

# FINANCIAL POLICIES

Financial Policies are used to guide the County in the financial management of all funds. The North Carolina Local Government Budget and Fiscal Control Act regulates North Carolina governmental units in financial matters. These policies are used by the Catawba County Board of Commissioners to allow the County to function as a fiscally sound governmental unit.

## **Revenue Policy**

The property tax rate shall be set each year based on the cost of providing general government services.

The fee structure established for the Solid Waste Management Fund will be sufficient to finance needed operating, capital, and debt costs of providing solid waste services.

Revenue projections will be made in a conservative manner.

Any County service that benefits specific recipients shall be supported either fully or in part by user fees, based on cost recovery percentages established by the Board of Commissioners.

Fund Balance Appropriated shall not exceed an amount that management can reasonably expect to save during the year or that is not sustainable while remaining above the Board of Commissioners 16 percent fund balance goal.

## **Operating Budget Policy**

The County will continue to develop benchmarks and monitor performance measurements to assist in the evaluation of expenditures.

Operating budget projections will include annual costs plus allowances for operating costs associated with new capital.

## **Capital Improvement Policy (See CIP section for 5-year plan)**

The County will review and adopt annually Five-Year Capital Improvement Plan detailing each capital project, the estimated cost, and description. This plan will be used as a guide in the development of the annual budget.

## **Accounting Policy**

Annually, a firm of licensed, certified public accountants will issue an official opinion on the County's annual financial statements to the Board of Commissioners.

Financial systems will be maintained to monitor revenues and expenditures on a monthly basis.

Staff will give a Financial Report to the Board of Commissioners covering revenues and expenditures on a periodic basis.

## **Debt Policy (See Appendices for full policy)**

The County will manage its debt obligations to meet demands for capital facilities while striving to maintain or to improve the County's Aa1/AA+ bond rating.

Debt should not exceed 1.5 percent of the countywide assessed value.

The County's annual debt service payment should not exceed 20 percent of the operational budget.

**Reserve Policy**

The County has a goal of maintaining General Fund fund balance of 16 percent, the equivalent of two months of operating expenses. These funds will be used to avoid cash flow interruptions, generate investment income, eliminate the need for short-term borrowing, and for use in the case of unanticipated emergencies.

The County will maintain a Contingency Reserve to provide for unanticipated expenditures of a non-recurring nature to meet unexpected increases in the operating budget.

The Water and Sewer Fund shall maintain a minimum fund balance of \$5,000,000.

Catawba Valley Medical Center is public non-profit hospital and an entity or component unit of Catawba County Government. The County owns the assets but the Hospital is not included in the County budget, although the Hospital is required to submit its annual budget to the County for review. The Hospital is authorized to operate as an enterprise fund. The Catawba Valley Medical Center Board of Trustees is required to submit a monthly copy of its financial statements to the County Chief Financial Officer that include a budget to actual comparison of all expenses and revenues. The Hospital maintains a balance with the County, in the Hospital Reserve Fund. This Fund is intended to be used to finance and construct major Hospital capital projects, if needed, and the school nurse program at Public Health.

**Investment Policy (See Appendices for full policy)**

The County's investments will be undertaken in a manner that (1) seeks to ensure the preservation of capital in the overall portfolio (safety), (2) provides for sufficient liquidity to meet the cash needs of the County's various operations (liquidity), and (3) attains a fair market rate of return (yield) its debt obligations to meet demands for capital facilities while striving to maintain or to improve the County's Aa1/AA+ bond rating.

**Balanced Budget Policy**

The County will annually develop and adopt a balanced budget in which the sum of estimated net revenues and appropriated fund balances is equal to appropriations, pursuant to the North Carolina Local Government Budget and Fiscal Control Act.

# FINANCIAL STATISTICS, STATEMENTS & POLICIES

## Investment Policy

### SCOPE

This investment policy applies to all financial assets of Catawba County. The County combines the cash resources of its various funds into a single pool in order to maximize investment earnings. Each fund's portion of total cash and investments is shown by fund type in the combined balance sheet of the County's Comprehensive Annual Financial Report. This policy applies to all transactions involving the financial assets and related activity of all the various funds accounted for in the County's Comprehensive Annual Financial Report.

### OBJECTIVES

Funds of the County will be invested in accordance with North Carolina General Statute 159-30, the County's Investment Policy and written administrative procedures. The County's investments shall be undertaken in a manner that (1) seeks to ensure the preservation of capital in the overall portfolio (safety), (2) provides for sufficient liquidity to meet the cash needs of the County's various operations (liquidity), and (3) attains a fair market rate of return (yield). Cash management functions will be conducted in such a manner as to ensure that adequate funds will always be available to meet the County's financial obligations and to provide the maximum amount of funds available for investment at all times.

### RESPONSIBILITY

In accordance with North Carolina General Statutes, the Chief Financial Officer is designated as the Investment Officer of the County and is responsible for the County's financial assets. The Chief Financial Officer is also responsible for investment decisions and activities and shall develop and maintain written administrative procedures for the operation of the cash management and investment program, consistent with North Carolina General Statutes. In order to promote the efficiency of investment duties and related activities, the Chief Financial Officer may, at his option, designate one or more members of his staff to perform the functions of cash management and investing. Such delegation shall not relieve the Chief Financial Officer of responsibility for all transactions and executions performed by the designated individuals.

The standard of prudence to be used by the Investment Officer shall be the "prudent person" standard and shall be applied in the context of managing an overall portfolio. It states that investment officers acting in accordance with North Carolina General Statutes, this policy, written administrative procedures, and exercising due diligence, shall be relieved of personal responsibility for an individual security's credit risk or market price change, provided deviations from expectations are reported in a timely fashion and appropriate action is taken to control adverse developments. Investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the

management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived.

## **ETHICS AND CONFLICTS OF INTEREST**

The Chief Financial Officer, designated Investment Officer and employees involved in the investment process shall refrain from personal business activity that could conflict with proper execution and management of the investment program, or which could impair their ability to make impartial investment decisions. Investment officials and employees shall disclose to the County Manager any material interests in financial institutions that conduct business with Catawba County, and they shall further disclose any personal financial/investment positions that could be related to the performance of the County's portfolio. This disclosure need not include normal banking or brokerage relationships that are at normal market rates and conditions available to the general public.

## **STATUTORY AUTHORIZATION**

The legal limitations of local government investments are defined in North Carolina G.S. 159-30. Accordingly, the following classes of securities are indicative of the investments utilized by Catawba County:

- A. Obligations of the United States or obligations fully guaranteed both as to principal and interest by the United States.
- B. Obligations of the Federal Financing Bank, the Federal Farm Credit Bank, the Bank for Cooperatives, the Federal Intermediate Credit Bank, the Federal Land Banks, the Federal Home Loan Banks, the Federal Home Loan Mortgage Corporation, the Federal National Mortgage Association, the Government National Mortgage Association, the Federal Housing Administration, the Farmers Home Administration and the U.S. Postal Service.
- C. Obligations of the State of North Carolina.
- D. Deposits at interest or purchase of certificates of deposit with any bank, savings and loan association or trust company in North Carolina, provided such deposits or certificates of deposit are fully collateralized.
- E. Prime quality commercial paper bearing the highest rating of at least one nationally recognized rating service and not bearing a rating below the highest (A1, P1, F1) by any nationally recognized rating service which rates the particular obligation.
- F. Participating shares in a mutual fund for local government investment (such as the N.C. Capital Management Trust), which is certified by the N.C. Local Government Commission.

## **ADMINISTRATIVE RESTRICTIONS**

In addition to the previously noted limitations on appropriate securities, Catawba County's investment activities are further restricted in the following manner:

- A. It is the policy of Catawba County to diversify its investment portfolio. Assets held shall be diversified to eliminate the risk of loss resulting from the over concentration of assets in a specific issuer or specific class of securities. Diversification strategies shall be determined and revised periodically by the Chief Financial Officer. Portfolio maturities shall be staggered to avoid undue concentration of assets in a specific maturity sector. Maturities selected shall provide for stability of income and reasonable liquidity.

- Catawba County will invest its short-term investments (< one year) based on cash flow analysis
  - Catawba County will invest minimal levels in money market funds or local government investment pools unless these instruments have higher yields
  - Short-term investments will be aggressively managed to maximize yield
  - Reserve funds and other funds with longer-term investment horizons (> one year) will be invested in higher yield, longer maturing investments to maximize the investment opportunity available.
- B. Catawba County recognizes that investment risks can result from issuer defaults, market price changes or various technical complications leading to temporary illiquidity. Portfolio diversification is employed as a way to minimize default risk. No individual investment transaction shall be undertaken that jeopardizes the capital position of the overall portfolio. In the event of a default by a specific issuer, the Chief Financial Officer shall review and, if appropriate, proceed to liquidate securities having comparable credit risks.

## **SELECTION OF SECURITIES**

The Chief Financial Officer, or his designee, will determine which instruments shall be purchased and sold, and the desired maturity date(s) that are in the best interest of the County. All brokers and dealers transacting business with the County must be licensed to do business within North Carolina. They must also have extensive knowledge of NC General Statutes and have references from other North Carolina local governments. The selection of an instrument will involve the evaluation of, but not be limited to, the following factors:

- A. Cash flow projections and requirements
- B. Current market conditions
- C. Overall portfolio balance and makeup
- D. Relative liquidity of the instrument

## **CUSTODY AND SAFEKEEPING OF SECURITIES**

Catawba County will maintain a third party safekeeping account for all investments (generally provided by the County's primary bank), or take physical possession of them. Some securities, primarily certificates of deposit, will not be kept in the third party safekeeping account, but will be kept by the Investment Officer in the vault of the County Finance Department. Transactions will be processed on a delivery versus payment basis, which insures that securities are deposited in an eligible financial institution prior to the release of funds.

## **INTERNAL CONTROLS**

The Chief Financial Officer is responsible for establishing and maintaining a system of internal controls. The internal control structure shall be designed to provide reasonable assurances that the assets of Catawba County are protected from loss, theft, or misuse by third parties or County employees. Accordingly, the Chief Financial Officer shall establish a process for an annual independent review by an external auditor to assure compliance with policies and procedures.

## **REPORTING**

The Chief Financial Officer shall prepare an investment report on a semi-annual basis, including a management summary that provides an analysis of the status of the current investment portfolio. The report will include the following:

- Listing of individual securities held at the end of the reporting period.
- Average weighted yield to maturity of portfolio on investments.
- Listing of investments by maturity date.
- Percentage of each type of investment in the total portfolio.

## **INVESTMENTS**

As of June 30, 2017 the County had the following investments and maturities:

# Debt Management Policy

## INTRODUCTION

Catawba County recognizes that a formal debt policy is essential to effective financial management. Adherence to a debt management policy signals to rating agencies and capital markets that the government is well managed and therefore likely to meet its debt obligations in a timely manner. In addition, it helps to insure that a government maintains a sound financial position and that credit quality is protected. Debt management policies are written guidelines, allowances and restrictions that guide the debt issuance process and it is a recommended practice of the Government Finance Officers Association (GFOA).

Many of the processes for approval, sale and repayment of debt are controlled by North Carolina General Statutes and may not all be repeated within this policy. This debt policy is to be used in conjunction with those laws and regulations along with the operating and capital budgets and other financial policies. Objectives of the debt policy have been established to assist the County in retaining its bond ratings and include:

- Funding a Capital Improvement Plan
- Maintaining an appropriate mix of pay-as-you-go and debt funding
- Maintaining an adequate fund balance, including an appropriate level of unassigned fund balance
- Structuring debt repayment schedules that observers expect of highly rated (AA or AAA) counties

## DEBT INSTRUMENTS

The County will use appropriate debt instruments to provide funding for capital assets and improvements at the lowest cost with minimal risk:

### *General Obligation Bonds*

General Obligation Bonds are bonds secured by a promise to levy taxes in an amount necessary to pay debt service, principal and interest, coming due each fiscal year until repaid. General obligation bonds are backed by the full faith and credit of the County. These bonds are authorized by a referendum or by non-voted (2/3) authorization by the governing body. The non-voted authorization allows governments to issue up to two-thirds of the previous year's net debt reduction without a referendum.

### *Revenue and Special Obligation Bonds*

Revenue bonds are bonds that pledge revenues generated by the debt-financed asset or by the operating system of which that asset is a part. Special Obligation Bonds are bonds that are payable from the pledge of revenues other than locally levied taxes.

### *Other Financing Options*

Installment financings are alternative financing methods that do not require a referendum. Certificates of Participation or Limited Obligation Bonds represent an undivided interest in the

payments made by a public agency pursuant to a financing lease or an installment purchase agreement. The security for this financing is represented by a lien on the property acquired or constructed.

An Installment Purchase Contract is an agreement with a financial institution in which the equipment or property is acquired and periodic payments are made to satisfy the debt service. The County will typically use this type of financing to finance a capital asset for ten to fifteen years with the capital asset being used as collateral for the loan. In other cases, this financing will be used for short-term equipment/vehicle purchases of three to five years.

The County will use pay-as-you-go funding for capital improvements or capital assets having a cost of less than \$250,000 or assets having a useful life of less than ten years unless budgetary constraints require the use of financing to acquire the necessary funding for those capital improvements or capital assets.

## **PURPOSES FOR DEBT ISSUANCE**

The County may issue debt for the purpose of acquiring or constructing capital assets including land, buildings, machinery, equipment, fixtures and any other eligible expenses of a project and for making major renovations to existing capital improvements that are for the good of the public. Exceptions to this rule will be considered on a case-by-case basis to determine if the contemplated debt is in the best interest of the County. Long-term debt shall not be used for financing ongoing operational expenses. When applicable, debt issuance will be pooled together to minimize issuance expense.

Before issuing any new debt the County will consider the following factors:

- Global, national and local financial environment and economy
- Current interest rates and expected interest rate changes
- Cash position and current debt position
- Availability of funds to repay the debt
- Urgency of current capital needs and flexibility to meet future needs
- Appropriate debt issuance practices and debt structuring

## **DEBT STRUCTURE**

The debt structure is made up of the type of debt, interest rate and principal maturity schedule. This could include General Obligation Bonds, Revenue or Special Obligation Bonds or other installment financings. The cost of taxable debt is typically higher than the cost of tax-exempt debt; however, the issuance of taxable debt is mandated in some circumstances and may allow flexibility in subsequent contracts with users or managers of the improvements constructed with bond proceeds. The County will usually issue obligations on a tax-exempt basis, but may occasionally issue taxable obligations when there is an expected benefit from doing so. The County shall establish an affordable debt level to preserve credit quality and insure sufficient revenue is available to pay annual debt service obligations.

General Obligation Bonds will generally be competitively bid with no more than a 20-year life unless there are compelling factors which make it necessary to extend beyond and applicable law allows a longer term. In a competitive sale, the County may sell its debt obligations by allowing

an interested underwriter or syndicate to submit a proposal to purchase and issue bonds. The bonds are awarded to the underwriter presenting the best bid according to stipulated criteria set forth in the notice to sale.

Negotiated sales or private placements may be used where allowed when complex financing or sales structure is a concern with regard to marketability. In a negotiated sale, the bonds may be sold through an exclusive arrangement between the County and an underwriter or underwriting syndicate. At the end of successful negotiations, the issue is awarded to the underwriter. This method offers the most flexibility to the County. The criteria used to select an underwriter or syndicate in negotiated sales should include, but not be limited to the following: overall experience, marketing philosophy, capability, recent experience, underwriter's discount and overall expenses.

The County may elect to sell its debt obligations through a private placement with a financial institution when appropriate. Selection through private placement shall be determined through a Request for Proposal (RFP) process.

Debt service for each issue will be structured in an attempt to minimize the County's interest payments over the life of the issue while taking into account the existing debt obligations of the County. Any debt issued shall not have a maturity date beyond the useful life of the asset being acquired or constructed by the debt proceeds.

The County may also consider various financing methods including fixed or variable interest rate debt in order to minimize the interest costs over the life of the issue. The use of these methods will be evaluated based on market conditions and the maximum benefit to the County while minimizing the County's risk. When appropriate, the County may choose to issue securities that pay a rate of interest that varies according to a predetermined formula or results from a periodic remarketing of the securities or reset date determined by the bondholder. The County will limit the issuance of variable rate debt to help maintain the County's credit rating. The County's long term variable rate debt will not exceed 10% of the total outstanding general debt.

Investment of bond proceeds will be consistent with those authorized by existing state law, the County's investment policy and applicable bond covenants. Bond proceeds shall be invested and tracked separately from other investments.

## **DEBT RATIOS**

The County will use an objective, analytical approach to determine the amount of debt to be considered for authorization and issuance. This process involves the comparison of generally accepted debt ratios from similar counties to the current County ratios. These ratios will be re-evaluated every five (5) years or sooner as market conditions dictate. The County shall adhere to the following ratios:

### *Net Direct Debt Per Capita*

This ratio measures the burden of direct debt placed on the population supporting the debt. This is widely used by rating agencies as a measure of an issuer's ability to repay the debt. The County's General Obligation debt per capita will be in line with other North Carolina counties that

maintain the same credit rating. The County will maintain per capita debt that does not exceed \$2,000.

#### *Net Direct Debt as a Percentage of Assessed Valuation*

This ratio measures debt levels against the property tax base that generates the tax revenues used as the main source of debt repayment. The County will maintain its debt at no more than 1.50% of the countywide assessed value.

#### *Net Direct Debt Service as a Percentage of Operational Budget*

This ratio reflects the County's budgetary flexibility to adjust spending levels as economic conditions change. The County will maintain its net debt service at no more than 20% of the operational budget.

#### *Ten-Year Payout Ratio*

This ratio measures how quickly the County retires its outstanding indebtedness. A higher payout ratio preserves the County's capacity to borrow for future capital needs. The County will maintain its ten-year payout at a 65% level or higher.

### **REFINANCING OF OUTSTANDING DEBT**

The County will continually review its outstanding debt and recommend issue for refunding as market opportunities arise. Debt shall only be refinanced for the purpose of achieving debt service savings, unless required to achieve specific debt management goals of the County. The estimation of net present value savings should be, at a minimum, in the range of 3% of the refunded maturities before a refunding process would be considered unless the County otherwise determines the annual savings warrant the refunding. The County will not refinance debt for the purpose of deferring scheduled debt service, unless unique circumstances are present. The County is aware that refinancing for the purpose of deferring debt service may have an impact on its credit rating.

The County may issue advance refunding bonds when advantageous, legally permissible and prudent while net present value savings are achieved. Advance refunding transactions are those undertaken in advance of the first date the refunded debt can be called for optional redemption and will require an establishment of an escrow account for the defeasance of the refunded debt. All costs incurred in completing the refunding shall be taken into account when determining the net present value savings.

The County may issue current refunding bonds when advantageous, legally permissible and prudent while net present value savings are achieved. Current refunding transactions shall be considered whenever possible. These transactions are undertaken at or after the call date on outstanding debt and provide for redemption and replacement of refunded debt within ninety days of issuance of the refunding debt.

### **PAY-AS-YOU-GO FUNDING**

The County shall use pay-as-you-go and other alternative sources of funding for capital projects to minimize debt levels. To have an effective pay-as-you-go program, at least one funding source

must be identified that is consistent, reliable and large enough to provide for capital needs in an amount that reduces dependency on debt. In order to reduce the impact of capital programs on future years, the County will annually appropriate funds for its capital improvement plan. The County will also appropriate proceeds from the sale of capital assets and land, as deemed appropriate, for capital projects. This practice will allow additional funding of capital improvement projects and reduce the County's dependence on borrowing. Pay-as-you-go funding will save money by eliminating interest expense on funded projects and will improve financial flexibility in the event of sudden revenue shortfalls or emergency spending.

## **ISSUANCE OF DEBT**

The scheduling and amount of bond sales and installment purchase transactions will be recommended by the Chief Financial Officer and County Manager. The Board of County Commissioners must approve the sale. These decisions will be based upon the identified cash flow requirements for each project to be financed as well as market conditions and other relevant factors including debt ratios. If the cash requirements for capital projects are minimal in any given year, the County may choose not to issue the debt and fund the project costs and reimburse these costs when financing is arranged. In these situations, the County will adopt a reimbursement resolution prior to the expenditure of project funds.

Fixed rate General Obligation Bond sales are conducted on a competitive basis by the Local Government Commission (LGC), a division of the Office of State Treasurer. Variable rate bonds, revenue and special obligation bonds will be sold on a negotiated basis with a selected underwriter.

The County must receive an opinion acceptable to the market from a nationally recognized law firm that each financing transaction complies with applicable laws and all agreements in connection with any financing are legal, valid and binding obligations of the County.

## **CONTINUING DISCLOSURE**

In accordance with the Securities and Exchange Commission (SEC), Rule 15c-2-12, the County will provide financial and operating information to the repository or repositories designated by the SEC. Where applicable, the county will also provide its Comprehensive Annual Financial Report (CAFR) and other relevant information to rating agencies, corporate trustees and financial institutions as required by continuing disclosure requirements within all debt financing documents.

## **ARBITRAGE LIABILITY MANAGEMENT**

The County will maintain a system of record keeping and reporting to meet the arbitrage and rebate compliance requirements of the federal tax code. This effort includes tracking investment earnings on bond proceeds, calculating rebate payments in compliance with tax law and remitting applicable earnings to the federal government in a timely manner in order to preserve the tax-exempt status of the County's outstanding debt issues.

It is the County's policy to minimize the cost of arbitrage rebate and yield restriction while strictly complying with the applicable laws. Because of the complexity of arbitrage rebate regulations and the severity of non-compliance penalties, arbitrage calculation will be performed by qualified

arbitrage professionals in strict adherence to applicable laws and regulations. These calculations will be done in accordance with required Internal Revenue Service reporting dates.

### **FINANCING TEAM**

The County will provide for a solicitation and selection process for securing all professional services required in connection with any debt issues. The service professionals selected will be required to follow the County's debt management policy with the goal of continuity, quality service and competitive prices.

### **ADMINISTRATION AND IMPLEMENTATION**

The County Manager and Chief Financial Officer are responsible for the administration and issuance of debt including the completion of specific tasks and responsibilities included in this policy.