

Beacon Hill Water & Sewer District

Financial Management Policies

Adopted on February 16, 2022

Statement of Purpose

The financial integrity of Beacon Hill Water & Sewer District (the “District”) is of utmost importance. To discuss, write, and adopt a set of financial management policies is a key element to maintaining this integrity. The set of policies within this document serve as a central reference point of the most important of our policies, which are critical to the continued financial health of our local government.

Written, adopted financial management policies have many benefits, such as assisting the elected officials and staff in the financial management of the municipality, saving time and energy when discussing financial matters, engendering public confidence, and providing continuity over time as elected officials and staff members change. While these policies will be amended periodically, they will provide the basic foundation and framework for many of the issues and decisions facing the Beacon Hill Water & Sewer District. They will promote sound financial management and assist in the District’s stability, efficiency, and effectiveness.

Financial Goals

Our financial goals seek to:

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

Financial Policies

Beacon Hill Water & Sewer District financial management policies address the following major areas:

- General Policies
- Revenue Policies
- Expenditure Policies
- Operating Budget Policies
- Capital Management Policies
- Accounting Policies
- Debt Policies
- Communication Policies
- Compliance Policies
- Investment & Cash Management Policies
- Reserve Policies

These policies may be addressed in this policy or separate policies, including but not limited to a Post-Issuance Compliance Policy for Bonds.

I. General Policies

1. The Beacon Hill Water & Sewer District may adopt resolutions to set financial policies to assure the financial strength and accountability of the District.
2. The District Manager shall develop administrative directives and general procedures for implementing the Board of Commissioners' financial policies.
3. All Departments will share in the responsibility of meeting policy goals and ensuring long-term financial health. Future service plans and programs will be developed to reflect current policy directives, projected resources, and future service requirements.
4. To attract and retain employees necessary for providing high quality services, the District shall establish and maintain a competitive compensation and benefit package with the public and private sectors.
5. Efforts will be coordinated with other governmental agencies to achieve common policy objectives, share the cost of providing governmental services on an equitable basis, and support favorable legislation at the state and federal level.
6. Initiate, encourage, and participate in economic development efforts to create job opportunities and strengthen the local economy.
7. The District will strive to maintain fair and equitable relationships with its contractors and suppliers.

II. Revenue Policies

Design, maintain, and administer a revenue system that will assure a reliable, equitable, diversified, and sufficient revenue stream to support desired services.

General Revenues

1. Current expenditures will be funded by current revenues. The District will try to maintain a diversified and stable revenue system to protect programs from short-term fluctuations in any single source.
2. Budgeted revenues will be estimated conservatively using accepted standards and estimates provided by the state, other governmental agencies or reliable economic forecasters when available.
3. General Fund and other unrestricted revenues will not be earmarked for specific purposes, activities or services unless otherwise authorized by Board of Commissioners or required by law, or generally accepted accounting practices (GAAP). All nonrestricted revenues will be deposited into the Maintenance Fund and utilized by the District in accordance with the approved budget and/or Board of Commissioners approval.
4. If revenues from "one-time" or limited duration sources are used to balance the annual operating budget, it is to be fully disclosed and explained at the time the budget is presented. It is the District's goal to not rely on these types of revenues to balance the operating budget.
5. The District will not use deficit financing and borrowing to support on-going operations in the case of long-term (greater than one year) revenue downturns. Revenue forecasts will be revised and expenses will be reduced to conform to the revised long-term revenue forecast or revenue increases will be considered.
6. The District will follow an aggressive and professional policy of collecting revenues. When necessary, discontinuing service, foreclosure, liens and other methods of collection, such as imposing penalties and late charges, may be used.

Fees and Charges

7. Enterprise and Internal Service operations will be self-supporting.
8. The District will maximize the use of service users' charges and subsidies from other District funds, for services that can be identified and where costs are directly related to the level of service provided.
 - a. Charges for providing utility services shall be sufficient to finance all operating, capital outlay, and debt service expenses of the District's enterprise funds, including operating contingency, planned capital improvements, and reserve requirements.
 - b. Other reimbursable work performed by the District (labor, contracted services, equipment and other indirect expenses) shall be billed at actual or estimated actual cost.

- c. Charges for services shall accurately reflect the actual or estimated cost of providing a specific service. The cost of providing specific services shall be recalculated periodically, and the fee adjusted accordingly. The District shall maintain a current schedule of fees and charges, showing when the fees were last reviewed and/or recalculated. Fees and charges, and utility rates will be reviewed every three years at a minimum.
- f. The District will consider market rates and charges levied by other municipalities for like services in establishing rates, fees, and charges.
- g. Certain fees, such as rental fees, will be based upon market conditions and are not subject to the limitations of cost recovery.

Grants and Gifts

- 9. Grant funding for programs or items which address the District's current priorities and policy objectives should be considered to leverage District funds. Inconsistent and/or fluctuating grants should not be used to fund on-going programs.
- 10. Before accepting any grant the District shall thoroughly consider the implications in terms of ongoing obligations that will be required in connection with acceptance of said grant.
- 11. All grants and other federal and state funds shall be managed to comply with the laws, regulations, and guidance of the grantor, and all gifts and donations shall be managed and expended in accordance with the wishes and instructions of the donor.

General Funds

The Maintenance Funds are the 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.

Capital Project Funds

The Capital Funds are used for purchase or construction of capital projects and may be used for debt payments as approved by the Board of Commissioners.

Debt Service Funds

Revenue Bond Accounts are maintained to pay the principal and interest payments associated with bond issues. Monies are transferred semi-annually from the Maintenance and Capital Funds in the amount of the debt service payment(s) to the related Revenue Bond Account.

Bond Reserve Funds

The Bond Reserve Fund is maintained to meet bond covenants and to provide an additional source to draw upon if an unforeseen revenue decrease occurs.

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 General Manager, reviewed, and posted. Cash over/short conditions of more than \$100 shall be reported to the Board of Commissioners 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.

Public Works Trust Fund Funds

The Debt Reserve 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 Maintenance and/or Capital funds in the amount of the monthly portion of the annual debt payments for long term debt to the Debt Reserve Account.

Depository Account

All monies collected from customers are receipted and deposited into the Depository main account at Heritage Bank. All District funds received shall be deposited at Heritage Bank 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.

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.

1. Unrestricted Cash Reserve – The District's goal is to maintain an unrestricted cash reserve that is equivalent to 6 months of operating expenditures or greater. (The Unrestricted Cash Reserve goal of 6 months or greater, include the Maintenance Funds, Capital Funds, Emergency Funds and Replacement Funds).
2. Bond Reserve Fund – The Bond Reserve Fund is a restricted fund and may be legally required for specific debt issues subject to the determination by the General Manager and/or the Finance Administrator. Bond Reserve Funds will be established in accordance with the legal covenants of the debt issue. The Bond Reserve Fund may be funded from bond proceeds, purchase of a Surety Policy from a bond insurance company, or surplus cash that is available.

Parity Debt Service Coverage Ratio of 2.00X or higher

The District shall strive to maintain a minimum target goal for "parity debt service coverage ratio" (gross revenue of the utilities less operating and maintenance expenses (not including

depreciation, taxes and debt payments) of 2.00 times or higher on the combined parity annual debt service payments.

Use of General Accepted Rate Setting Methods

The analysis associated with “generally accepted” rate-setting techniques includes the following:

1. Revenue Requirement Analysis – Establishes the overall level of financial and rate needs of the District.
2. Cost of Service Analysis – Design rates to collect the appropriate level of revenue and to meet the goals and policies of the District.
3. The water and sewer rate structure shall be designed to work toward encouraging conservation and efficient use of resources and discourage excessive or wasteful usage.
4. 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.
5. Rates and connection fees shall be reviewed annually to ensure sufficient revenues.
6. Updates to the District’s internal Rates & Fees study will be reviewed annually to update assumptions to ensure long-term solvency and viability of the District’s utilities
7. 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.

III. Expenditure Policies

Identify priority services, establish appropriate service levels, and administer the expenditure of available resources to assure fiscal stability and the effective and efficient delivery of services.

1. The District will strive to adopt an annual General Fund budget in which current expenditures do not exceed current projected revenues. Capital expenditures may be funded from one-time revenues.
2. Department managers are responsible for managing their budgets within the total appropriation for their department.
3. The District will take immediate corrective actions if at any time during the fiscal year expenditure and revenue re-estimates are such that an operating deficit is projected at year-end. Corrective actions can include a hiring freeze, expenditure reductions, fee increases, or use of contingencies. The District may approve a short-term interfund loan or use of one-time revenue sources to address temporary gaps in cash flow, although this will be avoided if possible.
4. Long-term debt or bond financing shall not be used to finance current operating expenditures.
5. The District will assess funds for services provided internally by other funds. Interfund service fees charged to recover these costs will be recognized as revenue to the providing fund.

6. Emphasis will be placed on improving individual and work group productivity rather than adding to the work force. The District may invest in technology and other efficiency tools to maximize productivity. The District may hire additional staff only after the need for such positions has been demonstrated and documented.
7. All compensation planning will focus on the total costs of compensation which includes direct salary, health care benefits, pension contributions, and other benefits which are a cost to the District.
8. Periodic comparisons of service delivery will be made to ensure that quality services are provided to our citizens at the most competitive and economical cost. Privatization and contracting with other governmental agencies will be evaluated as alternatives to service delivery where appropriate. Programs that are determined to be inefficient and/or ineffective shall be reduced in scope or eliminated.
9. Whenever feasible, government activities will be considered enterprises if so doing will increase efficiency of service delivery or recover the cost of providing the service from the benefiting entity by user fees.
10. The District will make every effort to maximize any discounts offered by creditors/vendors.

IV. Operating Budget Policies

1. The District will adopt and maintain a balanced annual operating budget.
2. The District will strive to adopt a budget where current annual operating revenues will be equal to or greater than current operating expenditures.
3. Balanced revenue and expenditure forecasts will be prepared to examine the District's ability to absorb operating costs due to changes in the economy, service demands, contractual obligations, and capital improvements. The forecast will encompass five years and will be updated annually.
4. In the event a balanced budget is not attainable, and the cause of the imbalance is expected to last for no more than one year, the planned use of reserves to balance the budget is permitted. In the event that a budget shortfall is expected to continue beyond one year, the planned use of reserves must be developed as part of a corresponding strategic financial plan to close the gap through revenue increases or expenditure decreases.
5. Any year-end operating surpluses will revert to unappropriated balances for use in maintaining reserve levels set by policy and will be available for capital expenditures and/or "one-time" only General Fund expenditures.
6. The District will provide for adequate maintenance and the orderly replacement of capital assets and equipment.
7. The operating budget shall serve as the annual financial plan for the District. It will serve as the policy document of the District for implementing the Board of Commissioners' goals and objectives. The budget will provide the staff the

resources necessary to accomplish the determined service levels.

8. The District Manager shall present a proposed biennial operating budget to the Commissioners in November. The Board of Commissioners must adopt by resolution a final balanced budget no later than December 31.
9. Funds may not be expended or encumbered for the following fiscal year until the budget has been adopted by the Board of Commissioners.
10. Budget control and accountability is maintained at the departmental level.
11. The District Manager and/or Finance Administrator has the authority to approve appropriation transfers between programs or departments within a fund. In no case may total expenditures of a particular fund exceed that which is appropriated by the Board of Commissioners without a budget amendment. Amendments to the budget are approved by the Board of Commissioners.

V. Capital Management Policies

Review and monitor the state of the District's capital equipment and infrastructure, setting priorities for its replacement and renovation based on needs, funding alternatives, and availability of resources.

Capital Improvement Plan

1. The District may develop a Capital Improvement Plan (CIP) which is consistent with the District's Sewer Comprehensive Plan (SCP) and Water System (WSP). The WSP shall be for a period of ten years and the SCP as amended.
2. The CIP will include all projects to maintain public capital facilities required to maintain service levels at standards established by the District. It may also include for consideration such other projects as requested by the Commissioners.
3. The CIP will provide details on each capital project plan including estimated costs, sources of financing and a full description of the project.
4. The District will finance only those capital improvements that are consistent with the adopted CIP and the District's priorities. All capital improvement operating and maintenance costs will be included in operating budget forecasts.
5. A status review of the CIP will be conducted annually and a report will be presented by the District Manager to the Commissioners.

Capital Asset Management

6. The District will maintain its capital assets at a level adequate to protect the capital investment and to minimize future maintenance and replacement costs. The budget will provide for adequate maintenance and orderly replacement of capital assets from current revenues where possible.
7. The capitalization threshold used in determining if a given asset qualifies for capitalization is \$5,000 per item with a useful life of over one year. All capital assets shall have an assigned asset number when placed into service.

8. The District Manager and/or Finance Administrator will conduct an annual physical count/inspection of all capital assets.
9. Adequate insurance will be maintained on all capital assets consistent with the results of the annual physical count/inspection.

VI. Accounting Policies

Comply with prevailing federal, state, and local statutes and regulations. Conform to a comprehensive basis of accounting in compliance with Washington State statutes and with generally accepted accounting principles (GAAP) as promulgated by the Governmental Accounting Standards Board (GASB) and the Government Finance Officers Association (GFOA) where applicable.

1. The District uses generally accepted accounting principles (GAAP).
2. The District will maintain expenditure categories according to state statute and administrative regulation. The District will use the "Budgeting, Accounting & Reporting System" (BARS) prescribed by the State Auditor for its revenue and expenditure classification.
3. Monthly budget reports showing the current status of revenues and expenditures will be prepared and presented to the Commissioners. Board approved budgets will be available for public inspection on the District's website.
4. Monthly financial updates will be presented to the Commissioners.
5. Electronic financial systems will be maintained to monitor revenues, expenditures, and program performance on an ongoing basis.
6. The Annual Financial Report will be prepared and submitted to the State Auditor's Office no later than 150 days from the end of the preceding fiscal year.
7. The Annual Financial Report will be prepared on the basis of Generally Accepted Accounting Principles (GAAP) and demonstrates compliance with Washington State statutes and the BARS manual prescribed by the State Auditor, which is a comprehensive basis of accounting. The report will provide full disclosure of all financial activities and related matters.
8. Every two years a financial audit shall be performed by the Washington State Auditor's Office, which will issue an official opinion on the comparative financial statements. An accountability audit (i.e., accountability for public resources and compliance with state laws and regulations and its own policies and procedures) shall be performed at least once every two years by the Washington State Auditor's Office as currently performed.
9. The District's budget should satisfy criteria as a financial and programmatic policy document, as a comprehensive financial plan, as an operations guide for all organizational units, and as a communications device for all significant budgetary issues, trends and resources.

VII. Debt Policies

Establish guidelines for debt financing that will provide needed capital equipment and infrastructure improvements while minimizing the impact of debt payments on current revenues.

Purpose and Overview

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

Capital Planning:

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

Legal Governing Principles

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

1. State Statutes – The District may contract indebtedness as provided for by State law, subject to any limitations on indebtedness.
2. 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 the Internal Revenue Code of 1986, as amended; the Treasury Department regulations there under; and the Securities Acts of 1933 and 1934.
3. Local Rules and Regulations – The District shall issue and manage debt in accordance with the limitations and constraints imposed by local rules, policies, and regulations.

Roles & Responsibilities

The Board of Commissioners shall:

- o Approve indebtedness;

- Approve appointment of the bond underwriter and bond counsel;
- Approve the Financial Management Policy, including the section on the Debt Policy;
- Approve budgets sufficient to provide for the timely payment of principal and interest on all debt; and

The District Manager and/or Finance Administrator in consultation with the Commissioners shall:

1. Assume primary responsibility for debt management
2. Provide for the issuance of debt at the lowest possible cost and risk;
3. Provide for the issuance of debt at appropriate intervals and in reasonable amounts as required to fund approved capital expenditures;
4. Recommend to the Commissioners the manner of sale of debt;
5. Monitor opportunities to refund debt and recommend such refunding as appropriate.
6. Comply with all Internal Revenue Service (IRS), Securities and Exchange (SEC), and Municipal Securities Rulemaking Board (MSRB) rules and regulations governing the issuance of debt.
7. Provide for the timely payment of principal and interest on all debt and ensure that the fiscal agent receives funds for payment of debt service on or before the payment date;
8. Provide for and participate in the preparation and review of offering documents;
9. Comply with all terms, conditions and disclosure required by the legal documents governing the debt issued;
10. Submit to the Commissioners all recommendations to issue debt;
11. Provide for the distribution of pertinent information to rating agencies;
12. Comply with undertakings for ongoing disclosure pursuant to SEC Rule 15c2-12
13. Apply and promote prudent fiscal practices.

Ethical Standards Governing Conduct

The members of the District staff will adhere to the standards of conduct as stipulated by the Public Records Act, RCW 42.56, and Ethics in Public Service, RCW 42.52, as applicable.

Types of Debt Instruments:

The District may utilize several types of municipal debt obligations to finance long-term capital projects.

1. **Revenue Bonds** – The District shall use Revenue Bonds as permitted under State law for the purpose of financing construction or improvements to facilities of enterprise (i.e., utility) systems operated by the District in accordance with the Capital Improvement Plan.
2. **Special Assessment/Utility Local Improvement District Bonds** – The District shall use Special Assessment Bonds as permitted under State law for the purpose of assuring the greatest degree of public equity in place of general obligation bond where possible.

Utility Local Improvement District (ULID) Bonds represent debt that is repaid by the property owners who specifically benefit from the capital improvements through annual assessments paid to the District. ULID's are formed by the District after a majority of property owners agree to the assessment. No taxing power or general fund pledge is provided as security, and ULID Bonds are not subject to statutory debt limitations. The debt is backed by the value of the property within the LID and an LID Guaranty Fund, as required by State Law.

3. **Short Term Debt** – The District may use short term debt as permitted by State law for the purpose of meeting any lawful purpose of the municipal corporation, including the immediate financing needs of a project for which long term funding has been secured but not yet received. The District may use inter-fund loans rather than outside debt instruments to meet short-term cash flow needs for the project. Inter-fund 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 inter-fund loans will be subject to Commissioner approval and will bear interest at prevailing rates.
4. **Leases** – The District is authorized to enter into capital leases under State law, subject to the approval of the Commissioners.
5. **Public Works Trust Fund Loans** – The District shall use Public Works Trust Fund Loans as provided under State law for the purpose of repairing, replacing or creating domestic water systems and sanitary sewer systems.

General Requirements

1. The District will not use long-term debt to pay for current operations. The use of bonds or certificates of participation will only be considered for significant capital and infrastructure improvements.
2. The term of the debt shall never extend beyond the useful life of the improvements to be financed.
3. The general policy of the District is to establish debt repayment schedules that use level annual principal and interest payments.
4. Interest earnings on bond proceeds will be limited to 1) funding the improvements specified in the authorizing bond resolution, or 2) payment of debt service on the bonds.

Proceeds from debt will be used in accordance with the purpose of the debt issue.

Funds remaining after the project is completed will be used in accordance with the provisions stated in the bond resolution that authorized the issuance of the debt.

5. The District will use the most prudent methods of acquiring capital outlay items, including the use of lease-purchase agreements. In no case will the District lease-purchase equipment whose useful life is less than the term of the lease.
6. The District will maintain its bond rating at the highest level fiscally prudent, so that future borrowing costs are minimized and access to the credit market is preserved. The District will encourage and maintain good relations with financial bond rating agencies and will follow a policy of full and open disclosure.
7. The District shall use refunding bonds in accordance with the Refunding Bond Act, RCW 39.53. Unless otherwise justified, the District will refinance debt to achieve true savings as market opportunities arise. Refunding debt shall never be used for the purpose of avoiding debt service obligations. A target 5% cost savings (discounted to its present value) over the remainder of the debt must be demonstrated for any “refunding”, unless otherwise justified.
8. With Commissioner approval, interim financing of capital projects may be secured from the debt financing marketplace or from other funds through an inter-fund loan as appropriate in the circumstances.

VIII. Communication Policy

1. It is the policy of the District to remain as transparent as possible.
2. The District shall manage relationships with the rating analysts assigned to the District’s credit, using both informal and formal methods to disseminate information.
3. The District’s Basic Financial Statements and Notes shall be a vehicle for compliance with continuing disclosure requirements. The Notes to the Financial Statements may be supplemented with additional documentation as required. Each year included in the Notes to the Financial Statements, the District will report its compliance with debt targets and the goals of the Debt Policies.
4. The District shall seek to maintain and improve its current bond rating.

IX. Compliance Policy

Investment of Proceeds

The District shall comply with all applicable Federal, State and contractual restrictions regarding the investment of bond proceeds. This includes compliance with restrictions on the types of investment securities allowed, restrictions on the allowable yield of invested funds as well as restrictions on the time period over which some of the proceeds may be invested.

Legal Covenants

The District shall comply with all covenants and conditions contained in governing law and any legal documents entered into at the time of a bond offering.

Periodic Policy Review

At a minimum, the Debt Policy and the Post Issuance Compliance Policy (for Bonds) will be

reviewed and updated every five years.

X. Investment and Cash Management Policies

Manage and invest the District's operating cash to ensure its legality, safety, provide for necessary liquidity, avoid imprudent risk, and optimize yield.

1. Cash and Investment programs will be maintained in accordance with District regulations and will ensure that proper controls and safeguards are maintained.

District funds will be managed in a prudent and diligent manner with an emphasis on safety of principal, liquidity, and financial return on principal, in that order.

2. The District will develop and adopt an investment policy. Currently the Local Government Investment Pool (LGIP), which is an investment vehicle maintained by the State Treasurer's Office to help local governmental entities achieve higher rates of return by pooling local funds for economies of scale, is one authorized investment vehicle available to the District. Other vehicles could include but not be limited to bonds and interest bearing accounts.
3. The District will maintain written guidelines on cash handling, accounting, segregation of duties, and other financial matters.
4. Monthly investment reports will be prepared, reviewed and distributed to the Commissioners showing cash position, and year-to-date budgeted and actual expenditures.
5. The District will conduct annual reviews of its internal controls and cash handling procedures.
6. Internal controls will be tested on a quarterly basis at a minimum.