 Basis of Accounting and Budgeting

1. 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 Proprietary Funds (*Enterprise* and *Internal Service* funds) are accounted for using the full accrual basis of accounting. Under this basis of accounting, the revenues are recognized when they are earned and their expenses are recognized when they are incurred.

2. Budgets and Budgetary Accounting

The District'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: *Enterprise*, *Capital Projects*, *Internal Service*, *Debt Service* and *Reserve* funds.

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 General Manager 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.

5.1.4 Accounting, Financial Reporting, Forecasting, Information System Integrity and Auditing Policies

The District will establish and maintain the highest standard of accounting practices. Accounting and budgetary systems will at all times conform to Generally Accepted Accounting Principles and District regulations.

1. Accounting System:

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

2. Financial Reporting:

- a. Full disclosure will be provided in all officially-published District financial reports and bond representations.
- b. 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.
- c. The District's budget documents shall be presented in a format that provides for logical comparison with prior budget period actuals wherever possible.
- d. Reports outlining the status of revenues, expenditures and fund balances shall be done monthly in a format prepared by the District's chief financial officer and coordinated with the General Manager will be distributed to the Board, department managers and any interested party.
- e. 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 (or semi-annual) report.
- f. All budget amendments, both revenues and expenditures, will be noted in the quarterly (or semi-annual) report.

3. Information Systems Integrity:

- a. Provide the technology tools, information systems support and uninterrupted level of information systems service to sustain the

successful implementation and maintenance of a sound, reliable and efficient financial management system.

- b. 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 District's financial management system.
- c. Seek compatibility of financial software products, applications and support services with the District's finance staff and users in an effort to adhere to the District's fiscal goals and maintain fiscal integrity.
- d. Fully integrate systems software to provide all financial information in a format consistent with District policy to ensure that District programs achieve desired goals by improving data reporting, creating more efficient workflows, and enhancing speed and effectiveness in policy and management decision-making.
- e. Provide a comprehensive and dependable communications system through a sound networking infrastructure between interconnected devices.
- f. Protect against unauthorized access through information systems security and controls while allowing District staff the ability to access information directly from the system.

4. **Forecasting:**

Each year, the District will update expenditure and revenue forecasts for the operating funds on an annual cycle and next six years for the capital improvement program. Projections will include estimated operating costs for future capital improvements that are included in the capital budget.

These estimates will be presented to the Board in a form that will facilitate budget decisions and strategic planning, based on a multi-year strategic planning perspective.

5. **Auditing Policies:**

A biennial audit will be performed by the State Auditor's Office and include the issuance of a financial opinion. An Annual Financial Report shall be prepared in accordance with generally accepted accounting principles and shall be distributed to any interested party.

5.1.5 Operating Budget Policies

The District 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 District revenues.

1. The District will maintain a budgetary control system to ensure compliance with the budget. The District will prepare monthly budget status reports and

quarterly (semi-annual) budget status reports comparing actual revenues and expenditures to budgeted amounts.

2. The Board will establish District service levels and priorities for the ensuing fiscal year prior to and during the development of the budget. The General Manager will then incorporate the Board's objectives and priorities in the Board's budget proposal.
3. The District will provide for adequate maintenance and appropriate replacement of capital facilities and equipment. The District will provide for maintenance schedules to ensure that facilities and equipment are maintained so as to maximize its useful life span.
4. The District will pay for all current operating expenditures with current revenues.
5. The District 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 an annual basis.
6. The District will prepare a concise summary and guide to the key issues and aspects of 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.
7. An appropriate balance will always be maintained between resources allocated for direct services to the public and resources allocated for the costs of administration.

5.1.6 Revenue and Expenditure Policies

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

Revenue Policies:

1. Revenue forecasts will assess the full spectrum of resources that can be allocated for utility 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 District will make adjustments in anticipated expenditures to compensate.
2. Current revenues will be sufficient to support current expenditures.
3. The investment of District funds shall be made pursuant to the District's Investment Policy as approved by the Board and General Manager. Investment

income earned through the District's pool of invested funds shall be budgeted based upon the anticipated participation of each fund.

4. 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.
5. Grant applications to fund new service or capital programs with State or Federal funds will be reviewed by the District, 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.
6. State and Federal grant funds may be utilized, but only when the District can be assured that the total costs and requirements of accepting funds are known and judged not to adversely impact the District's utility funds. Future impacts on the District budget will be evaluated by the Finance Department in all grant requests. The General Manager shall approve all grant applications.
7. The District 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 percentage of the full cost of providing the service, unless otherwise provided by statute or regulation. 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, and current competitive rates. The full cost of providing a service should be calculated in order to provide a basis for setting the charge or fee. Any proposed rate adjustments user charges and fees shall be presented to the Board for approval each year prior to the preparation and submittal of the proposed annual budget by the General Manager to the Board.
8. Deficit financing and borrowing will not be used to support on-going District 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 and at an interest rate based on the County's Investment Pool.
9. The District will maintain revenue and expenditure categories according to State regulations and District administrative procedures.

Expenditure Policies:

1. 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.

2. The budget shall balance recurring operating expenses to recurring operating revenue.
3. If expenditure reductions are necessary, complete elimination of a specific, non-mandatory service is preferable to lowering the quality of existing programs.
4. Expenditures shall be controlled and shall stay within the amount of appropriated funds.
5. Before the District 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.

5.1.7 Capital Improvement Policies

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

1. A comprehensive multi-year (minimum six-year) plan for District water and wastewater capital improvements will be prepared and updated annually. An annual Capital Improvement Program will be developed and adopted by the Board as part of the District budget.
2. All projects included in the Capital Improvement Program shall be consistent with the District's water and wastewater utility system's Comprehensive Plans. The goals and policies for the utility services should be followed in the development of the Capital Improvement Program. The Comprehensive Plan service level goals should be included in the Capital Improvement Program. Virtually all of the projects included in the Capital Improvement Program are based upon formal long-range plans that have been adopted by the Board.
3. The Board will review on an annual 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:
 - a. projects which have a positive impact on the operating budget (reduced expenditures, increased revenues),
 - b. projects which are programmed in the Six-Year Capital Improvement Program,
 - c. projects which can be realistically accomplished during the year they are scheduled,

- d. projects which implement previous Board-approved reports and strategies, and
 - e. renewal and replacement schedule projects.
4. Capital project proposals should include cost estimates that are complete, reliable and attainable. 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 Program will vary in reliability depending on whether they are to be undertaken in the first, third, or sixth year of the Program.
 5. Financial analysis of funding sources will be conducted for all proposed capital improvement projects, in addition to listing the total project costs.
 6. 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.
 7. The District will project its equipment needs (i.e., vehicle replacement and maintenance needs for the next several years) and will update these projections annually. From this projection, a maintenance and replacement schedule will be developed and followed. The intent of the maintenance program shall be to maintain all its assets at an adequate level in order to protect the District's capital investment and to minimize future maintenance and replacement costs.
 8. Although the District 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.
 9. 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 or utility benefit districts.
 10. 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.
 11. Capital projects which are not completed during the fiscal year shall be re-budgeted to be carried over to the next fiscal year. All re-budgeted capital projects should be so noted in the adopted Capital Budget.

12. Capital projects will not be budgeted unless there are reasonable expectations that revenues will be available to pay for them and subsequently fund their operations and services associated therewith.
13. 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.
14. A comprehensive inventory of all capital assets shall be conducted and maintained to include estimates of actual value, replacement cost and remaining useful life.
15. Capital projects shall be financed to the greatest extent possible through user fees and benefit districts when direct benefit to users results from the construction of the project.

5.1.8 Utility Fund Policies:

The District's water and wastewater utilities shall be managed with the goal to maintain financial stability over time and the District shall establish rates and fees using "generally accepted" rate setting methodologies.

1. **Maintenance of Separate Funds and Budgets** – The District shall establish and maintain separate utility operating and capital improvement budgets for each utility operation in order to provide for proper fund management, financial planning and long-term solvency of each District operated utility.
 - a. Each utility shall be self-supporting, such that current revenues fully fund current expenses and fund balance or debt service coverage requirements.
 - b. Capital contributions from rates, grants, loans and other financing mechanisms will be accounted for separately in capital accounts, such that funds dedicated to capital purposes are expended only for capital purposes.
 - c. The total operating expenditures of each of the utilities shall be funded at a level that will preserve the intended life and functional requirements of each utility system.
 - d. Costs shall be evaluated and monitored to ensure that the utilities are operated in a cost effective and economically-prudent manner.
2. **Fund Balance and Maintenance of Minimum Reserve Levels** – The District shall strive to maintain adequate fund balances (reserves) for each utility in order to provide sufficient cash flows to meet operating and capital expenses, while also providing the financial ability to address economic downturn and system emergencies.

3. **Operating fund Balance/Cash Flow** – The District shall strive to maintain fund balances for each utility of no less than fifteen percent (15%) (55 days) of total operating expenses in order to provide sufficient cash flow to meet daily operating expenses and cover debt service payments.
4. **Capital Reserve/Fund Balance** – Fund balance for capital purposes are established to fulfill cash flow requirements of capital infrastructure construction costs which vary significantly each year. This reserve provides rate stabilization given the annual variations in needs. A reserve for capital purposes is generally based on six (6) year average annual capital expenditures, excluding large one-time capital needs. Additional reserve funds shall be maintained at a level sufficient to provide funding for unanticipated capital expenditures caused by emergency events.
5. **Bond Reserves** – Bond reserves may be legally required for specific debt issues should one of the utilities use long term debt (e.g., revenue bonds) to finance capital projects.
6. **Equipment Replacement Reserve** – The District shall strive to develop and maintain a reserve for the purpose of funding equipment replacements. This will provide rate stabilization in years when vehicles or other equipment must be purchased without draining the fund balance.
7. **Rate Funded Capital Financing and the Use of Long-Term Debt** – The utilities shall minimize dependency on debt financing capital projects. In order to avoid major periodic rate increases, each utility shall strive to fund renewal and replacement projects at a minimum level of annual depreciation expense. This will aid in providing adequate debt service coverage ratio.
 - a. An amount of not less than fifteen percent (15%) of the utilities operating expenditures shall be set aside each year to fund capital projects from rates. Each utility shall budget and fund a reasonable amount of the costs for renewal and replacement (“depreciation”) of capital assets as an expense within the utility’s operating budget.
 - b. The District shall strive to maintain minimum “debt service coverage ratio” with the net revenue (gross revenue of the utilities less operating and maintenance expenses) of the combined utilities being at least 1.5 times the actual debt and the net revenue of the individual utility at least 1.3 times the actual debt.
8. **Use of Generally Accepted Rate Setting Methods** – The analysis associated with “generally accepted” rate-setting techniques includes the following analyses:

- a. Revenue Requirement Analysis – Establishes the overall level of financial and rate needs of the utility.
- b. Cost of Service Analysis – Design rates to collect the appropriate level of revenue and reflects goals and policies of the District.
 - Water and sewer rate structures shall be designed to work toward encouraging conservation and efficient use of resources and discourage excessive or wasteful usage.
 - The utility rate structure for serving “out-of-District” customers shall reflect the cost of serving customers outside District boundaries.

As appropriate for each utility, System Development Charges (SDC’s) shall be established at levels to ensure that all customers seeking to connect to the District’s utility system shall bear their equitable share of the cost of both the existing and future systems.

- Utility rates and SDCs shall be reviewed annually to ensure sufficient revenues, and necessary adjustment made to reflect inflation, construction needs, maintain bond covenants and avoid major periodic increases. The monthly utility rates shall be adjusted annually using the Consumer Price Index and SDCs shall be adjusted annually using the Construction Base index to reflect inflation (Engineering New Record Construction Cost Index).
- Utility rate studies shall be conducted at a minimum of every six (6) years to update assumptions to ensure long-term solvency and viability of the District’s utilities.
- Every three to six years, or whenever the comprehensive master plan for a utility is updated, the SDCs for the utility shall be completely updated to reflect the changes in planning, infrastructure and capital financing.
- The District shall track and maintain asset records for all new additions, replacements or retirement of assets on a yearly basis. This information shall be maintained for each utility on an on-going basis in an asset management database and report.

5.1.9 Internal Service Fund Policies:

1. The District shall fund certain asset replacement reserves through depreciation charges paid to the Internal Service Funds.
2. *Vehicle replacement* and *Information Technology* may be considered part of the District’s fiscal reserves. Restriction to fund reserves will be judged as to their adequacy in terms of projected needs:

- a. The District will maintain an *Equipment Repair and Replacement* fund and will appropriate funds to it 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.
- b. The District will maintain an *Information Technology* 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.

5.1.10 Investment Policies and Cash Management

Careful financial control of the District's daily operations is an important part of the District'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.

1. The District shall manage and invest its residual cash through the County Treasurer on a continuous basis in accordance with the District's investment policies and within the guidelines established by Washington State statutes based upon the following order of priorities: 1) safety, 2) liquidity, and 3) yield.
2. The District shall maintain a cash management program, which includes collection of accounts receivable, disbursement of funds, and prudent investment of its available cash.
3. As permitted by law and District resolutions 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 District, but shall be invested as provided by applicable bond ordinances.
4. The Finance Department shall periodically furnish (i.e. through monthly reporting) the Board, General Manager and staff 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.
5. State laws require an annual or semi-annual audit of the financial records of the District. That audit will include a review of all investment activity for the year to review compliance with these investment procedures.

6. Sufficient cash shall be maintained to provide adequate funds for current operating expenditures.
7. The District will deposit all funds promptly which will generally be on the same or the next business day the funds are received.

5.1.11 Debt Management Policies

The success of the District funding capital projects and improvements is highly dependent upon sound financial planning objectives and strategy of implementation. The issuance of debt by the District and the amount of debt is an important factor in measuring the District's financial performance and condition. A debt policy can assist the Board, General Manager, District's chief financial officer 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 District's overall financial position, in addition to providing guidance to the Board, General Manager, District's chief financial officer and staff to not exceed acceptable levels of indebtedness. All capital projects debt financing shall be coordinated and managed by the General Manager and District's chief financial officer in order to ensure efficient financial planning, implementation and cost-effective underwriting services.

1. The District 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 practicable to be financed from current revenues.
2. The District 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.
3. 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.
4. The District will not utilize lease purchases, except for computer equipment, real property acquisitions or 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.
5. The District will use refunding bonds where appropriate when restructuring its current outstanding debt and/or improving restrictive bond conditions.
6. The District will determine the most practical and cost-effective ways of securing interim funding for District capital projects.

7. Whenever possible, the District shall identify alternative sources of funding and shall examine the availability of those sources in order to minimize the level of debt. The District shall examine and pursue all applicable state and federal grant and low-interest loan programs (e.g., State Public Works Trust Fund Loans) for funding capital improvement projects before initiating any debt financing of such projects.
8. Utility local improvement districts (ULIDs) 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 District to form a ULID, or the Board may adopt a resolution of intent to form an ULID. A ULID initiated by Board resolution may be blocked if the property owners who would be paying at least sixty percent (60%) of the costs protest.
9. The District shall establish a close financial teamwork environment between the General Manager, District's chief financial officer, Legal Counsel, legally certified and credible bond counsel, and managing underwriter in order to effectively plan and fund the District's capital improvement projects. The Board shall approve the selection of the most qualified managing underwriter and bond counsel through a competitive selection process conducted by the General Manager with consultation of the District's chief financial officer and Legal Counsel. These services shall be regularly monitored by the District's chief financial officer to ensure quality debt funding services.

[Resolution No. 523-14]