POLICY #47
FINANCIAL MANAGEMENT POLICY

Purpose

The purpose of this document is to serve as an all encompassing financial management policy, which will govern the County's budgeting, fiscal, debt management, and reserve practices. The purpose of this document is to provide certain best practices for the County's implementation which will provide strong fiscal management and ensure proper use of public funds.

Budgeting Process

The County will maintain an annual budget. The County's annual budget emphasizes long-range planning and effective program management. The benefits from maintaining an annual budget include:

- Placing emphasis on the importance of long-range planning in managing the County's fiscal affairs.
- Concentrating on developing and budgeting for the accomplishment of significant objectives, which will benefit the citizens of the County.
- Establishing realistic timeframes for achieving these objectives and not allowing long-range goals to hamper the County's short-term financial health.
- Creating a proactive process which provides stable operations and allows input from the County's citizens and leadership, while maintaining long-term fiscal health.
- Promoting orderly spending processes and patterns.

The County's budget will maintain any and all standards as set forth by the Government Accounting Standards Board ("GASB").

Budget Amendments

While the County will strive to produce an accurate annual budget, from time to time certain amendments will need to be made to the existing budget. The Commission will formally review the County's financial condition and amend the budget if necessary, in accordance with any applicable state law and locally adopted administrative rules for the County.

Balanced Budget

The County will maintain a balanced budget meaning:

- Operating revenues must fully cover operating expenditures, including debt service over the long-term.

- Ending fund balance (or working capital in any enterprise funds) must meet minimum policy levels. Specifically, for the General Fund, this level has been established at 20% of operating expenditures.

From time to time total expenditures may exceed revenues in a given year, which is allowable under this policy. In the event that expenditures exceed revenues in a given year, the County will use a portion of the ending fund balance or other reserves to balance the budget, however these reserves will be replenished as soon revenues allow to meet the minimum ending fund balance.

Financial Reporting

The County will prepare annual financial statements.

- The County's annual audit is conducted by the State of Alabama's Department of Examiners of Public Accounts.
- The County will use generally accepted accounting principles in preparing its annual financial statements.
- The goal of the County's financial reporting will be to issue timely audited financial statements while working with the Department of Examiners of Public Accounts.

General Revenue Management

The County will seek to maintain a diversified and stable revenue base to reduce the effects of short-term fluctuations in any one revenue source. In addition The County will fund current expenditures with current revenues, avoiding procedures that balance current budgets by postponing needed expenditures, accruing future revenues or rolling over short-term debt. Finally, to achieve important public policy goals, the County has established or will establish various special revenue, capital project, debt service and enterprise funds to account for revenues whose use should be restricted to certain activities. Accordingly, each fund exists as a separate financing entity from other funds, with its own revenue sources, expenditures, and fund balances.

Any transfers between funds for operating purposes are clearly set forth in the annual budget. These operating transfers, under which financial resources are transferred from one fund to another, are distinctly different from interfund borrowings which are usually made for temporary cash flow reasons, and are not intended to result in a transfer of financial resources by the end of the fiscal year.

Investment Management Policies

Investments and cash management are the responsibility of the County Administrator, CFO, and Commission. Investments are initially reviewed by the Administrator and the CFO and approved by the Commission. The County's primary investment objective is to achieve a reasonable rate of return while minimizing the potential for capital losses arising from market changes. The Security for Alabama Funds Enhancement, or SAFE Program, is encompassed in Title 41, Chapter 14A, Code of

Alabama 1975, as amended, to provide a uniform program for the security of public funds deposited with financial institutions in the State of Alabama that qualify to serve as depositories for public funds. The Program requires any bank or financial institution in the State of Alabama, accepting any deposits of public funds, to ensure those funds by pledging eligible collateral to the State Treasurer for the SAFE collateral pool. The law further provides for safeguarding of public deposits by requiring the entire pool and each participating financial institution to stand behind each deposit. The majority of the County's investments are collateralized through the SAFE program and the County depends heavily on this program to ensure the safety of its deposits and investments with financial institutions.

When making investment decisions, the County will consider the following in priority order when determining investment options:

1. Safety
2. Liquidity
3. Yield

The County requires reporting quarterly by the County Administrator and CFO on the status of its investments to ensure compliance of these policies.

Fund Balances and Reserves

Minimum Fund Balance

The County will establish and maintain fund balances based on evaluation of each individual fund. The minimum balance will be set at a level that is considered the minimum necessary to maintain the County's creditworthiness and to adequately provide for:

- Economic uncertainties, local disasters, and other financial hardships or downturns in the local or national economy.
- Contingencies for unseen operating or capital needs.
- Cash flow requirements.

In addition to the designations noted above , fund balance levels will be sufficient to meet funding requirements for projects approved in prior years which are carried forward into the new year; debt service reserve requirements; reserves for encumbrances; and other reserves or designations required by contractual obligations, state law, or generally accepted accounting principles. Finally, the Commission may designate specific fund balance levels for future development of capital projects that it has determined to be in the best long-term interest of the County.

Capital Improvement Management

Construction projects, equipment purchases, and certain studies that cost $20,000 or more will be included in the Capital improvement Plan (CIP). Minor Capital outlays of less than $20,000 generally will be included within the operating program budgets. CIP projects are also infrequent in nature, there will be operating and maintenance projects that exceed the $20,000 threshold but will not qualify as CIP projects.

The purpose of the CIP is to systematically plan, schedule and finance capital projects to ensure cost-effectiveness as well as conformance with established policies. The CIP will be a five year plan organized into the same functional groupings used for the operating programs. The CIP will reflect a balance between capital replacement projects that repair, replace, or enhance existing facilities, equipment or infrastructure; and capital facility projects that significantly expand or add to the County's existing fixed assets.

The County Administrator & CFO and applicable department personnel will review project proposals for the budget, determine project phasing, and review and evaluate the draft CIP budget. The County Commission reviews and approves the budget and capital spending. The County will have an annual CIP appropriation that is based on the projects designated by the County Commission through adoption of the five-year capital improvements financial plan. Adoption of the CIP document does not automatically authorize funding for the entire five-year plan. The first year of the plan is included as part of the annual budget process and will be authorized by the County Commission with budget authorization and adoption. From time to time the CIP will need to be amended by the County Commission due to unforeseen needs or opportunities. In addition, during times when the County's expenditures, exceed the County's revenues, the CIP may be suspended or cutback to help balance the budget, maintain fiscal health, and provide fiscal relief in times of emergency.

Debt Management Policies

Strong Financial Policy Through Education & Decision Making

The County seeks to implement a debt management policy to provide for its future fiscal health. The County will make available to any new Commission member, County Administrator or other applicable staff member the opportunity to attend a "bond school," which will educate the County's leadership on the process of issuing bonds, the obligations of such an issuance, and the prudent best practices of a public entity when making a public offering. The course will be taught by the County's financial advisor, underwriter, bond counsel or other professional who is competent and works in the public finance field at that individual's own cost.

In addition, the County will make strong financial decisions to preserve debt capacity as applicable under the laws of the State of Alabama. Such decisions include a decision over pay-as-you-go and long-term financing. ***The County will consider the use of debt financing for capital improvement projects only when the project's useful life will exceed the term of the financing and only when revenues or other assets will be sufficient to service the long-term debt.*** Debt financing will not be considered appropriate for recurring purposes such as current operating and maintenance expenditures. The

County will make a determination concerning pay-as-you-go versus long-term financing in funding capital improvements. Factors involved in this decision will include:

<u>Factors favoring Pay-as-you-go Financing</u>

- Current revenues and adequate fund balances are available or project phasing can be accomplished.
- Existing debt levels adversely affect the County's credit rating.
- Market conditions are unstable or present difficulties in marketing.

<u>Factors Favoring Long-Term Financing</u>

- Revenues available for debt service are deemed sufficient and reliable so that long-term financings can be marketed with investment grade credit ratings.
- Market conditions present favorable interest rates and demand for County financings.
- A project is immediately required to meet or relieve capacity needs and current resources are insufficient or unavailable.
- The life of the project or asset to be financed is ten years or longer.
- The cost of the project should be spread to benefited users over the life of the capital improvement.

<u>The County's debt management policy seeks to encourage the following principles:</u>

- Complete payment of principal and interest on all outstanding debt.

- The payment of County debt will be secured by the full faith, credit and taxing power of the County, in the case of General Obligation Warrants, and by the pledge of specified, limited revenues in the case of revenue bonds. From time to time the County may serve as a conduit to other issuers. The County will not pledge revenues to these conduit issuers and will have no obligation, moral or legal, to repay conduit debt issued under the authority of the County.

- Principal and interest retirement schedules will be structured to: (1) achieve a low borrowing cost for the County, (2) accommodate the debt service payments of existing debt and (3) respond to perceptions of market demand. Shorter maturities will always be encouraged to demonstrate to rating agencies that debt is being retired at a sufficiently rapid pace;

- Traditionally, the County has selected competitive sales as the preferred method to access the bond market. The County reserves the right to conduct a negotiated or competitive sale in the future depending on market conditions and other factors. All methods of sale are subject to Commission approval.

- The County will seek an investment grade rating on any direct debt and will seek credit enhancements such as letters of credit or insurance when necessary for marketing purposes. The need for credit enhancement will be evaluated by the County's financial advisor or underwriter to determine the cost effectiveness of such enhancement. To promote this investment grade rating the County will maintain consistent communication with rating agencies to ensure that its management and financial policies are consistent with a high investment grade rating.

- The County will continually monitor all bond covenants including financial reporting, federal arbitrage regulations, and refunding opportunities which might interest savings for the County.

- The County will follow a policy of full disclosure on every financial report and official statement. All reports will conform to guidelines issued by the Government Finance Officers Association ("GFOA"), Securities and Exchange Commission ("SEC") and the Internal Revenue Service (IRS). The purpose of this disclosure will be to meet the needs of rating agencies and investors in the County.

The County seeks to uphold the aforementioned principles through the following policies:

1. **A unanimous vote of the County Commission is required to incur long term debt.**
2. The County will determine the least costly financing method for all new projects, however the County will consider cash flow and the ability to meet its debt service payment and if necessary reserves the right to extend the maturity on its debt to improve its cash flow. ***The County , however, will not extend the final maturity of the debt past useful life of the asset being financed.***
3. The County will utilize intergovernmental contributions, when available, to finance capital improvements that are consistent with the County's plans and priorities.
4. Prior to undertaking a capital project, a projection of the ongoing operations and maintenance costs will be analyzed in relations to operating budget forecasts.
5. Pay as you go financing of capital improvements will be utilized where feasible. Enterprise funds should develop reserves to pay for new capital improvements or pay for those improvements out of a specific revenue source rather than a general obligation of the County.
6. Total general obligation debt will not exceed twenty (20) percent of the County's actual assessed value as required by Alabama law unless authorized under Amendment 772 of the Constitution of the State of Alabama.
7. Where possible and when financially prudent, the County will use special assessment and revenue bonds, instead of general obligation bonds to preserve its dept capacity which is limited. The County will take into account the value of a general obligation pledge versus a specific revenue pledge. If the differential in interest rate is substantial, the County reserves the right to issue general obligation debt.
8. The County will maintain effective communications with bond rating agencies concerning its financial condition. The County will follow a policy of full disclosure on its financial reports and bond prospectus.

Variable Rate Debt & Derivatives:

The County currently has not issued any variable rate debt and is not a party to and derivative contracts. While variable rate debt can lower the County's cost of funds and serves a useful purpose, the County is not currently considering issuing any variable rate debt. If in the future the County wishes to issue long-term variable rate debt, this variable rate debt will not exceed ½ of its accumulated fund balance at the time of the borrowing.

In addition, the use of derivatives can be useful in certain circumstances. The County will not be a party to any derivative transaction unless it is used to hedge increasing variable interest rates. The County will not be a party to any derivative that is based on speculation. Additionally, the County will not be a party to any derivative transaction which seeks to maximize investment returns. If the County does not have long-term variable rate debt, then the County will not consider any form of a derivative transaction. If the County determines that a derivative is needed for the hedging of variable rate debt, each Commission member, the County Administrator, and the County's CFO must certify in written statement that they understand and can verbally explain the risks associated with such a transaction including basis risk, counterparty risk, termination risk, and accounting risk.

Adopted August 11, 2009