
SNOHOMISH HEALTH DISTRICT FINANCIAL POLICIES

The financial integrity of the Snohomish Health District is of vital importance. Written, adopted financial policies have many benefits, such as assisting the Board of Health and staff in the financial management of the District, saving time and energy when discussing financial matters, engendering public confidence and providing continuity over time as Board and staff changes occur. In addition to following all laws related to budgeting as outlined by RCW 70.46, the District has internal Financial Management Policies that are adopted by the Board of Health and reviewed every year during the budget development process. The Financial Management Policies are a compendium of all District policies that shape the Budget. The policies create a framework for decision-making and ensure that the District maintains a healthy financial foundation into the future. The goal of these policies is to promote:

- An extended financial planning horizon to increase awareness of future potential challenges and opportunities.
- Setting aside reserves for contingencies, replacement of capital equipment, and other similar needs.
- Maintaining the effective buying power of fees and charges and modifying cost recovery targets when appropriate to do so.
- Accountability for meeting standards for financial management and efficiency in providing services.
- Management of the District's physical assets to provide sustainable service levels into the future.
- Planning for the capital needs of the District and managing them for future use.
- Investing public funds to provide maximum security with appropriate returns and timely liquidity.
- Communicating to residents and customers on how the community health goals are being addressed.

The District's budget, informed by the agency's Strategic Plan, determines what services the agency will offer, the level of these services, and how funds will be provided to finance them. The District adopts a statutorily balanced budget, but also seeks to adopt a structurally balanced budget. A budget is statutorily balanced when total estimated resources (beginning fund balance plus revenues) equal the total appropriation (expenditures plus ending fund balance). In a statutorily balanced budget, beginning fund balance may be used as a revenue source. In contrast, in a structurally balanced budget, the total expenditure appropriation is limited to the annual estimated revenues. In a structurally balanced budget, beginning fund balance may not be used as a revenue source.

It is not uncommon for local governments to rely upon the beginning fund balance as a "revenue" source. But, as previously stated, it is the District's goal to attain structural balance, thereby eliminating reliance on these funds to supplement current income. Any unassigned operating surpluses (revenues that exceed expenditures) that occur at year-end may be held in reserve or reappropriated to a capital reserve rather than used as a supplemental source of revenue required to balance the budget each year.

It is the intent of this policy that the budget be structurally balanced (a) at the time of adoption, (b) throughout the budget year, and (c) at year-end, taking into consideration other adopted fund balance policies.

In the event that adjustments are necessary to bring the budget into balance in the course of the fiscal period, the staff will bring a budget amendment forward for approval by the Board.

Recognizing the importance of these decisions, the following policy statements reflect the principles and priorities the District uses in preparing the budget. The policy statements are grouped by major category in alignment with the policy goals and are presented in the following order:

- Long Range Financial Planning and Resource Utilization
- Reserves
- Capital Planning and Asset Management
- Financial Asset and Liability Management

LONG-RANGE FINANCIAL PLANNING AND RESOURCE UTILIZATION

It is very important to the District to incorporate a long-term perspective and to monitor the performance of the programs competing to receive funding. A long range plan provides a “road map” for where the District wants to go financially by combining financial forecasting with financial strategizing and can be used to identify problems, opportunities, and provide an avenue for the Board, citizens and staff to discuss policy. The plan can be used as a tool to highlight significant issues or problems that must be addressed if goals are to be achieved. Management will ensure compliance with the legally adopted budget. Purchases and expenditures will comply with legal requirements and policies and procedures as set forth by the District.

1. A **long-term forecast** of revenues and expenditures will be developed for all operating funds for the six-year period following the end of the current budget and will be periodically updated as circumstances warrant.
2. The financial impact from budget decisions made during the development of the annual budget will be reviewed in the context of the six year forecast.
3. The operating budget will be based on the principle that current operating expenditures will be funded with current revenues. The budget will not use one-time (non-recurring) sources to fund on-going (recurring) uses. One-time and unpredictable revenues should be considered for only one-time expenditures. Internal borrowing to fund operations is discouraged. Expenditures will be reduced to conform to the long term revenue forecast. The budget will incorporate the best available estimates of revenues and expenditures.
4. Emphasis is placed on improving individual and **work group productivity** rather than adding to the work force. The District will invest in technology, professional development and training opportunities, quality improvement efforts, and employ other efficiency tools to maximize productivity. The District will hire additional staff only after the need of such positions has been demonstrated and documented and where other methods are deemed less effective, efficient or affordable. The District shall develop and maintain a Workforce Development Plan to inform these decisions.
4. **Performance management** will be utilized in the budget prioritization process to ensure alignment with District Goals and the agency’s Strategic Plan. Performance data will be used to support budgetary decisions. Measures will be developed to reflect the District’s efficiency and effectiveness. Status of key performance measures will be reported to the Board of Health.
5. **Service levels** will be defined and measured in a manner that is based on results (e.g. units of service delivered, service quality & customer satisfaction) rather than resources allocated to provide the service.
6. The District will endeavor to maintain a **diversified general revenue base** to diminish the effects of short-term fluctuations in any given revenue. The goal is to have a combination of revenues that grow in response to a good economy and those that remain stable during times of economic downturn.
7. **Revenue estimates** will be developed using reasonably conservative, but realistic assumptions. Revenues will be monitored and reported quarterly, including trends and year- end estimates. Revenue forecasts will assess the full spectrum of resources that can be allocated for public health services. Each year the District shall review potential sources of revenue as part of the annual budget process. The District will follow a vigorous policy of collecting revenues. The District’s budget amendment process should be used to appropriate questionable revenues when they become certain and measurable.
8. **User fees and rates in all funds** will be based on balancing the full cost of providing the service, the competitive market, public benefit, community affordability and other appropriate policy considerations. Fees and rates will be reviewed annually and adjusted if necessary.

9. On a regular basis, the District will conduct **cost of service studies** to identify the full cost of providing services funded with fees. The calculation of full cost will include all reasonable and justifiable direct and indirect cost components including factors for replacement of infrastructure.
10. Overhead costs will be appropriately shared by all operating funds as determined by the District's indirect cost allocation plan. The amount charged by the District for services provided under an interlocal or similar agreement will include a factor to cover the District's overhead costs.
11. **Grants and agreements** that support District objectives and are consistent with high priority needs will be aggressively sought. Grants or agreements requiring a local match or a continuing District obligation to fund programs will be carefully considered prior to applying for a grant or brokering an agreement to ensure that ongoing resources will be available to meet the obligation. The District shall attempt to recover all allowable costs, direct and indirect, associated with the administration and implementation of the program funded through grants.
12. Expenditures will be controlled by an annual budget at the division/fund level. The Board of Health shall establish appropriations through the budget process. Budget adjustments require Board approval. Division Directors and Support Division Managers are responsible for managing their budgets within the total appropriation for their Division.
13. If a deficit is projected during the course of a fiscal year, the District will take steps to reduce expenditures, increase revenues or, if a deficit is caused by an emergency, seek Board approval to use one of the existing reserves and/or Line of Credit (LOC). Agency management may institute a variety of measures to ensure spending remains below reduced revenues.
14. The District's **classification and compensation plan** will be maintained in a manner consistent with the labor market by reviewing classification specifications and benchmarks on a periodic basis. All compensation planning and collective bargaining will focus on the total cost of compensation, which includes direct salary, health care benefits, pension contributions, training allowances and other benefits of a non-salary nature, which are a cost to the District. The District will strive to align any changes in the classification or compensation system with the annual budget cycle.
15. Actual expenditures will be closely and frequently **monitored**. The comparison of budget to actual expenditures shall be reported to the Board on a **quarterly** basis. Variances suggesting a potential negative trend (ongoing significant decline in revenues or expenditure growth) will be promptly reviewed with the Board.
16. Funds in excess of operating expenditures will be considered **Undesignated Fund Balance** and upon Board authorization may be used to replenish or bolster any of the District's designated reserves, used to payback obligations associated with a Line of Credit, fund high priority District designated one-time projects or initiatives or retained as Undesignated Fund Balance.

RESERVES

Fund balance is defined as the excess of assets over liabilities. The District desires to maintain a prudent level of financial resources to guard against service disruption in the event of unexpected temporary revenue shortfalls or unpredicted one-time expenditures by establishing specific reserves from the ending fund balance. Reserves are an important indicator of the District’s financial position and its ability to withstand adverse or unforeseen events. Maintaining reserves is a prudent management practice. The Board of Health may take action to designate reserves to account for monies for future known expenditures, special projects or other specific purposes. All expenditures drawn from reserve accounts require Board of Health approval, unless previously appropriated in the District’s annual budget.

“Financial condition may be defined as a local government’s ability to finance services on a continuing basis. This ability involves maintaining adequate services while surviving economic disruptions, being able to identify and adjust to long term changes and anticipating future problems”

-Public Health Uniform National Data System

The Government Accounting Standards Board (GASB) has established fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in the government funds. The District reports the following reserves on its Financial Statements as “Committed Fund Balance”: Emergency General Fund Reserve; Working Capital Reserve, and Designated Liability Funding Reserve. The “Committed” classification includes amounts that can be used only for the specific purposes determined by a formal action of the Board of Health. In addition, a Revenue Stabilization Line of Credit (LOC) with Snohomish County is a recognized tool available to meet the Board’s fiscal policy intentions.

Funds are reserved and shall be accessed consistent with the policy intentions below. Funds in excess of operating expenditures will be considered Undesignated Fund Balance and may be used to replenish or bolster any of the District’s designated reserves, used to payback obligations associated with a Line of Credit, fund high priority District designated one-time projects or initiatives or retained as Undesignated Fund Balance.

1. The District will maintain additional “**Working Capital**” reserves, sufficient to fund on average, 30 days of operations in the operating fund. This reserve will address the District’s cash flow requirements. A clear plan will be developed and presented to the Board to refill the reserve. The funding source for replenishing the working capital reserve is the prior year’s revenue surplus and/or expenditure savings. Restoring the Working Capital reserve to the target level will constitute the Board’s highest funding priority following the final draw needed to address a cash flow shortfall. The replenishment target period is one year. Of all District funds, the Working Capital reserve shall be accessed last for purposes of addressing other District needs.

2. An **Emergency General Fund Reserve** will be maintained at least equal to \$500,000. The Emergency Reserve is for unexpected, large-scale events where expenditures are expected to be incurred, and immediate, remedial action must be taken to protect the health and safety of residents (e.g. epidemic, multi-drug resistant and extreme drug resistant tuberculosis cases, etc.). Emergency funds may be accessed in a case of a County, State or Federally declared state of emergency where the District response or related District loss is significant. This Emergency Reserve may also be utilized, upon Board approval, if there is an identified 3-6 month trend of reduced revenues, reductions in state shared revenues, unexpected external mandates, any settlement arising from a claim or judgment where the loss significantly exceeds the District’s insured policy coverage, or other unanticipated events with fiscal impacts in a cumulative amount greater than or equal to five percent (5%) of the General Fund operating budget. In the event the Board approves the use of the “Emergency Reserve”

funds, the District shall restore the reserve to the minimum \$500,000 level within a reasonable amount of time as necessitated by the scale of emergency. A clear plan will be developed and presented to the Board to refill the reserve and the first significant deposit will occur the following fiscal year after the event.

3. The District may seek to secure a **Line of Credit (LOC)**, not to exceed \$2,000,000, with Snohomish County to supplement the Emergency General Fund Reserve. Upon Board approval, a request will be transmitted to the County to provide funding to temporarily offset the fiscal impacts of such an emergency. The LOC will provide time for the District to restructure its operations in a deliberate manner to ensure continuance of critical District activities. Payback terms shall be prescribed in a written agreement between the District and Snohomish County. If insufficient funds exist, Snohomish County may choose to reduce its annual appropriations to the District in an amount sufficient to meet the prescribed payback terms.
4. **Designated Liability Funding** reserve will be created when the District accepts funding leading to future liabilities. The reserve will be equal to the stated liability in the future. If a federal or state grant requires local resources to fund the initiative after the grant expiration, the cost of funding the initiative is considered to be a liability that will be funded from the “Designated Liability Funding” reserve.

The following reserves are reported on the District’s Financial Statements as “Assigned Fund Balance”. Assigned Fund Balance is defined as the portion of a fund balance that is constrained by management’s intent to use it for specific purposes but has not been restricted by third parties nor committed by specific Board action. This assignment by management in no way requires the Board to extend expenditure authority for those purposes, or any other. “Assigned” reserves will diminish as funds are appropriated for the purpose of the reserve and increase as future needs are identified. The long range capital and technology improvement plans shall identify those anticipated needs over a six year horizon and shall be presented for approval by the Board of Health in conjunction with the annual budget or subsequent amendment.

5. **Equipment Replacement reserves-** a reserve to fund new equipment and to prepare older equipment for sale. Annual adjustments will be made as part of the budget process. These annual adjustments are based on pricing, future replacement schedules and other variables. Rising vehicle costs, dissimilar future needs, replacing vehicles faster than their expected life or maintaining vehicles longer than their expected life all contribute to variation from the projected schedule. The goal is to provide adequate and stable funding for future vehicle replacement needs, i.e. the required level of service will equal each year’s scheduled replacement costs.
6. **Technology Replacement reserves-** a reserve to fund the repair and/or replacement of District-wide computer hardware, software, telephone and infrastructure equipment, ~~to pay for maintenance contracts~~ and other technology related projects.
7. **Building Replacement and Maintenance reserve-** a reserve to fund major maintenance, renovation, repair and/or replacement of building systems, fixtures, equipment and related infrastructure.

CAPITAL PLANNING AND ASSET MANAGEMENT

Asset Management is a systematic process whereby the assets of the District (i.e. fleet equipment, property, buildings, etc.) are operated, maintained, replaced and upgraded cost-effectively. It includes operations and maintenance costs, as well as capital investments which can take the form of new construction, rehabilitation, or replacement.

1. Asset management best practice involves managing the performance, risk and expenditures on infrastructure assets in an optimal and sustainable manner throughout their lifecycle covering planning, design, construction, operation, maintenance, and disposal. The District shall integrate the principles and best practices of Asset Management.
2. **Asset Inventory** will be maintained with maintenance, repair and deferred maintenance costs identified and updated on an annual basis.
3. **Maintenance** of District assets shall be addressed on a current need, rather than deferred into the future.
7. A six-year District-Wide Capital Outlay Budget shall be developed annually and shall provide a prioritized list of reasonably funded projects and those in process of securing funding. Capital Improvement Plans for assets shall be updated no less frequently than every two years.
5. **Funding** for capital projects, including major facilities maintenance projects, will be allocated in a manner that balances facility and equipment needs with District priorities, the potential for attracting matching funds, and the ability to reduce or limit expenses in future years.
6. The District's objective is to incorporate a "**Pay-As-You-Go**" approach (using available cash and current resources) in the Capital Improvement plan.
7. The Capital budget will only include fully funded projects. The Capital Budget will only contain projects identified in the Capital Improvement Plan.
8. Impacts on net **annual operating and maintenance costs** will be identified as part of the funding considerations for new capital projects. This includes identifying potential reductions in maintenance costs if improvements are funded. The necessary funds to operate the capital facility will be identified at the time the capital outlay budget is adopted.

FINANCIAL ASSET AND LIABILITY MANAGEMENT

INVESTMENT POLICIES

1. The District will invest public funds through the Snohomish County Treasurer's Office.
2. The District will conform to all state and local statutes governing the investment of public funds.
3. The District will only deposit money with financial institutions qualified by the Washington Public Deposit Protection Commission and in accordance with the provisions of RCW 39.58.