

## SILVERDALE WATER DISTRICT Resolution No. 15-06-26 Comprehensive Financial Management Policy

A resolution of the Board of Commissioners of the Silverdale Water District, Kitsap County, Washington, adopting the "Comprehensive Financial Management Policy".

**WHEREAS**, the Silverdale Water District (the "District") is a special purpose municipal corporation which provides water utility and other services within its corporate boundaries; and

**WHEREAS**, the Board of Commissioners (the "Board") has established financial policies and procedures; and

**WHEREAS**, District Staff have reviewed, updated and combined several policies into a single "Comprehensive Financial Management Policy"; and

**WHEREAS**, the Board desires to adopt the "Comprehensive Financial Management Policy".

**NOW THEREFORE, BE IT RESOLVED** to adopt the "Comprehensive Financial Management Policy; and

**BE IT FURTHER RESOLVED** that previous financial policies that have been addressed in this policy will be superseded by this Policy; and

**BE IT FURTHER RESOLVED** existing policies not addressed in this Policy will remain in effect.

**THIS RESOLUTION WAS UNANIMOUSLY ADOPTED** by the Board of Commissioners of Silverdale Water District, Kitsap County, Washington at a special meeting held on the 26<sup>th</sup> day of June, 2015.

Silverdale Water District  
BOARD OF COMMISSIONERS

  
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Marcus Hoffman, Commissioner

  
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John Poppe, Commissioner

  
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Michael Sechrest, Commissioner

# **SILVERDALE WATER DISTRICT COMPREHENSIVE FINANCIAL MANAGEMENT POLICY**

The Comprehensive Financial Management Policy assembles several District's financial policies in one document. They are the tools to ensure that the District is financially able to meet its immediate and long-term service objectives.

These policies and guidelines assist in the decision-making process of the District's Board of Commissioners (Board) and staff while operating to provide stability of changing service and financial circumstances and conditions.

They 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's Water System Plan and other related plans.

The proposed policies and guidelines should be reviewed at the beginning of each fiscal period to determine if they are still relevant and appropriate.

## **1. FINANCIAL POLICIES AND GOALS**

### **1.1. Policies**

The financial 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 services to ensure public health, and enhance the physical infrastructure and environment of the District.

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:

- Adopt resolutions to set financial policies to assure the financial strength and accountability of the District.
- Utilize conservative but reasonable revenue forecasting.
- Initiate budgeting practices which tie recurring expenditures to recurring revenues.
- Implement strong budget controls.
- Utilize conservative investment practices emphasizing the preservation of capital and liquidity.
- Attract and retain employees necessary for providing high quality services by maintaining a competitive compensation and benefit package with the public and private sectors.
- Engage department managers in the development and management of their individual areas of budget responsibility.
- Coordinate 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.
- Maintain fair and equitable relationships with its contractors and suppliers.
- Initiate, encourage, and participate in economic development efforts to create job opportunities and strengthen the local economy.

## 1.2. Goals

The District's financial goals seek to:

- Maintain a spirit of openness and transparency while being fully accountable to the public for the District's fiscal activities.
- Ensure the District maintains a financial base sufficient to provide a consistent level of District services.
- 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 Water System Plan.
- Keep the District in a fiscally sound position in both the short and long term.
- Maintain sufficient financial liquidity to meet normal operating and contingent obligations.
- Maintain and preserve existing infrastructure and capital assets.
- Set forth operating principles that minimize the cost of services and financial risks.
- Promote sound financial management by providing accurate and timely information on the District's financial condition.
- Provide a framework for prudent use of debt financing and maintain a good credit rating in the financial community.
- Ensure the legal use of financial resources through effective systems of internal controls.
- Promote cooperation and coordination with other governmental entities and the private sector in financing and delivery of services.
- Establish capital improvement project priorities based on long-range plans that are consistent with the District's comprehensive plan.

## 2. FINANCIAL PLANNING PROCESS

### 2.1. 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:

- *Establishes a Plan of Policy and Operation* which allocates resources to achieve specific District goals and objectives and guides the District's activities.
- *Facilitates the Evaluation of District Programs* by providing a means to measurably examine the financial activities of the District's departments over time.
- *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.
- *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 budget shall be prepared according to the following schedule during the year preceding the annual budget period:

- On or before September 30th, department managers will submit to the General Manager the budget estimates and requests.
- On or before October 31st, the department managers will meet with the General Manager to review budget requests. The General Manager submits a preliminary balanced budget and schedule of charges to the Board on or before November 15th.
- During the first scheduled meeting in December, a public meeting on the proposed budget is conducted.
- On or before December 31st, the Board adopts the final budget resolution.

The main goal 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, and assist the Board and administrative/finance staff in budget evaluation and monitoring.

The District shall prepare and refine written policies and goals to guide in the preparation of spending, financing and performance planning for the District budget. Adopted budgets will comply with the adopted budget policies and the Board's priorities.

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.

The Board adopts the budget by resolution. Departments have management control over their budgeted line items; however, the departments: 1) may not purchase capital equipment items in excess of \$2,500 unless such items have been approved in the Department's budget, and 2) must obtain approval from the Assistant General 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. 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 with the adoption of a supplemental budget resolution.

## 2.2. Long Range Planning

At a minimum, a six-year Capital Improvement Plan should be separately developed. Forecasted capital improvement needs for up to a twenty-year horizon shall be utilized in computing connection fees, as allowed under state law. The adopted budget for the capital improvement programs should be updated annually in accordance with instructions and direction given by the General Manager and the Board.

Grants should only be accepted for projects or programs that are consistent with approved goals and objectives of the District.

All significant changes or deviations from the approved Capital Improvement Plan should be accounted for and reported directly to the Board before proceeding on the project. The report should include an analysis of long-term financial costs and the overall impact to the current Capital Improvement Plan due to the change or deviation.

### **3. BASIS OF ACCOUNTING AND BUDGETING**

#### **3.1. 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 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.

#### **3.2. Budgets & Budgetary Accounting**

The District's accounting and budgeting systems are organized and operated on a "Fund" basis. Funds are used to record revenues and expenditures. The budgeted funds are grouped into categories: General, Capital Projects, and 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 any increase in total fund appropriations. Any unexpended appropriation balances lapse at the end of the budget period.

### **4. ACCOUNTING, BANK ACCOUNTS, FUNDS AND RATE SETTING**

#### **4.1. Accounting**

The District will maintain a system of financial monitoring, control, and reporting for all operations and funds in order to provide effective means of ensuring that overall District goals and objectives are met.

#### **4.2. Bank Accounts and Fund Policies**

The District's operations 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.

Kitsap County, serving as the District's Treasurer, provides cash management and investment services to the District. Currently the District has the following funds for the operation, maintenance of the District and for capital projects established with Kitsap County: Inventory, General, Construction, Capital, Drinking Water State Revolving, and Public Works Trust funds. In addition to these funds, the District maintains separate restricted funds for bond payments, bond reserves, rate stabilization and other long-term State Revolving Fund and Public Works Trust Fund loans. Additional funds may be added or removed in the future if deemed necessary.

In addition to District Funds on deposit with the Kitsap County Treasurer, the District has additional accounts with Bank of America in Silverdale, Washington. Accounts include a Depository, Advance Travel, and Credit Balance Refund account. These accounts are all in the name of and for the benefit of the District.

All District monies shall be kept on deposit in approved Bank of America, or other Board of Commissioner approved accounts or with the Kitsap County Treasurer, except the District has a cash on hand for the operations of the cash drawer for \$85.00 as well as petty cash with a balance of \$500.00 for small cash purchases.

#### 4.2.1. General Funds

The General and Inventory funds are the District's primary operating accounts, and are used for the payment of operating and maintenance expenses, including labor costs related to the day-to-day operation of the District.

#### 4.2.2. Capital Project Funds

The Construction, Capital, DWSRF 2011 & PWTF 2011, are used for purchase or construction of capital projects and may be used for debt payments if approved by the Board.

#### 4.2.3. Debt Service Funds

Revenue Bond Accounts are maintained to pay the principal and interest payments associated with bond issues. Monies are transferred, on a monthly basis, from the General and Capital Funds in the amount of the monthly portion of the semi-annual debt service payment(s) to the related Revenue Bond Account.

#### 4.2.4. Reserve & Stabilization Funds

The Bond Reserve and Rate Stabilization Funds are maintained to meet bond covenants and to provide an additional source to draw upon if unforeseen revenue decrease occur.

#### 4.2.5. Cash Drawer

The District's Cash Drawer shall be balanced and funds deposited to the Depository Account daily. Any out-of-balance conditions (Cash Over/Short) shall be immediately reported to the Fiscal Manager, reviewed, and posted. Cash over/short conditions of more than \$100 shall be reported to the General Manager immediately. The Board will be notified no later than the next regular Board meeting. The District shall provide a numerically sequential receipt and a unique transaction batch number for all financial transactions.

#### 4.2.6. Public Works Trust Fund Funds

The Public Works Trust Fund (PWTF) Account is maintained to pay the principal and interest payments associated with long term loans (i.e.: PWTF and the DWSRF). Monies are transferred, on a monthly basis, from the General and Capital funds in the amount of the monthly portion of the annual debt payments for long term debt to the PWTF Account.

#### 4.2.7. Depository Account

All monies collected from customers are receipted and deposited into the Depository Account at Bank of America. All monies collected shall be transferred to the Kitsap

County Treasurer on a weekly basis. All District funds received shall be deposited at Bank of America within one business day of receipt, except when staffing levels are inadequate to timely make such deposits, but in such event such deposits shall be made as soon as possible. The District's Fiscal Manager, or Board approved designee, is authorized to transfer funds from the Depository Account to the Kitsap County Treasurer.

#### 4.2.8. Petty Cash Fund

The District maintains a Petty Cash Fund in the amount of \$500.00, as established by resolution. The Petty Cash Fund is reimbursed through the District's voucher process. Reimbursements to the Petty Cash Fund may be made from all funds with the exception of the restricted funds depending on the nature of the expense. The Fiscal Manager, or Board approved designee, shall act as custodian of the Petty Cash Fund.

Petty Cash vouchers shall be limited to the purchase of: minor office supplies, small tools and equipment, postage, and other de minimis operating expenses. All Petty Cash vouchers shall be supported by detailed receipts or invoices and reviewed by the Fiscal Manager.

#### 4.3. Fund Balance and Maintenance of Minimum Reserve Levels

The District shall strive to maintain adequate fund balances (reserves) 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. Operating expenditures shall include salaries, benefits, supplies, professional services, intergovernmental and interfund expenses, capital outlays and transfers.

- General Fund Balance – Operating reserves are composed of active working capital cash that supports ongoing District operations. The need for these reserves is based on timing differences between billing for revenues and payment of expenses. The operating reserve can also be used to cover unanticipated cash operating expenses or lower than expected revenue collections. The basis used for establishing the target goal operating reserve level will be 60 days of O&M expenses. The District shall strive to maintain an operating reserve that is at or above the target minimum level. The purpose of the target minimum level is to help management gauge when action needs to be taken to ensure that the operating reserve balance does not continue to decline.
- Capital Fund Balance – Fund balance for capital purposes are established to fulfill cash flow requirements of capital infrastructure construction costs. These reserves can increase and decrease significantly depending on funding sources available and the capital projects that are planned during the year. The Capital reserve target should be approximately equal to the average annual capital expenditures for renewal and replacement of existing District infrastructure. Additional reserve funds shall be maintained at a level sufficient to provide funding for unanticipated capital expenditures caused by emergency events.
- Bond Reserves – Bond reserves may be legally required for specific debt issues. Bond reserves will be established in accordance with the legal covenants of the debt issue.
- Rate Stabilization Fund - The District's Rate Stabilization Fund (RSF) was established in conjunction with the issuance of the 1999 Water Revenue & Refunding Bond Issue

#### 4.4. Rate Funded Capital Financing and the Use of Long-Term Debt

The District shall minimize dependency on debt financing capital projects. In order to avoid major periodic rate increases, the District 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.

The District has established an amount of not less than fifteen percent (15%) of the District's operating expenditures as a target goal to be set aside each year to fund capital projects.

The District shall strive to maintain minimum target goal for "debt service coverage ratio" with the net revenue (gross revenue of the utilities less operating and maintenance expenses) of 2 times that annual debt payment.

#### 4.5. Use of General Accepted Rate Setting Methods

The analysis associated with "generally accepted" rate-setting techniques includes the following analyses:

- Revenue Requirement Analysis – Establishes the overall level of financial and rate needs of the District.
- Cost of Service Analysis – Design rates to collect the appropriate level of revenue and to meet the goals and policies of the District.
- The water rate structure shall be designed to work toward encouraging conservation and efficient use of resources and discourage excessive or wasteful usage.
- As appropriate, the connection charges shall be established at a level to ensure that all customers seeking to connect to the District's system shall bear their equitable share of the cost of the system.
- Rates and connection fees shall be reviewed annually to ensure sufficient revenues.
- Updates to the District's internal Rates & Fees study will be conducted annually to update assumptions to ensure long-term solvency and viability of the District's utilities
- 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 on an on-going basis in an asset management database and report.

### **5. FINANCIAL REPORTING, INFORMATION SYSTEM INTEGRITY, FORECASTING, AND AUDITING POLICIES**

The Fiscal Manager will develop, maintain, and consistently seek to improve cash management systems which ensure the accurate and timely accounting, investment, and security of all cash assets.

#### 5.1. Accounting System

- The District will maintain a uniform and comprehensive accounting system that conforms to state auditor requirements and provides all financial information necessary to efficiently operate the District.
- All funds shall be segregated in separate accounts and utilized in accordance with the legal requirements stated in state law, resolution, bond covenants, and other legal requirements.



## 5.2. Financial Reporting

- Full disclosure will be provided in all officially-published District financial reports and bond representations.
- Annual financial reports 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.
- The District's budget documents shall be presented in a format that provides for logical comparison with prior budget period actuals wherever possible.
- Cash Flow Reports outlining the status of revenues, expenditures and fund balances shall be done monthly by the Fiscal Manager, reviewed by the General Manager and will be available to the Board, department managers and any interested party.
- The budget will be produced so that it can be directly compared to the actual results of the fiscal year.
- Capital contributions from rates, grants, loans and other financing mechanisms will be accounted for separately in the appropriate fund, such that funds dedicated to capital purposes are expended only for capital purposes.

## 5.3. Information Systems Integrity

- 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.
- 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.
- Seek compatibility of financial software products, applications and support services with the District's Fiscal Manager in an effort to adhere to the District's fiscal goals and maintain fiscal integrity.
- 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.
- Provide a comprehensive and dependable communications system through a sound networking infrastructure between interconnected devices.
- Protect against unauthorized access through information systems security and controls while allowing District staff the ability to access information directly from the system.

## 5.4. Forecasting

- Each year, the District will update expenditure and revenue forecasts for the operating funds on an annual basis and the next six years Capital Improvement Plan. 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

## 5.5. Auditing Policies

An audit of the District accounting records and policies, and financial reporting will be conducted on a bi-annual basis by the State Auditor's Office. An annual Financial Report shall be prepared in accordance with generally accepted accounting principles and shall be distributed to any interested party

## 5.6. Fraud

It is the District's goal to prevent, detect and eliminate all forms of fraud relative to the District's finances and property. The District has established these and other financial procedures and policies to promote consistent organizational behavior by providing guidelines for District personnel.

### 5.6.1. Scope of Fraud Policy

This policy applies to any irregularity or suspected irregularity involving employees, commissioners, consultants, vendors, contractors, or any other outside agency, engaging in a business relationship with the District.

Any investigation of fraud will be conducted without regard to the suspected wrongdoer's length of service, position/title, or relationship to the District.

### 5.6.2. Responsibility & Investigation

Management is responsible for the detection and prevention of fraud, misappropriations, and other irregularities. Fraud is defined as the intentional, false representation or concealment of a material fact for the purpose of inducing another to act upon it. Each member of the management team will be familiar with the types of improprieties that might occur within his or her area of responsibility, and be alert for any indication of irregularity.

Any irregularity that is detected or suspected must be reported immediately to the General Manager, who coordinates all investigations with legal counsel in conjunction with the Board Chair, unless it is the Board Chair who is suspected of fraud at which time the General Manager will coordinate the investigation with legal counsel in conjunction with the Secretary of the Board. The District is required by 43.09.185 RCW to immediately report to the State Auditor's Office known or suspected loss of public funds or assets or other illegal activity.

In the event that fraud is suspected by the General Manager, the Assistant General Manager shall act as substitute. All suspected fraud is to be reported in a timely manner to the Board.

If the investigation substantiates that fraudulent activities have occurred, the Board and the State Auditor's Office will be notified.

### 5.6.3. Actions Constituting Fraud

- A dishonest or fraudulent act.
- Misappropriation of funds, supplies or other assets.
- Impropriety in handling or reporting of money or financial transactions.
- Profiteering as a result of insider knowledge of District activities.
- Disclosing confidential and proprietary information to outside parties.
- Accepting or seeking anything of material value from contractors, vendors, or persons providing services or materials to the District.
- Destruction, removal, or inappropriate use of records, furniture, fixtures, and equipment.

### 5.6.4. Identity Theft Program

The District has established an Identity Theft Prevention Program, pursuant to the Federal Trade Commission's Red Flags Rule (Rule). This Program was developed to identify relevant Red Flags as defined in the Rule and to respond appropriately to any Red Flags that are detected to prevent and mitigate identity theft.

## 6. PROCUREMENT & CONTRACTS

The District is a rate based utility and a Special Purpose District recognized by the State of Washington. It is a recognized form of local government. This document establishes guidelines and clarifies the policies and procedures for purchasing supplies and materials, and contracting for services by the District. The procedures set forth are designed to assure customers that the District is receiving maximum value for each District dollar spent, and to assure fiscal responsibility in the procurement process.

The requirements are intended to assure compliance with State laws and develop a uniform procurement system. By buying competitively, the District will obtain maximum value for public funds spent, while promoting good, continuous relations with suppliers as well as reliable alternate sources of supply. This document does not provide additional legal rights to parties involved in legal disputes with the District not otherwise provided by State statutes.

### 6.1. Purchasing Code of Ethics

The purpose of this Code of Ethics is to give guidance to all the District employees so that they may conduct themselves in a manner that will be compatible with the best interest of the District.

#### ***Proper purchasing procedure requires that:***

- Actions of District Employees be impartial and fair.
- District purchasing decisions are made by the proper authorities.
- Public employment is not to be used for personal gain.
- District employees may not solicit, accept, or agree to accept any gratuity for themselves, their families or others that would or could result in financial or personal gain, advancement, or establish or satisfy some obligation for or on behalf of the employee, the employee's family or friends.

## 6.2. Gifts & Gratuities

Employees are expected to decline the acceptance of anything of value that may involve or imply an obligation including the performance of work on customers' private property during nonworking hours if such work is related to the customers or the Districts water system.

District employees may not solicit, accept, or agree to accept any gratuity for themselves, their families or others that would or could result in personal gain. Personal gain may result not only in cases where an employee or relative has a significant interest in a firm with which the District does business but also when an employee or relative receives any gift or special consideration as a result of any transaction or business dealings involving the District. Purchasing decisions must be made impartially. The following items are not considered gratuities:

- Discounts or concessions routinely available to the general public.
- Items received that do not result in personal gain that are turned over to the District for general District use.
- Sample products provided to the District for general District use.

## 6.3. Potential Conflicts

If an employee has any influence on transactions involving purchases, contracts, or leases, it is imperative that he or she disclose to the General Manager as soon as possible the existence of any actual or potential conflict of interest so that safeguards can be established to protect all parties.

## 6.4. Petty Cash

The District has established a Petty Cash fund and a policy for its use by Resolution. A Petty Cash fund is retained in the office for small purchases. The fund balance is replenished to \$500 each month. An effort is made to make only nonrecurring expenditures under \$150 out of the petty cash fund.

## 6.5. Credit Cards

The District has authorized the use of District credit cards by Resolution. The General Manager determines which employees are authorized to use such cards. Credit cards are to be used for authorized District expenses and travel. Credit limits are at the discretion of the General Manager, but shall not exceed \$5,000. All credit balances are paid in full each month. Credit cards are not to be used for the following:

- Cash advances.
- Personal use, unless such use is incidental to District travel, conforms to District policy and is reimbursed prior to the District paying the claim for the charges.
- Purchase of materials, property and /or service from a family member of the commissioners or employees.
- Purchase of long lead-time items.

- Purchase of alcoholic beverages, gifts, personal telephone calls, personal email or internet usage, video's or DVDs not involving training or forms for District use.

Employees will submit receipts for any purchases within 48 hours from the purchase or from the date of returning from travel.

#### 6.6. Expense Reimbursement

Reasonable expenses incurred for business travel or miscellaneous business purchases will be reimbursed. Receipts are required. In the absence of a receipt, purchases may be approved by the General Manager if they were for an obvious business purpose. Allowable expenses include but are not limited to:

- Lowest round-trip coach fare for Air, Bus or Train Travel.
- Actual cost of auto rental only when public transportation or taxi service is not available or when it is determined to be less costly or necessary due to time constraints or other determining factors and approved by management in advance.
- Gasoline purchases for rental cars will also be reimbursed when receipts are submitted.
- Parking charges.
- Taxi charges.
- Actual cost of lowest available rate for minimum night stay to attend function (Maybe combined with airfare charges to determine lowest package rates (i.e. if meeting ends on Thursday evening and cost of additional night lodging is less than savings on airfare for flying on Sunday, the additional day will be approved) District will pay room rate for the employees only. Any additional charge due to family member attendance is the responsibility of employee.
- Meals related to travel. If meals are provided as part of event registration, those meals are not eligible for reimbursement unless they are related to outside meetings. No reimbursement for alcoholic beverages.
- Event or class registrations.
- Reasonable miscellaneous purchase either related to travel or for District supplies.
- Reasonable tips and gratuities not to exceed 15%.
- Emergency procedures meals. The District may provide meals for employees who are working extended hours on an emergency from which they cannot leave to obtain meals. Employees who pay for these meals for staff shall be reimbursed.

The General Manager has authority to grant exceptions to this policy when it is determined to be in the best interest of the District. The General Manager's signature on the expense report containing exception indicates approval.

#### 6.7. Professional Services

The District contracts with the Municipal Research Service Center (MRSC) to maintain an up-to-date Consultant List for professional services.

#### 6.8. Public Works

Public works projects include all work, construction, alteration, repair and improvement other than ordinary maintenance. Ordinary maintenance is work not performed by contract and

that is performed on a regular basis, but not less than annually. Work must be to service, check or replace items that are not broken, or work not performed by contract that is not regularly scheduled but is required to maintain the asset so that repair does not become necessary. The District contracts with the Municipal Research Service Center (MRSC) to maintain an up-to-date Vender List for public works projects.

#### 6.9. Project Contracting

The District may act as its own General Contractor for projects, bidding only Sub-Contractor portions of the work. This arrangement cannot be used to avoid the maximum or minimum dollar amount of a project so it falls into a less restrictive bid category. For purposes of the applicable bid compliance standards, the cumulative project cost must be used

#### 6.10. Waiving Competitive Bidding

Competitive bidding may be waived under the following circumstances:

- Purchases that are clearly and legitimately limited to a single source of supply.
- Purchases in the event of a declared emergency.
- Purchases of insurance or bonds.

#### 6.11. Public Works Emergency

The General Manager may declare an emergency situation and waive competitive bidding requirements. The Board must pass a Resolution recognizing the declared emergency within two weeks of awarding any contracts pursuant to such emergency declaration.

#### 6.12. Sole Source or Proprietary Procurements

Occasions may arise when competition among potential vendors or contractors is not possible for a particular purchase. This may occur when there is clearly and legitimately only one source capable of supplying the item or work in a timely fashion and in the event of an emergency.

In these instances, contracts may be entered into with sole source suppliers without soliciting other bids or quotes.

#### 6.13. Materials, Supplies & Equipment

##### 6.13.1. Purchases – Less than \$2,500.

Materials and supplies less than \$2,500 are made with the General Managers approval. Quotes are recommended but not required. Purchases may be made with petty cash, District credit card, and purchase order or through a vendor billing arrangement. Receipts are required for all purchases.

##### 6.13.2. Purchases - \$2,500 and more but less than \$10,000.

Materials and supplies \$2500 and more up to \$10,000 are made with the General Managers approval if they are a budgeted or emergency expense. An item \$5000 and

more that is not a budgeted item or a purchase related to a declared emergency requires Board approval. Three quotes are required. Exceptions include items sole sourced for reasons outlined in this manual or items for which there are not three sources for the item available. Item purchases may be made with District credit card up to \$5000. Items can also be obtained with purchase order or through a vendor billing arrangement. Receipts are required for all purchases.

6.13.3. Purchases \$10,000 and more but less than \$50,000.

Materials and supplies \$10,000 and more but less than \$50,000 are made from the Vender Roster if they are a budgeted or emergency expense. An item that is not a budgeted item or a purchase related to a declared emergency requires Board approval. Quotes should be obtained from all appropriate suppliers on the small works roster. Exceptions include items sole sourced for reasons outlined in this manual or items for which there are not three sources for the item available. Item purchases may be made with purchase order or through a vendor billing arrangement. All purchases must be made by contract.

6.13.4. Purchases \$50,000 and over

Materials and supplies \$50,000 and more require an advertised Request for Bids with 13 day notice. Item's must be budgeted items or purchases related to a declared emergency. All purchases above \$50,000 require Board approval. Vender is required to supply a 5% bid bond. All purchases must be made by contract. As an alternative to the bid process, items may be purchased off of State contract.

6.14. Public Works Projects

6.14.1. Projects & Repairs – Less than \$2,500.

Projects and repairs less than \$2,500 are made with the General Managers approval. Quotes are recommended but not required. No contract is required. A combined Intent & Affidavit Prevailing Wage form must be filled out by the Contractor and submitted to the District. Short Form reports are to be sent monthly to Labor and Industries.

6.14.2. Projects & Repairs - \$2,500 and more but less than \$5,000.

Projects and repairs \$2,500 and more but less than \$5,000 are made with the General Managers approval. Three quotes are required unless the work requires sole sourcing or there are not three sources for the work available. Contractor must file Prevailing Wage Intent and Affidavit reports with Labor and Industries with a copy to the District.

6.14.3. Projects & Repairs \$5,000 and more but less than \$200,000.

Projects and repairs \$5,000 and more but less than \$200,000 are made with the General Managers approval from the Small Works Roster. Three bids are required. Exceptions include repairs for a declared emergency, work sole sourced for reasons outlined in this manual or items for which there are not three sources for the work

available. All work requires a Small Works Contract, Insurance Certificate and Insurance Questionnaire on file. A 5% performance bond is required. The bid and performance bonds, as well as retainage, may be waived for projects under \$35,000 per RCW 30.04.155.

The Contractor must file Prevailing Wage Intent and Affidavit reports with Labor and Industries with a copy to the District. Board acceptance is required for completion of projects over \$35,000. The General Manager is authorized to accept completion for projects under \$35,000.

#### 6.14.4. Projects and Repairs \$200,000 and more

Projects and repairs of \$200,000 and more require an advertised Request for Bids with 13 day notice. Sealed bid awards will be made by the Board. The Contractor is required to supply a 5% bid bond. All projects require a Public Works Contract, Insurance Certificate and Insurance Questionnaire on file. A 5% performance bond is required. The District will retain 5% of the money earned by the Contractor until project completion and acceptance. The Contractor must file Prevailing Wage Intent and Affidavit reports with Labor and Industries with a copy to the District. Board acceptance is required for completion and acceptance of projects.

### **7. DISPOSAL OF CERTAIN PERSONAL PROPERTY WITH NO VALUE**

The General Manager, or his/her designee, may dispose of personal property with an original purchase price of less than \$5,000 at the least cost to the District if the General Manager determines that such property has no value. The General Manager shall report the disposal of any such property to the Board at the next regular Board meeting following the disposition of the property.

Property where the expected value is less than the cost to surplus may be destroyed, donated to another governmental agency or local community non-profit. District personnel and their immediate families cannot purchase surplus equipment unless approved by the General Manager and as part of the public bid process.

### **8. REVENUE & EXPENDITURES 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 expenditures policies.

The Board generally establishes rates that are anticipated to be sufficient on an annual basis to meet all District requirements for general operating and maintenance expenses, debt service, rate funded capital costs identified in District's approved Water System Plan and other studies, and additions to reserves if needed.

#### 8.1. Revenue Policies

- 8.1.1. To the extent possible, a diversified and stable revenue system will be maintained to shelter public services from short-run fluctuations in any one revenue source. Trends analyzing the dependence on distinct revenue sources shall be included in the budget documents for consideration by the Board.



- 8.1.2. Revenue forecasts will assess the full spectrum of resources that can be allocated for 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.
- 8.1.3. Current revenues will be sufficient to support current expenditures.
- 8.1.4. 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.
- 8.1.5. 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.
- 8.1.6. 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.
- 8.1.7. 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 funds. Future impacts on the District budget will be evaluated by the General Manager in all grant requests. The General Manager shall approve all grant applications.
- 8.1.8. Short-term (anticipated less than one year) economic downturns and temporary gaps in cash flow: Expenditure reductions or restrictions may be imposed. The General Manager may approve a contribution from the Rate Stabilization Fund or interfund loans to address temporary downturns in District revenues.
- 8.1.9. Long-term (greater than one year) revenue downturns: Deficit financing and borrowing to support on-going operations is not the policy of the District as a response to long-term revenue shortfalls. Revenue forecasts will be revised. Expenses will be reduced to conform to the revised long-term revenue forecast or revenue increases will be considered
- 8.1.10. 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 documented repayment schedule of short duration and at an interest rate based on the County's Investment Pool.
- 8.1.11. The District will maintain revenue and expenditure categories according to State regulations and District administrative procedures.
- 8.1.12. The District will annually review all fees 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.

- 8.1.13. The District will review contracts and leases, which result in revenues to the District on a timely basis in order to provide for careful evaluation by the Board

## 8.2. Expenditure Policies

- 8.2.1. The approved annual budget document provides the spending limits by fund for the fiscal year. The District will follow administrative policy and state regulations on all expenditure line items. Management and staff will follow the philosophy of cost control and responsible financial management. The annual expenditures will be balanced with the annual revenues.
- 8.2.2. The District will not use short-term borrowing to finance current operating needs without a financial analysis showing rate impacts to the District as a whole.
- 8.2.3. 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.
- 8.2.4. The budget shall balance recurring operating expenses to recurring operating revenue.
- 8.2.5. Expenditures shall be controlled and shall stay within the amount of appropriated funds.
- 8.2.6. 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.
- 8.2.7. Department Managers are responsible for managing their budgets within the total appropriation for their department.
- 8.2.8. The District will maintain expenditure categories according to state statute and administrative regulation.
- 8.2.9. Emphasis is placed on improving individual and work group productivity rather than adding to the work force. The District will invest in technology and other efficiency tools to maximize productivity. The District will hire additional staff only after the need of such positions has been demonstrated.
- 8.2.10. All compensation planning will focus on the total cost of compensation, which includes direct salary, health care benefits, pension contributions, training

allowance, and other benefits of a non-salary nature, which are a cost to the District.

### 8.3. Capital Improvement Policies

The District shall establish as a primary fiscal responsibility the preservation, maintenance and future improvement of the District's 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.

- 8.3.1. A comprehensive multi-year (minimum six-year) plan for District capital improvements will be prepared and updated annually. An annual Capital Improvement Plan will be developed and adopted by the Board as part of the District's budget.
- 8.3.2. All projects included in the Capital Improvement Plan shall be consistent with the District's Water System Plan. The goals and policies for the utility services should be followed in the development of the Capital Improvement Budget. The Water System Plan service level goals should be included in the Capital Improvement Plan. Virtually all of the projects included in the Capital Improvement Plan are based upon formal long-range plans that have been adopted by the Board.
- 8.3.3. 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:
  - Projects which have a positive impact on the operating budget (reduced expenditures, increased revenues).
  - Projects which are programmed in the Six-Year Capital Improvement Plan.
  - Projects which can be realistically accomplished during the year they are scheduled.
  - Projects which implement previous Board-approved reports and strategies.
  - Renewal and replacement schedule projects.
- 8.3.4. Capital project proposals should include cost estimates that are complete, reliable and attainable. Project cost estimates for the Capital Plan 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 Budget will vary in reliability depending on whether they are to be undertaken in the first, third, or sixth year of the Budget.
- 8.3.5. Financial analysis of funding sources will be conducted for all proposed capital improvement projects, in addition to listing the total project costs.
- 8.3.6. 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.
- 8.3.7. 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.

- 8.3.8. 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 in order to provide capital improvements or services in a timely manner.
- 8.3.9. 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 capital facilities charges.
- 8.3.10. 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.
- 8.3.11. 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.
- 8.3.12. 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.
- 8.3.13. 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.
- 8.3.14. A comprehensive inventory of all capital assets shall be conducted and maintained to include estimates of actual value, replacement cost and remaining useful life.
- 8.3.15. Capital projects shall be financed to the greatest extent possible through user fees when direct benefit to users results from the construction of the project.

## **9. FIXED ASSET POLICY**

### **9.1. Statutory Authority**

The State of Washington through the State Auditor's Office, requires a reporting and accounting system for local governments. (RCW 43.09.200)

### **9.2. Purpose**

The purpose of a fixed asset policy and inventory system is to provide stewardship over the District's resources through control and accountability of its fixed assets.

### **9.3. Policy**

It is the policy of the District to maintain accountability over all tangible fixed assets acquired by the District through purchase donation, capital lease, and construction having a life

exceeding one year with a cost of \$5,000 or more. Assets include land, improvements, buildings, equipment, improvements that add to the existing useful life of the asset, and capital leases. The straight line method of depreciation will be used for depreciable assets.

The Fiscal Manager, in coordination with the Assistant General Manager, shall be accountable for all District assets and be responsible for ensuring all such assets are used only for District purposes.

The Fiscal Manager shall maintain the asset records, which will be verified by a physical inventory at least once a year. Fixed assets will be valued at cost including all ancillary charges necessary to place the asset in its intended location and condition for use. Donations will be valued at fair market value or estimated costs.

Small and attractive assets are those that are partially at risk or vulnerable to loss and cost less than a \$5,000. These items shall be tracked due to their sensitivity to theft (i.e. radios, cell phones, power tools, small tools, fax machines, cameras, etc).

Equipment with a cost of \$5,000 or more will be identified in a separate schedule as part of the annual budget. Equipment purchases with a cost of \$5,000 not shown in the schedule of capital equipment will be approved by the General Manager prior to purchase.

#### 9.4. Identifying and Recording Capital Assets

The Fiscal Manager and the departments purchasing the capital equipment shall ensure that all capital equipment purchases, including small and attractive assets, will be properly identified. The Fiscal Manager shall be responsible for instituting procedures for identifying and recording capital assets.

#### 9.5. Disposition of Surplus Assets

The disposal of District assets shall follow the guidelines adopted by the Board for disposition of District assets, including small and attractive assets. The procedures shall include the reporting of asset transfers and modification of assets.

#### 9.6. Lost or Stolen Property

When an item in the fixed asset system has disappeared and all efforts have failed to recover it, the controlling department shall notify the Fiscal Manager, Assistant General Manager and General Manager.

#### 9.7. Procedures for Physical Inventory

The Assistant General Manager will establish procedures for physical inventory of all assets covered by this policy. A physical inventory will be conducted annually by all departments of all assets under their control to verify the existence and condition of all items.

## **10. SUSTAINABILITY OF INFRASTRUCTURE**

In conjunction with establishing or planning its capital program, the District maintains a six year capital-financing plan that supports execution of that program and is capable of sustaining long-term District capital requirements. The capital program incorporates system expansion, upgrades and

improvements, and system repair and replacement. The intention is to establish an integrated capital funding strategy.

#### 10.1. Capital Facilities Planning

Comprehensive plans for the District are completed or updated every six to ten years as required by Chapter 57.16 RCW and applicable state regulations, using a 20-year planning horizon. For budgeting purposes, the District maintains a capital projects schedule, the “Capital Improvement Plan” or CIP, of at least six years in duration and consistent with the comprehensive long-range plans for the system. The schedule will include the project description, estimated year of construction and total estimated cost. Various funding sources are identified as well as estimated capital fund balances, in an effort to identify a potential funding shortfall.

#### 10.2. Capital Facilities Funding

The District works to pursue a reasonable capital improvement program through careful balance of pay-as-you-go capital projects and debt financing.

District Capital Facilities Charge (CFC) revenue is revenue received from new customers connecting to the water and on expanded development(s) to reflect an appropriate capital investment commensurate with system costs, including both existing assets and future improvements to serve such growth. The District reviews and adjusts, if appropriate, the CFC as needed.

The District utilizes revenue bonds, Public Works Trust Fund loans, and State Revolving Fund (SRF) loans to assist in Capital Funding whenever necessary. Each capital project that may be funded by a loan is evaluated within the context of the District’s capital improvement program and the capital budget. Alternative financing sources are always considered. The District will not issue or accept long-term debt to finance current operations.

### **11. CASH MANAGEMENT & INVESTMENT POLICIES**

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.

Procedures will be followed that will ensure that proper authorization has been obtained for all cash and investment transactions.

#### 11.1. Cash Management

The District shall maintain a cash management program, which includes collection of accounts receivable, disbursement of funds, and prudent investment of its available cash.

The District will deposit all funds promptly which will generally be on the same or the next business day the funds are received.

Cash reserves should be maintained and monitored as outlined in the operating cash reserves policies.

Cash reserves for bond reserve accounts shall be fully funded in the time line reflected in current and future bond covenants. Cash reserves shall be formally transferred and restricted in accordance with all legal requirements.

#### 11.2. Investment Policies

The District shall manage and invest its residual cash through the Kitsap County Treasurer on a continuous basis in accordance with the District's investment policies and within the guidelines established by Washington State statutes.

The Fiscal Manager shall provide the General Manager, Board, and Department Managers with a report that should include the amount of interest earned to date on all funds on a monthly basis.

State laws require a bi-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.

## **12. DEBT MANAGEMENT POLICY**

#### 12.1. Introduction

The District recognizes that prudent use of its credit can both facilitate construction of essential capital improvements and serve as a method for sharing costs of those improvements between current and future beneficiaries. Furthermore, a debt management policy can assist the Board and staff to integrate the issuance of debt with other long-term planning, financial, and management objectives.

The Debt Management Policy is intended to help ensure that all debt is issued both prudently and cost effectively. It sets guidelines for the issuance and management of all financing of the District. Debt issuance should be evaluated on a case-by-case basis as well as within the context of the District's overall capital structure and policy objectives. Adherence to the policy is essential to ensure that the District maintains a sound debt position and that it protects the credit quality of its debt obligations.

#### 12.2. Goals & Objectives

The Debt Management Policy formally establishes parameters for issuing debt and managing a debt portfolio, which recognizes the District's specific capital improvement needs, ability to repay financial obligations, and the existing legal, economic, financial and capital market conditions. Specifically, the policies outlined in this document are intended to assist the District in the following:

- Promoting sound financial management through accurate and timely information on financial conditions.
- Evaluating critical debt issuance options.
- Protecting and enhancing the District's credit rating.

The policies outlined in the Debt Management Policy are not goals in and of themselves, but rather a tool to ensure that adequate financial resources are available to support the District's long-term capital needs.

### 12.3. Principles of Debt Management

The District will manage its debt to ensure high credit quality, access to capital markets, and financial flexibility.

The District shall seek to fund a portion of its overall capital program from current resources (pay-as-you-go) and reserves, depending upon the specific projects and annual budgetary constraints.

The District shall not fund working capital, (general fund) reserves, or operating and maintenance costs through the issuance of debt.

The District will consider the use of debt in those cases where public policy, equity, and economic efficiency favor debt over cash (pay-as-you-go) financing.

The District shall not construct or acquire a facility or capital improvements if it is unable to adequately provide for the subsequent annual operation and maintenance costs of the facility.

### 12.4. Standards for Use of Debt Financing

#### 12.4.1. Board Consideration

The Board shall endeavor to receive sufficient material information about the topic of debt financing to understand the short and long term ramifications of each debt issuance. The Board shall meet as necessary with the General Manager and the appropriate Department Managers for the purpose of reviewing and making a final determination related to each debt issuance.

#### 12.4.2. Limitation of Debt Issuance

Long-term borrowing shall be confined to capital improvements with an extended life when it is not practical to finance the construction of such capital improvements from current revenues. Approval of the Board is required prior to the issuance of debt.

An analytical review shall be conducted prior to the issuance of new debt. The analysis shall consider the results of such debt on the operating budget, the effect on the District's credit rating, the ability to provide future services, and the potential impact on user rates and fees. The District will carefully consider the future fiscal costs of any debt issuance to determine that any such issuance will not adversely impact the District's credit rating.

#### 12.4.3. Allowable Types of Debt

The District will seek to utilize the most cost advantageous financing alternative available, taking into consideration policy objectives.

The General Manager, with assistance of Department Managers, shall evaluate the use of all financial alternatives available, including, but not limited to long-term debt, pay-as-you-go, joint financing, reserve fund releases, lease-purchase, special



assessments, state and federal aid, tax-exempt leasing, public, private partnerships, and state revolving loan programs.

Debt will be used primarily to finance long-term capital projects — paying for the facilities or equipment over their useful life and concurrent with the benefits derived from the use of such facilities. The final maturity of the bonds/loans shall not exceed the expected useful life of each project.

The General Manager's recommendation on what type of debt to be considered shall be submitted to the Board.

- **Short Term Obligations:** Short-term borrowing will only be used to meet the immediate financing needs of a project for which long-term financing has been secured but not yet received. The District may issue interfund loans rather than outside debt instruments to meet short-term cash flow needs. Interfund loans will be permitted only if an analysis of the affected fund indicates excess funds are available and the use of the funds will not impact the fund's current operations. All interfund loans will be subject to the General Manager's approval.
- **Assessment/ LID Bonds:** Assessment bonds will be considered in place of general obligation bonds, where possible, to assure the greatest degree of public equity. Local Improvement District (LID) Bonds represent debt that is repaid by the property owners who benefited from the capital improvement through annual assessments paid to the District. LIDs are formed by the District's Board after a majority of property owners agree to the assessment.
- **Revenue Bonds:** Revenue bonds are used to finance construction or improvements to facilities of enterprise systems operated by the District in accordance with the Capital Improvement Program.
- **Public Works Trust Fund Loans** are loans from the Public Works Board, authorized by state statute, RCW 43.155 to loan money to repair, replace, or create domestic water systems, sanitary sewer systems, storm sewer systems, roads, streets, solid waste and recycling facilities, and bridges.
- **Federal Loans and grants** to repair, replace, or create domestic water systems.

#### 12.4.4. Credit and Ratings

Capital will be raised at the lowest possible cost through maintenance of a high credit rating and demonstration of fiscal conservatism in the credit markets.

It is important to the rating agencies and to the financial community to articulate financial goals. In addition, a desirable debt service coverage ratio, the ratio of revenues available for debt service to the annual debt service requirement, positively affects the District's bond ratings. Strong bond ratings result in lower interest rate costs.

#### 12.4.5. Term

Debt shall not be issued for a longer maturity schedule than a conservative estimate of the useful life of the asset to be financed. The District will seek to structure debt with level principal and interest costs over the life of the debt.

#### 12.4.6. Bond Issuance

The District will use the services of reputable and experienced bond counsel in the preparation of all bond issuances. No bonds will be issued without a written opinion by bond counsel affirming that the District is authorized to issue the debt, stating the District has met all state constitutional and statutory requirements necessary for issuance, and determining the debt's federal income tax exempt status.

An Underwriter will be used for all bond debt issued in a negotiated or private placement sale method. The Underwriter is responsible for purchasing negotiated or private placement debt and reselling the debt to investors.

A Fiscal Agent will be used to provide accurate and timely securities processing and timely payment to bondholders. In accordance with RCW 39.46.030, the County Treasurer, as ex-officio treasurer of a special purpose district, shall act as fiscal agent for such special purpose district, unless the County Treasurer appoints either one or more of the fiscal agencies appointed from time to time by the state finance committee in accordance with Chapter 43.80 RCW.

#### 12.4.7. Debt Service Coverage Target Goal

Because Debt Service Coverage is used by banks, bond rating agencies and potential bond buyers to evaluate the District's ability to make its committed debt service payments, and is also a specific legal requirement under covenants in the District's outstanding bond issues, District rates will be established at a level sufficient to meet coverage requirements for any existing or future bond issues under methods outlined in the District's outstanding bond resolutions.

The debt service coverage ratio is an important financial measure of the District's ability to repay the outstanding debt obligation. It is reviewed for adequacy by banks and rating agencies. Generically, this ratio is the Districts' net operating income divided by the total annual debt service payment. If a long-term debt issue contains a legal covenant, which states a specific required level of debt service coverage, the district shall, at a minimum, maintain the coverage level needed to satisfy that requirement.

For all outstanding debt that carries a legal bond covenant, the debt coverage ratio target goal used for financial planning purposes will be 2.00 of the annual debt service payment.

#### 12.4.8. Other

Principal and interest will be paid in accordance with the terms of the applicable bond resolution. The District will maintain compliance with all covenants set forth in the bond resolutions.

## 12.5. Debt Management Practices

- 12.5.1. Investment of Bond Proceeds - The District shall comply with all applicable Federal, State and contractual restrictions regarding the investment of bond proceeds.
- 12.5.2. Continuing Disclosure - The District shall provide annual disclosure information to established national information repositories and maintain compliance with disclosure statements as required by state and national regulatory bodies. Disclosure shall take the form of the District's Annual Report unless information is required by a particular bond issue that is not necessarily contained within the Annual Report.
- 12.5.3. The District will not use long-term debt to finance current operations.
- 12.5.4. 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.
- 12.5.5. 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.
- 12.5.6. The District will not utilize lease purchases, except for computer equipment, real property acquisitions or in the case of extreme financial emergency, without 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.
- 12.5.7. The District will use refunding bonds where appropriate when restructuring its current outstanding debt and/or improving restrictive bond conditions.
- 12.5.8. The District will determine the most practical and cost-effective ways of securing interim funding for District capital projects.
- 12.5.9. 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.
- 12.5.10. 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.
- 12.5.11. The District shall establish a close financial teamwork environment between the General Manager, Fiscal Manager, 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 Fiscal Manager and Legal Counsel.

12.5.12. The District will negotiate the most competitive pricing on debt issues and broker commissions in order to ensure a favorable value to the District's customers.

12.5.13. The District will maintain good communications with bond rating agencies concerning its financial condition, and will take all appropriate and responsible measures to sustain a quality bond rating with continuous financial management efforts to enhance the District's bond ratings.

#### 12.6. Reserve & Stabilization Accounts

Cash reserves should be maintained and monitored as outlined in the operating cash reserves policies.

Cash reserves for bond reserve accounts shall be fully funded in the time line reflected in current and future bond covenants. Cash reserves shall be formally transferred and restricted in accordance with all legal requirements.

### 13. RATE SETTING POLICIES

#### 13.1. Rate Setting Methodology

When setting rates, it is important to use a methodology that is "generally accepted" in the financial and rate setting community as well as the water industry.

#### 13.2. Financial Stability

Financial stability of a District also provides rate stability. Rate stability reinforces that costs are being managed and controlled, thereby gaining customers' confidence regarding the management team's credibility. To the extent the District is able to control and predict its annual operating costs including wholesale rate increases, the District should attempt to keep customer rates and/or rate increases as stable as possible.

#### 13.3. Revenue Requirements Analysis

Revenue requirements will be established on a "cash basis" approach. The "cash basis" approach includes operation & maintenance (O&M) expenses, taxes/transfer payments, debt service (P&I) and capital improvements funded from rates. The revenue requirements, as defined herein, are the basic components. Revenue requirements should also include any other cost items requiring funding (e.g. bond reserves) or needed to operate the District on a financially stable basis (e.g. accumulation or reduction in working capital).

At a minimum, revenues and costs will be projected for a five-year projected test period.

Costs associated with mandated program requirements will be identified and included within the "cash basis" approach.

Any wholesale cost increases imposed upon the District by a supplier should be equitably passed through to District ratepayers.

#### 13.4. Cost of Service Analysis

A cost of service study will be utilized to assist in establishing appropriate rates for individual customer classes.

The cost allocation methodology will utilize techniques that are “generally accepted” by the industry (e.g. American Water Works Association, American Public Works Association, etc.).

The cost of service will consider the specific circumstances and unique characteristics of the District in the cost allocation methodology.

#### 13.5. Rate Design Analysis

Rate designs will be reflective of District needs and also reflect the specific goals and objectives of the District. Meeting District goals at a reasonable cost to the customer should also be an important consideration in utility rate design.

Rates will recognize and attempt to incorporate a fixed charge for the up-front fixed costs associated with serving customers and a usage or volumetric charge that attempts to recover the variable costs of operating the District.

Rates will be set at a level that recovers necessary costs, by classification, yet flexible enough to accomplish the District’s objectives (e.g. public purpose programs).

Rates should be designed to be equitable, and detailed to a sufficient level to reflect the service provided (e.g., private fire protection, multi-family services, etc.).

#### 13.6. Rate Stability

The District should review rates on an annual basis to assure that they provide sufficient revenues. This does not imply that rates must be adjusted each year, simply that the rates are reviewed in the context of these policies to assure that they are adequately funding the District.

Small annual rate adjustments are preferable when compared to large single adjustments for multi-year periods.

Annual rate reviews will consider a five-year projected period to attempt to stabilize and minimize rates over time.

A comprehensive rate evaluation will be conducted in conjunction with updates to the Water System Plan in order to assess the fairness of the rates to the District’s ratepayers and to ensure that the necessary revenue is available for the District’s operating and capital needs.

### 13.7. System Growth/Expansion

Customer growth and system expansion as a result of new development has direct impacts upon a District's infrastructure requirements, the financing of "growth related" infrastructure, and customer rates. Through the establishment of specific financial/rate policies, the District will attempt to shelter existing customers from the financial/rate impacts of growth and system expansion.

Growth-related capital projects shall be clearly identified in the District's capital improvement plans and rate studies.

The financing of growth-related capital projects may be funded from any available funding resources of the District. However, use of long-term debt to finance growth-related projects will allow the District to better match the financing of new facilities with the timing of when those facilities will be needed to allow new customers to connect to the water system.

The District shall analyze and determine cost-based capital facilities charges. The Board will establish and maintain a capital facilities charge to help shelter existing customers from the cost of growth.

Under provisions of state law, calculation of the District's capital facilities charges will consider the cost of capacity provided by existing infrastructure already in place and the cost of new facilities that will be needed in the future to meet increased service demand from customer growth.

If the decision is made to use capital facilities charge revenues to pay for growth-related debt service, that amount shall be limited in any year, for planning/rate purposes, to 50% of the annual capital facilities charge revenue projected to be collected. On this basis, if growth and the corresponding revenue is less than projected, the District should still have sufficient revenue to make the annual debt service payments associated with the growth-related capital projects.

Whenever the Water System Plan is updated, the capital facilities charges should also be completely updated to reflect changes in planning, infrastructure, and capital financing outlined in that plan,

### 13.8. Rate Impacts

District rates are the primary communication the District has with its customers. Whenever possible, the District's rates should be easy to understand, stable from year-to-year and should minimize the overall impacts to customers.

Rates will be structured to promote understanding by the District's customers.

Rate adjustments will be phased-in over time, when large financial impacts to customers are anticipated.

In establishing rates, the District will balance the needs of the District and the policies established therein, with the varying impacts those rates may have on District customers.