

# Jefferson County Public Utility District

## Financial Policy

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Effective: DATE  
Adopted Resolution: XXX

## 1. FINANCIAL POLICY

The Jefferson County Public Utility District’s goal is to achieve strong financial condition and the highest level of financial management. The Board of Commissioners (the Board), General Manager (GM), and the District staff will work together to ensure that all financial matters of the District are addressed with integrity and with the best interest of its customers in mind. This Financial Policy provides guidance for the Board and staff to use in making sound financial decisions that ensure services are maintained, public funds are responsibly managed, and the Board’s vision for the District is achieved. This policy is designed to:

- Protect the assets of the District.
- Ensure the availability of sufficient financial resources for the District to meet both its immediate and long-term objectives.
- Provide transparency into the processes the organization uses to remain fiscally sound.
- Provide a framework of operating standards and behavioral expectations for fiscal matters.
- Ensure fiscal compliance with federal, state, and local legal and reporting requirements.
- Ensure the maintenance of accurate records of the District’s financial activities.

The Financial Policy provides direction on the following topics:

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## 1.01 General Financial Management Policy

The District is committed to the highest standards of financial management. The Board, GM, and staff will comply with the guidelines set forth within the District's Financial Policy. These policies are intended to be applied in conjunction with requirements set forth in federal, state, and local legal requirements, as well as the Washington Administrative Code and the Generally Accepted Accounting Principles (GAAP). In the case of conflict between this policy and the previously noted regulations, the external regulations will supersede.

## 1.02 Financial Policy Adoption and Review

The Board is responsible for ensuring that the Financial Policy is up-to-date. To maintain effective and current guidance, the Board delegates responsibility to the GM to work with the appropriate staff members to review the Financial Policy on an annual basis. As necessary, the GM will propose revisions to the Board that reflect:

- Changes in applicable legal and regulatory requirements
- Changes in the District's services and operations
- Changes in the District's financial strategy or philosophy

The Financial Policy and any subsequent amendments will be adopted by a majority vote of the Board.

## 1.03 Definitions

- **Capital Budget:** The portion of the budget which focuses on the acquisition, maintenance, or creation of capital assets. This budget projects costs for the next five years at a minimum.
- **Capital Projects:** Projects which result in the construction of capital assets.
- **External Stakeholders:** Customers, guests, neighbors, tenants, contractors, other government agencies, the public at large, and all other stakeholders of the District.
- **Financial Policy:** The Jefferson County Public Utility District's Financial Policy document.
- **Fiscal Year:** The fiscal year of the District is the period between January 1 and December 31 of the same calendar year.
- **Capital Assets:** Assets with a value of over \$5,000 and a life expectancy of greater than one year.
- **GAAP:** General Accepted Accounting Principles. GAAP is a combination of authoritative standards (set by policy boards) and the commonly accepted ways of recording and reporting accounting information.
- **GM:** The General Manager of the Jefferson County Public Utility District.
- **Liquidity:** The ease and speed with which an asset can be converted into cash without a substantial loss in value.
- **Operating Budget:** The portion of the budget focused on known and forecasted expenses for a given calendar year which cover the normal, operating cycle of the District.
- **Portfolio:** A collection of securities held by an individual or institution.
- **Principal:** An invested amount on which interest is charged or earned.
- **Ratepayers:** Customers of the District.

- **Reserves:** Cash held by the District for a stated purpose. For example, bond reserves are cash amounts held, usually equal to the largest debt service payment, until the bond is paid in full.
- **The Board:** The Jefferson County Public Utility District's Board of Commissioners.
- **The District:** The Jefferson County Public Utility District.
- **Uncollectible Account:** An account which the District deems to be unable to collect after reasonable efforts have been made.
- **Write Off:** The adjustment of the accounting records of the District to reflect the fact that an account is uncollectible in the normal course of operations.
- **Work Plan:** capital budget listing the capital projects planned for next 4-years and related capital requirements for each division.

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## 2. PLANNING AND REPORTING

### 2.01 Financial Planning Policy

The Board is responsible for reviewing and approving the organization's major planning documents. On an annual basis, the GM or Finance Manager will prepare and present the following plans and forecasts for approval by the Board:

- Annual Budget (see 2.02 Budget Policy)
- Retail Energy and Water Sales Forecasts
- Capital Work Plans

Rate studies are to be commissioned every three to five years, as needed (see 3.01 Rate Setting Policy for more details).

### 2.02 Budget Policy

The Board is responsible for approving and overseeing the organization's budget to ensure it is:

- Aligned with and supports the organization's mission, values, and strategic priorities; and
- Financially sustainable, responsible, and compliant with all applicable laws and regulation.

This policy is designed to establish the process for developing, reviewing, and monitoring the organization's annual operating budget.

#### **Budget Development**

As prescribed by State Law (RCW 54.16.080), the Board will adopt and approve the District's budget on an annual basis.

In August, the District's GM or Finance Manager will present general budget requirements to the Board. On or before the first Monday in September, the GM will then submit a proposed budget for the following fiscal year.

Initial budget estimates are based on historic information as well as current expenditure projections through end of year, along with information like projected staff salary increases and operating expense increases related to planned goals and projects for the following fiscal year.

In addition, the budget document will provide for the following:

- Revenue and expense assumptions upon which the budget is based.
- Number of budgeted full-time equivalent employees.
- Mission, strategic priorities, impact, and performance measures of each operating department.

- Prior year actual, current year budgeted, new year recommended expenditures and revenues by department.
- Descriptions of significant expenditure and revenue changes, and related operational impacts by department.

On or before the first Monday of October, the GM or Finance Manager will present the draft budget for discussion at a public hearing. The Board may accept the budget as presented or may request variations. A detailed summary reasons for decisions should be attached to the draft budget for discussion.

The GM and Finance Manager will then revise the draft and present the amended draft budget at the next available Board meeting. The Board will approve the budget on or before November 30.

Once adopted by the Board, this becomes the District's official operating budget for the following fiscal year, and all Board members and employees must work within the financial limits stated or implied by this document. The budget will be made publically available via the District's website.

#### **Basis of Budget**

Budgets will be prepared using the accrual basis of accounting.

#### **Monitoring the Budget**

The GM and the Finance Manager will monitor the District's revenue and expenditures, compare actual and budgeted amounts, and report on the progress. See additional details in the 2.03 Reporting Policy.

## **2.03 Reporting Policy**

The Board, with support from the GM and the Finance Manager, will ensure adequate financial reporting to meet the needs of the Board, act in compliance with all relevant regulations, and ensure transparency with the public.

#### **Annual Financial Statements**

The District's accounting records will be maintained in accordance with methods prescribed by the State Auditor under the authority of the RCW, Chapter 43.09. The District's financial statements will be prepared annually after closing of fiscal year, using the accrual basis of accounting. The GM, with support from the Finance Manager, will oversee the preparation of the annual report and engaging the independent auditor services on an annual basis.

The audited financial statements will be submitted to RUS by March 31 annually, as required by lending agreement.

The audited financial statements will be submitted to State Auditor by May 31 annually to comply with state statutes.

## **Financial Reports**

On a monthly basis, the GM or Finance Manager will present financial reports for the Board. The monthly reports will include:

- District operating statements
- Balance sheet
- Cash expenditures
- Budget to actuals comparison

On a quarterly basis, the GM or Finance Manager will provide a report on capital expenditures to the Board.

The financial report should clearly articulate the District's year-to-date revenue and expenditures and variation from budget estimates, indicating any significant deviations. A commentary should be attached to Board reports detailing reasons for variations and recommendations for corrective action should that be required. The GM or Finance Manager will indicate what effect any variations will have on the budget projections and provide this information to the Board.

## **Public Availability**

All published financial reports will be available via the District's website.

## **2.04 Audit Policy**

### **Financial Audit**

In accordance with statutory requirements, and sound governance practices, the Board will engage services of an independent accountant to complete an annual audit of the District's financial records in accordance with Generally Accepted Accounting Principles (GAAP) as defined by the Governmental Accounting Standards Board (GASB).

As a RUS borrower, the District is required to provide audited financial statements to RUS by March 31 annually. The audit will be completed within 90 days of the end of the District's fiscal year. The purpose of the independent audit is to provide an objective, impartial assessment of the District's financial records, and assessment of internal control structure designed by the District to ensure that the District's assets are protected from loss, theft, or misuse. The audit will be conducted in accordance with GAAP and financial auditing standards. At the conclusion of the audit, the auditor will present the results of the audit and their opinion to the Board.

Audited financial statements will be posted on the District's website for public access no later than June 30 of each year.

## 3. REVENUES

### 3.01 Rate Setting Policy

The District is responsible for setting utility rates in a responsible and transparent manner.

#### **Rate Setting Philosophy**

The chief objective of rate setting is to ensure that revenue requirements are consistent with the financial goals of the District, including cash requirements, all ratio coverage requirements, debt service coverage, and debt financing limits.

Within this context, the District will strive to follow these general principles when making rate-related decisions:

- Rates should ensure to recover cost of providing services.
- Rates should be set as low as is responsible.
- Rates should be fair, and developed so as to minimize the subsidization of one rate class by another.
- Rates should be stable and understandable.
- Rates should be the product of customer involvement.

In addition, rates will be established separately for each of the District's divisions—Water and Electric. Rates will be developed to sustain the division's respective operations, and cannot be used to subsidize operating costs of the other division.

#### **Rate Studies**

The GM is responsible to ensure that rate studies will be conducted every three to five years to update assumptions and to ensure the long-term solvency and viability of the District. The GM may contract with an external consultant to conduct the study. The consultant must be selected via a competitive process involving a public request for proposal.

The rate study will take into account historic budgets, and documented assumptions (including the assumption that average weather conditions will prevail).

Results will be presented to the Board.

#### **Rate Setting Process**

As necessary, the GM will make recommendations to the Board for rate changes. The GM will use the following tools as the basis for their recommendation:

- *Most recent Rate Study:* See above.
- *Purchased power requirements and pricing conditions*
- *Work Plan and other applicable long-range plans*
- *Bureau of Labor and Statistic's Consumer Price Index:* Changes in the local and/or national inflation will be taken into consideration.

Any recommended rate changes will be shared with the public at a public hearing. The Board will take public feedback into consideration as part of the decision-making process, in alignment with the rate setting principle of ensuring that rates are a product of customer involvement.

### 3.02 Tax Revenue Policy

Under RCW 54.16.080, the District has taxing authority. It is the policy of the District to utilize any revenue generated through taxes (property or timber), to help sustain the financial strength of the organization.

#### **Tax Revenue Use**

Any revenue generated through a levied tax will be used as needed to provide services to the District's customers. Recommended expenditure of tax revenue will be proposed by the GM during the annual budget process, and approved by the Board.

### 3.03 Uncollectible Accounts Policy

The District will provide a fair representation of accounts receivable in the organization's financial statements, by establishing and following uniform guideless to determine which delinquent accounts receivable should be considered bad debt and written off.

The GM is authorized to establish procedures for and to write off any uncollectible account in the amount of .05% of annual operating revenues of the last complete fiscal year or less, as long as the GM will be satisfied that every reasonable effort has been made by the District to accomplish the collection of the account. Accounts that are older than four years can be automatically deemed uncollectible.

Any account in excess of .05% of annual operating revenues of the last complete fiscal year which is deemed to be uncollectible will be referred to the Board for final write-off.

The Board delegates to the GM the responsibility to develop operational policies and procedures to provide guidance on how to write off uncollectible accounts, and accurately account for written-off receivables.



## 4. INVESTMENTS, RESERVES, AND DEBT

### 4.01 Investment Policy

It is the policy of the District to invest public funds in a manner which will provide the highest investment return with the maximum security while meeting daily cash flow demands and conforming to all state and county statutes governing the investment of public funds.

#### **Investment Structure**

The Board is ultimately responsible for the investment of District funds, and the Board has the authority to direct the management of the District's investment program.

It is the current practice of the District to invest funds with Jefferson County. According to the Jefferson County's Treasurer Investment Policy, the primary objectives of the County's investment procedures are three-fold:

- 1) Safety of principal is the foremost objective. Each investment transaction shall seek to ensure that capital losses are avoided, whether from securities defaults or erosion of market value.
- 2) The Treasurer's investment portfolio shall be sufficiently liquid as to enable county and districts to reasonably meet operating requirements.
- 3) The investment portfolio shall be designed to equal or exceed the average return on three or six month U.S. Treasury bills or the average rate obtained from the State's Local Government Investment Pool ("LGIP"), whichever is higher. This shall be considered minimum standard for the portfolio's rate of return.

#### **Investment Reporting**

It is the policy of Jefferson County for their Finance Committee (including their Treasurer, Auditor, and Chairman of the Board of County Commissioners) to hold a quarterly review of the investment performance and the investment plan.

The District's GM or Finance Director will obtain and review reports from the County Treasurer on the monthly basis. The purpose of this review is to monitor ongoing investment practices and returns on investment, and accuracy of transaction reporting.

### 4.02 Reserve Policy

The District will maintain sufficient reserve funds to ensure reasonable continuity of operations.

#### **General Fund Operating Reserve**

The District will maintain a general fund operating reserve, with the primary purpose of providing stability in the event of unexpected changes to revenues or expenses.

The balance of the fund will be sufficient to provide funding for at least 90 days of operating expenses based on the current budget. The fund must be comprised of available cash for at least

100% of the established minimum 90-day level. Available cash is defined as cash in non-restricted accounts and proceeds available from operating line of credit.

All expenditures drawn from reserve funds require prior Board approval unless previously authorized by the Board for expenditure within the District's annual budget. If fund balances fall below the required levels as set by the policy, the District will include a plan to restore reserves to the required levels within its annual budget.

### **Capital Improvement Reserves**

The District will maintain a capital improvement reserve, with the primary purpose of providing sustainable funding for major capital project needs, and to be used for the extraordinary expenses associated with major construction and maintenance projects. An initial transfer of \$XXX from general fund operating reserves will be made to fund the capital improvement reserve. The reserve will be maintained at a minimum of 50% and maximum of 100% of the estimated cost of the District's capital needs, as determined by the Board.

The capital improvement reserve will be reviewed annually, and funded based on recommendation of the GM, as the District's financial situation allows. Withdrawals or re-allocations from this reserve will be approved by the Board.

The capital improvement reserve will be used to fund replacement of capital infrastructure including facilities, information technology, and other capital assets.

## **4.03 Debt Policy**

It is the policy of the District to maintain a sound debt position and protect the credit quality of its obligations. This policy is design to ensure that the District's debt is issued both prudently and cost effectively.

### **Governing Law**

In the issuance and management of debt, the District will comply with all legal requirements imposed by federal, state, and local rules and regulations, as applicable.

- **State Statutes:** The District may contract indebtedness as provided for by chapter RCW 57.20. Indebtedness is subject to the limitations on indebtedness provided for in RCW 57.20 and Article VIII of the Washington State Constitution. Bonds evidencing such indebtedness shall be issued and sold in accordance with RCW 39.46.
- **Federal Rules and Regulations:** The District shall issue and manage debt in accordance with the limitations and constraints imposed by federal rules and regulations, including Internal Revenue Code of 1986, as amended; the Treasury Department regulations thereunder; and the Securities Acts of 1933 and 1934.
- **Local Rules and Regulations:** The District shall issue and manage debt in accordance with the limitations and constraints imposed by the District Code, the Financial Policy, resolutions, rules, and regulations.

### *Short-Term Debt*

Short-term debt is defined as debt that will be held for a period of two years or less. The District may use short-term debt to cover temporary cash flow shortages. As such, the District will not use short-term borrowing to fund ongoing operating or maintenance costs. Short-term debt will only be considered as a financing option if a detailed plan for the repayment of the borrowing is presented to the Board prior to the issuance of the debt. Short-term debt will be retired within two years of initial borrowing.

#### *Long-Term Debt*

Long-term debt is defined as debt that will be held for a period of two years or more. The District will only issue long-term debt for the purpose of financing or refinancing the cost of design, acquisition, and/or construction of major capital projects described in the District's Capital Improvement Plan (CIP), or to refund outstanding debt. As such, the District will not use long-term borrowing to fund ongoing operating or maintenance costs.

#### *Emergency Borrowing*

The District will maintain a line of credit to borrow against in an emergency situation.

Per RCW 39.04.280, "emergency" means unforeseen circumstances beyond the control of the municipality that either: (a) Present a real, immediate threat to the proper performance of essential functions; or (b) will likely result in material loss or damage to property, bodily injury, or loss of life if immediate action is not taken. This includes declared federal or state disasters, as well as local agency-declared disasters.

If an emergency exists, the GM may declare an emergency situation exists. If a federal or state emergency has been declared, the Board should pass a resolution acknowledging the declaration and invoking RCW 39.04.280 as well.

Under emergency circumstances, the GM or Board may initiate the use of the District's emergency line of credit. Any borrowing of the line of credit will be approved by the board.

#### **Delegation of Debt Authority**

The Board is ultimately responsible for the District's use of debt. As such, the Board will approve indebtedness and the related policy framework that guides debt-related decisions. The Board delegates the overall administrative management responsibility for the District's debt to the GM. The GM, in turn, may delegate this responsibility to select employees via a written consent.

The District may contract with an external adviser to assist with the management of the District's debt in a manner that is consistent with the District's objectives and this policy.