

Title: Finance	Policy Number: POL 130.001
Reference(s): Snohomish Health District Division of Responsibilities RCW 70.46 – Health Districts	Effective Date: Supersedes: Res. 13-11: Financial Policy (2013-08-13) Res 16-20: Revision of financial policies – Reserves (2016-12-13)
Approved By: Stephanie Wright, Chair, Board of Health	Revised Date:

PURPOSE:

To provide long-term financial planning policies aimed at aligning financial projections with service provisions.

PHILOSOPHY:

The financial integrity of the District is of vital importance. Finance policies aim to engender public confidence by ensuring governmental funds are being used openly, legally, efficiently and effectively, and in a manner that provides insulation from fiscal crisis and economic disruption.

DEFINITIONS:

Assigned Fund Balance: 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.

Budgeting, Accounting, and Reporting System (BARS) Manual: The Washington State Auditor's Office (SAO) designed and manages the chart of accounts for local governments within Washington State called BARS. The BARS Manual prescribes accounting and reporting for local governments in accordance with RCW 43.09.200.

Cognizant Agency: Agency (state or Federal) responsible for reviewing, negotiating, and approving cost allocation plans and/or indirect cost proposals developed under this part on behalf of all Federal agencies.

Committed Fund Balance: Amounts that are subject to a purpose constraint imposed by a formal action of the Board of Health before the end of the fiscal year, and that require the same level of formal action to remove the constraint.

Cost Allocation Plan: Summarizes, in writing, the methods and procedures that an organization uses to allocate costs to grants and programs and is used to determine the District’s indirect rate.

Fund Balance: Assets minus liabilities.

Indirect Rate: Costs that are not readily identified with a specific project or organizational activity but incurred for the joint benefit of both projects and other activities. This is typically recovery of overhead.

Non-spendable Fund Balance: Assets that are inherently non-spendable in the current period either because of their form or because they must be maintained intact, including prepaid items, inventories, long-term portions of loans receivable, financial assets held for resale, and principal of endowments.

Operating Programs: Programs and/or services implemented in and for the county. Does not include business competencies and functions, such as overhead.

Operating Surpluses: Revenues that exceed expenditures.

Overhead: Overhead is any expense incurred to support the business while not being directly related to a specific product or service. This typically includes costs for administration, finance, human resources and IT.

Restricted Fund Balance: Amounts that are subject to externally enforceable legal purpose restrictions imposed by creditors, grantors, contributors, or laws and regulations of other governments; or through constitutional provisions or enabling legislation. Restrictions may be changed or lifted with the consent of the resource provider.

Undesignated-Unassigned Fund Balance: Funds in excess of operating expenditures, includes all amounts not contained in the other fund balance classifications.

POLICY:

This policy is one of three (POL 130.001 - Finance, POL 130.006 - Asset Management, and POL 135.001 - Budget) that together informs and sets baseline standards for the District's financial well-being.

The finance policy creates a framework for decision-making and ensures that the District maintains a healthy financial foundation into the future. Goals of this policy are to promote:

- An extended financial planning horizon and to increase awareness of future potential challenges and opportunities.
- Reserves for contingencies, replacement of capital equipment, and other similar needs.
- Maintaining ~~the effective buying power of fees and charges and modifying billing rates so that~~ cost recovery targets are achieved when appropriate to do so.
- Accountability for meeting standards for financial management and efficiency in providing services.
- 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.~~ Communication of the District's financial health to the community
- Supporting equity and inclusion in public health within Snohomish County in alignment with Resolution #20-17

A. LONG RANGE FINANCIAL PLANNING

It is the policy of 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.

1. A long-term forecast of revenues and expenditures will be:
 - a. for the six-year period following the end of the current budget;
 - b. developed for all operating funds; and
 - c. 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. Revenues and Expenditures:
 - a. 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.

- b. The District will endeavor to minimize expenditures while maintaining adequate resources to support ongoing program and District goals.
 - c. Will be monitored and reported no less than quarterly, including trend analysis and year-end estimates;
4. Grants and agreements:
- a. Opportunities that support District objectives and are consistent with high priority needs will be aggressively sought.
 - b. Prior to applying for a grant or brokering an agreement the District will ensure that ongoing resources, such as a local match, will be available to meet the obligation.
 - c. The District will attempt to recover all allowable costs, direct and indirect, associated with the administration and implementation of the program funded through grants.
 - d. All grants and agreements will be negotiated and approved consistent with the Division of Responsibilities.
5. Fees and rates:
- a. Will be based on balancing the full cost of providing the service, the competitive market, public benefit, community affordability and other appropriate policy considerations.
 - b. On a regular basis, cost of service studies will be conducted to identify the full cost of providing services funded with fees.
 - c. The calculation of full cost will include all reasonable and justifiable direct and indirect cost components including factors for replacement of infrastructure.
 - d. Reviewed annually and adjusted if necessary, by Board of Health approval in tandem with the District's budget.
6. Overhead:
- a. Costs will be appropriately shared by all operating fund programs as determined by the District's ~~indirect~~ cost allocation plan submitted to the District's cognizant agency.
 - b. 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 where allowed.

B. FUND BALANCE & RESERVES

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, its ability to withstand adverse or unforeseen events and a prudent management practice. Fund balances are established, reported, and managed in accordance with the following overarching fund and reserve specific policies and BARS Manual for GAAP agencies.

- ~~—The Board may take action to designate reserves to account for monies for future known expenditures, special projects or other specific purposes.~~
- ~~1.—All expenditures drawn from reserve accounts require Board approval, unless previously appropriated in the District's annual budget.~~

Restricted Fund Balance

- ~~0.—Unspent grant funds received in advance, will be reported as Restricted funds at the end of a fiscal year.~~

Committed Fund Balance

The District reports the following reserves and tools on its Financial financial Statements statements as Committed Fund Balances: Working Capital Reserve, Emergency General Fund Reserve, Revenue Stabilization Line of Credit, and Designated Liability Funding Reserve.

- 1. Working Capital Reserve: The Working Capital Reserve is be used when funding is suddenly cut off for usual programs, such as if there were some reason fees could not be collected, if a program is ending and needs to be wound down after a funding source has expired, or any other instance where the usual funding is not available, either temporarily or permanently. The District will:

- a. Maintain reserves to fund ~~45~~ sixty (60) days of operations in the operating fund, determined annually as part of the annual budget and included by resolution with the budget approval;
 - b. Funds may be accessed with Board approval.
 - c. Develop and present a plan to the Board to refill the reserve based on:
 - i. The funding source for replenishing the working capital reserve is the prior year's revenue surplus and/or expenditure savings.
 - ii. 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.
 - iii. The replenishment target period is one year.
 - d. Of all District funds, the Working Capital Reserve will be accessed last for purposes of addressing other District needs.
2. Emergency ~~General Fund~~ Reserve: The Emergency Reserve is for unexpected, large-scale events where expenditures are expected to be incurred, and where 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.).
- a. Maintained at least equal to \$500,000.
 - b. Funds may be accessed:
 - i. In a case of a county, state or federally declared state of emergency where the District response or related District loss is significant; or
 - ii. Upon Board approval if there is:
 - an identified three to six-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.
 - c. Following Board approval:
 - i. the District will restore the reserve to the minimum level within a reasonable amount of time as necessitated by the scale of emergency.
 - ii. a clear plan will be developed and presented to the Board to refill the reserve; and
 - iii. the first significant deposit will occur the following fiscal year after the event.
3. Revenue Stabilization Line of Credit: The District may seek to secure a line of credit to supplement the Emergency General Fund Reserve to temporarily offset the fiscal impacts of an emergency. A line of credit will provide time for the District to restructure its operations in a deliberate manner to ensure continuance of critical District activities. The following conditions apply:
- a. Request is not to exceed \$2,000,000,
 - b. Snohomish County is the requested financial institution,
 - c. Must receive Board approval prior to transmitting such request, and
 - d. Payback terms will 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:
- a. Will be created when the District accepts funding leading to future liabilities.
 - b. Will be equal to the stated liability in the future.
 - c. If a federal or state grant requires local resources to fund the initiative after the grant expiration, or to fund any grant matching requirements, the District considers the cost of funding the initiative or match a liability- ~~the cost of funding the initiative is considered to be a liability~~ that will be funded from the "Designated Liability Funding" reserve.

Assigned Fund Balance

The following reserves are reported on the District's Financial Statements as *Assigned Fund Balance*.

Equipment Replacement Reserves: This reserve funds new equipment and to prepare older equipment for sale. The goal is to provide adequate and stable funding for future equipment replacement needs, in other words, the required level of service will equal each year's scheduled replacement costs. 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.~~

Technology Replacement Reserves: This reserve funds the repair and/or replacement of District-wide computer hardware, software, telephone and infrastructure equipment, and other technology related projects.

Building Replacement and Maintenance Reserve: This reserve funds major maintenance, renovation, repair and/or replacement of building systems, fixtures, equipment, and related infrastructure.

These reserves adhere to and are governed by the following policies:

1. ~~Fund c~~Creation by management in no way requires the Board to extend expenditure authority for those purposes, or any other.
2. Assigned reserves will diminish as funds are appropriated for the purpose of the reserve and increase as future needs are identified.

Unassigned Fund Balance

Funds in excess of operating expenditures, unless restricted by externally enforceable legal purpose restrictions imposed by creditors, grantors, contributors, or laws and regulations of other governments; or through constitutional provisions or enabling legislation, will be considered *Unassigned Fund Balance* and may be used to:

1. replenish or bolster any of the District's designated reserves.
2. used to payback obligations associated with a line of credit.
3. fund high priority ~~designated~~ one-time projects or initiatives; or
4. retained as Unassigned Fund Balance.
5. Any unassigned operating surpluses that occur at year-end may be held in removed to existing reserves or re-appropriated to a capital reserve rather than used as a supplemental source of revenue required to balance the budget each year
6. Compensated Absences Reserve:
 - a. Will be adjusted annually to equal the amount reported in the District's most recently audited Statement of Net Position, rounded upward to the nearest multiple of \$100,000.