1. PURPOSE

Promoting financial integrity is an important priority in the County of Plumas (the County). The following Financial Policies and guidelines establish the framework for the County's overall fiscal planning and management.

These policies set forth guidelines against which current budgetary performance can be measured and proposals for future programs can be evaluated.

These policies may be amended from time to time by a majority vote of the Board of Supervisors (the Board), except those sections that require a $4/5^{th}$ vote to permanently change specific requirements. The Board may, however, by $4/5^{th}$ vote, suspend or alter any of these specific requirements sections on a one-time-only basis for one year, without permanently amending these policies.

2. REVIEW AND REVISION POLICY

These Financial Polices will be reviewed annually and maintained by the County Administrative Office and the Auditor/Controller Office for appropriateness and comparability with other jurisdictions, or more frequently is a need for review is identified. See Appendix A: Maintenance of Policies.

3. BALANCED BUDGET POLICY

The provision of the California Government Code (County Budget Act, §29000 et al.) shall control the preparation, consideration, adoption, and execution of the budget of the County. The California State Controller's Office requires the County's budget to be balanced (*Accounting Standards and Procedures for Counties* manual, Chapter 2.37). The County shall annually prepare, adopt, and execute a budget for such funds as may be required by law or by sound financial practices and by generally accepted accounting principles. The budget shall control the collection of revenue and the expenditure of money for all County purposes during the ensuing fiscal year. The County budget shall be balanced within all available operating revenues, including fund balance, and adopted by the Board.

The County Administrative Office (CAO) is responsible for submitting an annual recommended budget to the Board for consideration and adoption, administering the adopted budget, and exercising continuous expenditure control. The CAO works closely with the Auditor/Controller in the preparation and execution of the budget.

4. BUDGETARY CONTROLS POLICY

The County Budget Act (Chapter 1, Division 3, Title 3 of the Government Code, Chapter 1. Budget and Tax Levy) controls the budgeting of governmental funds. Except as otherwise specifically provided in this policy, the County has elected to apply the same budgetary controls to proprietary funds.

Government Code (GC) Section 29125 and 29130 define actions which may be taken by the Board of Supervisors for transfers or revisions to the adopted appropriations and allows the Board to delegate certain authority to the CAO or Auditor/Controller. The County's Administrative Policy – Budgetary Authority and Procedure outlines the authorities of the Board per Government Code and serves to delegate certain authority to the CAO, Auditor/Controller and Department Heads. The County's Administrative Policy – Budgetary Authority and Procedures is available on the County Counsel's website.

Through County policy, certain limitations on revisions and transfers of appropriations are deemed necessary to maintain fiscal and budgetary controls, aside from those specified in the Government Code.

Per GC Section 29009, “In the recommended, adopted, and final budgets, the funding sources shall equal the financing uses.” This means that even though authorities exist to transfer appropriations or the otherwise make appropriations available, each governmental fund budget must remain in balance.

Per GC Section 25260 through 25261, the Board has the authority to create proprietary funds and to make funding available to maintain their solvency. Per GC Section 29141, the adopted budget shall include a schedule showing the managerial budget for each proprietary fund, but adjustments to the adopted budget are not covered in the County Budget Act and GC Section 29009 does not apply.

5. REVENUE POLICIES

The County is committed to discal sustainability through revenue diversification and stability to shelter the County from adverse fluctuations and economic downturns.

<u>Revenue Diversification for Fiscal Sustainability</u>

Generally, current revenues will fund current expenditures. The County will maintain a revenue system that is as diversified and stable as possible to protect programs and services from short-term fluctuations in any single revenue source and ensure that the County can continue those programs and services to its citizens.

The County shall strive to diversify its economic base by encouraging commercial and, in particular, industrial development and associated revenues. Such business and industry must be in accord with the plans and ordinances of the County, and their future economic impacts on governmental services must be accounted for with such funding mechanisms as impact fees and/or development agreements to provide fiscal sustainability.

<u>Revenue Collection</u>

The County’s single largest source of discretionary revenues is property taxes. The County’s goal is to maintain a secured property tax collection rate of at least 95% in the year levied.

The County will aggressively pursue collection on all accounts receivable including:

- Code violation fines
- Returned checks
- Services supplied to customers outside the County, such as cities or courts
- Delinquent note payments
- Payroll and/or benefit overpayments

The extent and costs of collection efforts should not outweigh the amount due. There are circumstances in which collection is not possible. Government Code Sections 25257 through 25259 establish a procedure for applying for and granting discharges of accountability by the Board.

<u>Fees and Charges</u>

All fees established by the County for licenses, permits, fines, services, applications, and other miscellaneous charges shall, whenever possible and within the law, be set to recover all or the maximum reasonable portion of the County's expense in providing the associated service. These fees shall be reviewed annually by the County departments sponsoring the fees and any changes or proposed new fees will be brought before the Board for approval at a public hearing by late April annually and be effective the first day of July. Excepted from this requirement are only those fees for which there is a statute that mandates the imposition and amount of the fee. If the fee is property related, California Constitution Article XIIIC and XIIID limit the manner in which the County is permitted to impose fees and assessments and sets forth specific procedures to be used with regard to imposing such fees.

Each proposed fee must have statutory or other authority for the County to charge the fee. Each department will identify the authority and develop the formula or methodology used to determine the cost of the service for which the fee is being charges. Additionally, each department is responsible for determining the statutory notice requirements and adoption procedures (including timely publishing of any required hearing notice and an affidavit of publication) and submitting an agenda item proposing the establishment or changes of the fees that will be discussed during the scheduled public hearing.

A fee or charge must reflect the direct and indirect costs of providing the product, services, or enforcement of regulations. Indirect costs shall be limited to those items that are included in the United States Office of Management and Budget Title 2, Code of Federal Regulation (CFR), Subtitle A, Chapter II, part 225, referred to as 2 CFR 225 standards.

The County Administrative Officer, Auditor/Controller, and County Counsel shall review all new and changed fee requests before they are submitted to the Board to ensure statutory compliance and uniformity among departments which charge fees for similar County services and products.

In the documents submitted to the County Administrative Office, Auditor/Controller, and County Counsel for review, departments must clearly describe the authority and the formula or methodology used to determine the fees and the procedures for their collection, including late charges and penalties. If any fee reflects less than the total cost of the service, the department shall provide compelling justification for recommending only partial cost recovery.

In reviewing proposed fees, the Auditor/Controller will first look at the authority for the fee to make sure it does not set limits on the fee. The fee is then examined to determine the reasonableness of the methodology used to develop it.

County Counsel will review fees to determine if they are consistent with applicable laws, regulations, and ordinances, such as Proposition 218. If there is no code or other authority, then County Counsel will use the 2 CFR 225 standards to evaluate fee compliance.

The County Administrative Office must review and approve the final proposed fees or fee changes prior to the scheduling of a hearing date.

New fees or fee changes approved by the Board will be posted on the County's Master Fee Schedule by the County Administrative Office and located on the CAO website at the beginning of each fiscal year.

Federal, State and Other Grants

The County shall aggressively pursue all grant opportunities. However, before accepting grants, the County will consider current and future implications of both accepting and rejecting the funding. All potential grants shall be carefully examined by the submitting department for matching requirements (both dollars and maintenance-of-efforts and in-kind matches), and funding sources identified for the out years once grant funds are reduced or eliminated.

Future funding obligations required by grants must be identified prior to grant acceptance by the Board. The County shall seek grants and other funding opportunities which provide maximum leverage of County monies while minimizing commitments requiring recurring County fiscal expenditures.

Sunset provisions will be required on all grant program initiatives and incorporated into other service plans, as appropriate. In the even of reduced grant funding, County resources may be substituted only after all program priorities and alternatives have been considered, and only if recommended by the CAO.

Use of One-time Revenue/One-time Expenditure Savings

One-time revenue and/or one-time expenditure savings, in excess of the unrestricted fund balance target, may be used for non-recurring expenditures, if not needed for funding current critical operations or sustaining targeted reserve levels. Such savings shall not be used for on-going operations unless explicitly approved by the Board.

Restricted Revenues

Restricted revenues (such as Medicaid funds or Asset Forfeiture funds) shall only be used for the purpose intended. The County will comply with all limitations and restrictions imposed by the funding source.

Sale of County Land

The proceeds net of expenses of the sale of County land shall be deposited into the County Future Construction Fund and, unless otherwise directed by the Board of Supervisors, should be used for future capital projects.

6. FUND BALANCE AND RESERVES

The purpose of this Fund Balance Policy is to build and maintain an adequate level of unrestricted fund balance, along with Strategic and General Fund Pension Trust reserves, to support the day-to-day County operations in the even of unforeseen shortfalls or an emergency. The Strategic and General Fund Pension Trust reserves are not intended to replace a permanent loss of funds or eliminate an ongoing budget gap. This Fund Balance Policy will be implemented in conjunction with the other financial policies of the County and is intended to support the goals and strategies contained in those related policies and in strategic and operational plans.

Fund Balance Defined

The Government Accounting Standards Board (GASB) issued Statement No. 54, Fund Balance Reporting and Government Fund Type Definitions. The objective of this Statement is to improve the usefulness, including the understandability, of governmental fund balance information. The Statement provides more clearly defined categories to make the nature and extent of the constraints placed on a government's fund balance more transparent.

The fund balance is reported in five categories:

- Non-spendable: Amounts that cannot be spent because they are:
    - Not in a spendable form (i.e., assets that will never convert to case), or
    - Legally or contractually required to be maintained intact.
- Restricted: amounts are restricted by external parties (i.e., creditors, grantors, contributors, law/regulations of other governments, or restricted by law through constitutional provisions or enabling legislation).
- Committed: Amounts that can only be used for specific purpose pursuant to constraints imposed by formal action of the Board. Those committed amounts cannot be used for any other purposes unless the Board removes or changes the specified use by Board resolution. The Board action to commit funds during any given year must occur prior to fiscal year end.
- Assigned: Amounts are earmarked for an intended use.
- Unassigned: A residual classification for the General Fund that encompasses all fund balances not contained in other classifications. The General Fund is that only fund that can report a positive unassigned fund balance. In the event that the County has a positive unassigned fund balance, the excess may be used for any lawful purpose, but it is recommended that first priority shall be to ensure that sufficient resource are committed to reach the targeted funding level of the Strategic Reserve.

Fund balances occur only in governmental funds; therefore, the term fund balance does not apply to proprietary (including enterprise and internal service funds) or fiduciary funds.

<u>General Fund Unrestricted Fund Balance</u>

The County must be prepared for unforeseen events or economic uncertainties that could result in additional expenditure requirements or loss of revenue by establishing and maintaining a prudent level of unrestricted fund balance. Unrestricted fund balance consists of committed, assigned, and unassigned fund balance categories. Unrestricted fund balances are either unconstrained or the constraints are self-imposed, so they could be lifted in order to make fund balances available for other purposes. The County strives to maintain the General Fund unrestricted fund balance at a target level equivalent to no less than 16% (approximately two months working capital) of the most recent audited General Fund operating revenues.

<u>Replenishment</u>

Should the County have a need to use monies from the unrestricted fund balance, and the funding level of the unrestricted fund balance falls below the 16% target level, then the CAO shall present a plan to be approved by the Board to replenish the unrestricted fund balance to be appropriate target level within twenty-four (24) months thereafter. The Board may choose to extend the timeframe to replenish the unrestricted fund balance if the Board finds that it is in the County's best interest to do so.

General Fund Reserves

In addition to maintaining a responsible unrestricted fund balance level, the County shall also strive to maintain General Fund reserves at a level that will adequately protect the fiscal health and stability of the County. The County's General Fund will maintain the following reserves:

Strategic Reserve

The County's Strategic Reserve is comprised of Committed fund balance and considered a stabilization arrangement. The Board strives to commit an amount equivalent to no less than 8% (approximately 30 days of working capital) of the most recent audited General Fund operating revenues. The purpose of this reserve is to :

a. Provide resources to make up for temporarily decreased revenues that result from State and Federal budget actions;
b. Provide temporary resources in the event of an economic downturn;
c. Provide resources in the event of a disaster or emergency declared by the Board of Supervisors, the state, or the federal government, for disaster costs or costs associated with emergencies;
d. Absorb liability settlements in excess of available resources.

The amount determined will be classified as "committed" from the total amount of available Fund Balance to the Strategic Reserve prior to appropriation for all other funds. This amount shall be committed annually by the Board as part of the recommended budget approval process.

Annual commitment of funds to the Strategic Reserve shall be approved by the Board during the Annual Budget Hearings. In the event funds are to be appropriated to cover essential core functions of the County, the access of funds shall be determined by the Board by a four-fifths vote during the annual Budget hearings or during action on the Mid-Year Budget Report. If there is a declared local, state, or federal government disaster or emergency, then the Board, by the four-fifths vote, may access the strategic reserve at a regularly scheduled Board meeting.

The monies committed to the Strategic Reserve are only to be used for the purposes stated above. If the funding level for the Strategic Reserve falls below the 8% target level, the CAO shall present a plan to be approved by the Board to replenish the Strategic Reserve within twenty-four (24) months thereafter. The Board may choose to extend the timeframe to replenish the Strategic Reserve if the Board finds that it is in the County's best interest to do so.

General Fund Pension Trust[SG1]

The County maintains an Internal Revenue Code Section 115 irrevocable trust for the purpose of funding pension expenses. Funds held within this trust are considered restricted assets and can only be used for the purpose of funding pension costs of the County. There shall be no targeted funding level for this trust.

7. OPERATING BUDGET POLICIES

The budget is intended to weigh all competing request for County resources within projected fiscal constraints. All departments will participate in the budget process with responsibility for meeting County policy goals and ensuring long-term financial health. Future departmental service plans and program initiatives will be developed to reflect current County policy directives, projected resources, and future service requirements.

Fund Balance Level – General Fund

The ratio of unrestricted fund balance and Appropriations for Contingencies budget as a percentage of the General Fund expenditure indicates the ability of the County to cope with unexpected financial problems or emergencies and to avoid potential service disruptions caused by revenue shortfalls. The larger the General Fund's unrestricted fund balance and contingencies, the greater the County's ability to cope with financial emergencies and fluctuations in revenue cycles.

As mentioned before, the County strives to achieve and maintain the unrestricted fund balance and Appropriations for Contingencies budget at a level equivalent to a minimum of two months of actual regular General Fund operating expenditures or operating revenues as recommended by the Government Finance Officers Association (GFOA). This level should be funded for each upcoming fiscal year from prior year unrestricted fund balance before any one-time needs are addressed.

Appropriation Levels

Spending authority level are not guaranteed from one fiscal year to another. At the start of the annual budget process, the CAO, in consultation with the Board, shall determine the maximum allocations (expenditure targets) for each General Fund department, based on detailed reviews of spending needs, priorities, expected results, and long-range revenue and expenditure forecasts, thereby limiting the rate of budgetary growth to address the issues of sustainability.

The appropriation levels for funds outside the General Fund shall be determined in a similar manner by the appropriate department heads, in conjunction and with approval from the CAO.

Current Revenues Should Be Sufficient to Support Current Expenditures

Ongoing operational costs should be supported by ongoing, stable revenues whenever possible. Unassigned fund balances, if not needed for current critical operations or contingencies/reserves, should only be used for one-time expenditures such as unanticipated emergencies, projects and equipment.

Revenue and Expenditure Projections

In order to improve financial planning and decisions, the CAO's office will, at a minimum, prepare an annual budget and three to five-year projections of revenues and expenditures for all General Fund County departments. Such projections may be made for other funds whenever possible. All revenue projections shall be conservative in nature.

In addition, the CAO's office will submit an annual Mid-Year Budget Report to the Board that compares the revenues recognized and expenditures obligated to Current Modified Budgeted amounts and identify any challenges that need to be addressed by the end of the fiscal year.

Alternative Means of Service Delivery

Alternative means of service delivery will be evaluated to ensure that quality services are provided to citizens at the most competitive and economical cost. Departments, in cooperation with the CAO, will identify activities that could be proved by another source and review options/alternatives to current services delivery. The review of services delivery alternatives and the continuing need for the service will be performed at least annually as part of the budget process or on a more frequent “opportunity” basis by the CAO’s Office and departments, using the Government Code where applicable.

Funded Positions

All allocated positions should be fully funded on an annualized basis by an identifiable revenue sources. Any filled or vacant position that becomes unfunded or under-funded will be either fully funded by an alternative revenue source, frozen, or deleted, unless specifically exempted by the CAO. If such actions result in a reduction of force, the process will be conducted in accordance with procedures administered by the Human Resources Department. Any payroll liabilities costs will be funded from within the affected County department whenever possible or from another source as approved by the CAO.

Additional personnel will only be requested to meet program initiatives and policy directives, after service needs have been thoroughly examined. It must be substantiated that additional staffing will result in increased revenue or enhanced operating efficiencies. To the extent feasible, personnel cost reductions will be achieved through attrition. Additional positions will not be approved unless their fully annualized cost can be supported within the County department’s current appropriation, or if the CAO approves other funding.

Reclassifications, with appropriate justification, will be approved only when the fully annualized additional cost can be supported within the County department’s current appropriation, or if the CAO approves an alternate funding source.

Agreements

Departments shall not recommend for approval by the Board any agreements that commit the County to expenditures for which funding is not identified in the current fiscal year or future years (i.e., multi-year agreements), unless specifically recommended by the CAO.

Maintenance of Capital Assets

The budget should provide sufficient appropriations for regular repair and maintenance of capital assets to protect the County’s capital investments and to minimize future maintenance and replacement costs. The CAO’s Office is responsible for determining the level of appropriations needed.

Capital Asset Replacement Programs

The County will stive to establish and maintain replacement programs, including reserves, for technology and vehicles to stabilize requests and maintain efficient and up to date technology-related equipment and vehicles.

Transfers from the General Fund

General Fund transfers to other funds are resources intended to address cash flow issues and are expected to repaid to the General Fund in the future, with interest, at the County’s Treasury Pool rate. Should the receiving fund accumulate an unassigned fund balance, the responsible department shall notify the CAO’s Office. The CAO’s Office and the Auditor/Controller’s Office will coordinate to adjust the unassigned amount to first repay the General Fund advance before any of it is used for other purposes. As stated before, at the time of eliminating and closing a fund, all assets funded by the General Fund revert to the General Fund unless prohibited by applicable Federal, State or local law.

Assumption of Program Costs

The County's general policy is to eliminate programs when Federal, State, or other grant funding is terminated. Limited exceptions may be approved by the Board only.

Department Carry Forwards

As an incentive, the CAO may grant General Fund departments the option of requesting a carry forward of unanticipated revenues and/or unspent appropriations from one fiscal year to the next, not to exceed 50% of nay savings of budgeted Net County Cost, unless economic conditions are such that the CAO determines that a lessor amount shall be retained by departments or all of the balance shall fall to the General Fund unassigned fund balance or contingencies. The carry forward funding should only be used for one-time expenditures as recommended by the CAO during the budget process.

Use of Contingencies

Any governmental fund can budget for contingencies. Departments can request funding for unanticipated expenditures or unfunded projects. If such a situation arises in a fund outside the General Fund, and that fund does not have the budget for contingencies, then General Fund appropriations for contingencies can be used to transfer funds to any department outside the General Fund. Any request for use of Appropriations for Contingencies must be submitted via Board agenda item, and submitted by the responsible department and approved by the CAO before being put on the agenda. The Board must approve all requests for contingency funds by a 4/5th vote. Any contingency funds used within the General Fund during the fiscal year shall be replenished the following fiscal year or at the discretion of the CAO.

Use of Reserves

Per the County Budget Act (Government Code §219130), at any regular or special meeting, the Board by a 4/5th vote may make available for appropriation any of the following fund balances for which the Board has authority:

- Restricted, committed, assigned, and unassigned fund balances, excluding general reserves and non-spendable fund balance.
- Amounts that are either in excess of anticipated amounts or not specifically set forth in the budget derived from any actual or anticipated increases in financing sources.

Any portion of fund balance designated as general reserves during the budget process is inaccessible until the next annual budget. The exception is that after adopting a resolution by a 4/5th vote declaring an emergency at any regular or special meeting, the Board may appropriate and make expenditures necessary to meet that emergency (Government Code §29127).

Budget Performance Monitoring

The CAO maintains ongoing contact with the department fiscal officers in the process on implementation and execution of the budget. The CAO exercises appropriate fiscal management as necessary to operate within the limits of the adopted budget.

8. CAPITAL IMPROVEMENT PROJECTS POLICIES

Capital Improvement Projects are defined as infrastructure acquisition or maintenance or construction projects costing $100,000 or more or major equipment acquisition or maintenance costing $100,000 or more, with an estimated useful (depreciable) life of five years or more. Improvements or maintenance projects below stated parameters are considered to be ordinary in nature and can be included in the departments budgets.

Capital Improvement Project Plan Preparation

In order to meet the County's debt ratio targets, to schedule debt issuance, and to systematically improve the County's capital infrastructure, each year the Department of Facility Services will prepare and submit to the Board for adoption, a three, five, or ten-year Capital Improvement Plan (CIP). The first year of each three-year plan will be the next year's capital plan. Whenever possible, the CIP will include, in addition to current major operating maintenance expenditures, adequate funding to support repair and replacement of deteriorating infrastructure in an effort to ensure that it will the expected lifetime.

Coordination with Operating Budget

Capital improvement lifecycle costs will be coordinated with the development of the Operating Budget. Future operating, maintenance, and replacement costs associated with new capital improvements will be forecast, matched to available revenue sources, and included in the Operating Budget. Capital project contract awards will include fiscal impact statement disclosing the expected operating impact of the project and when such cost is expected to occur.

Pay-As-You-Go Capital Improvement Funding

The County is committed to funding a significant portion of capital improvements with funds that are dedicated to that purpose. Additional one-time General Fund contributions may be made to help finance specific projects, from Unassigned Fund Balance not needed for current critical operations or planning for emergencies.

Should such dedicated funding be unavailable, Capital Projects reserves not needed for critical operations or emergencies may be used to support existing projects that had been scheduled to receive the funds.

Whenever possible, funding from other governmental entities should be solicited and used to finance capital improvements that are consistent with CIP and whose operation and maintenance costs have been included in operating budget projections.

High Priority Projects

A high priority shall be placed on capital improvements or replacements when assets have deteriorated to the point of becoming hazardous, incurring high maintenance costs, negatively affecting property values, becoming dysfunctional for their intended purposes, and/or adversely affecting service delivery to the public.

Deferred or Incomplete Projects

Unexpected one-time funds from deferred or incomplete capital projects can be carried forward to the next fiscal year.

Capital Projects Reserves

Any balance in the Capital Projects Fund remains until a need is identified. Some portion of the fund balance must remain available in order to address unforeseen circumstances. The County's policy of funding a large portion of capital expenditures by pay-as-you-go further enhances debt management.

9. DEBT POLICIES

The County's debt policies ensure sound and uniform practices for issuing and managing debt. As the demand for public sector investment and infrastructure continues to grow, the issuance of debt has become an increasingly important component of local government capital obligations. Accordingly, these policies confirm the commitment of the Board of Supervisors, staff, advisors, and other decision-makers to adhere to sound financing management practices with the following objectives:

- Establish a systematic and prudent approach to debt issuance and debt management.
- Ensure access to debt and capital markets and direct purchase investors (private placement providers) through prudent and flexible policies.
- Define specific limits or acceptable ranges for General Fund-supported debt.

Delegation of Authority

Government Code section 53635.7 requires all borrowing be placed on the Board agenda as a separate item of business. Policy implementation and the day-to-day responsibility for and authority over the County's debt program will lie with the CAO and the Auditor/Controller, with participation by County Counsel and other departments, as necessary. The CAO and Auditor/Controller will be supported on an as-needed basis by other members of the financing team and a Financial Advisor[SG2]. The services of other outside consultants may be obtained, as necessary.

Debt Management

While the issuance of debt is frequently an appropriate method of financing capital obligations, and sometimes appropriate for certain other obligations, it also entails careful monitoring of such issuances to ensure that the agency does not commit beyond its resources. Debt commits the County's revenue several years into the future and limits its flexibility to respond to changing service priorities, revenue inflows, or cost structures.

Applicable Law

County debt issuances shall comply with all applicable Federal, State, local and securities and tax laws, and these policies.

Debt Limit

State law sets limits on the amount of voter-approved General Obligation debt the County can use at 1/25% of assessed valuation[SG3]. There are not legal limits on the amount of General Fund-supported Lease Revenue Bonds or Certificate of Participation.

For General Fund lease obligations, including COPs/Lease Revenue Bond, the County has set the maximum limit on annual debt service payments (principal and interest) at 10% of total General Fund expenditure, unless the Board determines that a higher limit is necessary to address compelling need in any given year.

When calculating the above ratios, self-supporting debt such as General Obligation (GO) Bonds, tax allocation or special tax-supported bonds, and enterprise revenue bonds, as well as short-term debt including Tax and Revenue Anticipation Notes (TRANS) and other notes, should not be included. Likewise, the ratios should not include any Pension Obligation Bond debt service or the County's Other Post-Employment Benefits (OPEB) unfunded actuarial accrued liabilities.

Use of Debt

The use of debt by the County will be based on the long-term needs of the County and the amounts needed for capital asset acquisitions and other uses as determine by the Board through the budget process. In determining whether or not to issue debt, the Board will consider, among other things, the compelling necessity for financing capital outlay or other obligations of the County, the impact of additional debt on the County's credit rating, and the recommendations of the CAO and Auditor/Controller.

The County shall assess the impact of new debt issuance on the long-term affordability of all outstanding and planned debt issuance in the context of each new financing. Such analysis recognizes the County has limited capacity for debt service in its budget and that each newly issued financing will obligate the County to a series of payments until the debt is paid. The County will maintain a Debt Affordability Model (DAM), that calculates the historical and current ratios cited above. The DAM will also include projections for future rations based upon existing debt levels and various financial and economic assumptions. The DAM will be utilized as a planning tool and updated in advance of each financing.

As part of the analysis, the CAO and Auditor/Controller offices, shall cooperatively examine various specific statistical measure, using readily available data, to evaluate debt capacity and relative debt position and may compare these rations to other counties, rating agency standards, and the County's historical rations to evaluate debt affordability. These measures may include:

- Net direct bonded long-term debt as a percentage of assess valuation (Debt per AV)
- Debt service as a percentage of noncapital Governmental Funds expenditures (Carrying Charge)
- Net direct bonded long-term debt as a percentage of the County's population (Debt Per Capita)

Short-Term Debt

Short-term may be issued for many of the same purposes as long-term borrowing as well as for temporary cash flow shortages. Different forms of short-term debt may be utilized, including, but not limited to, Tax and Revenue Anticipation Notes (TRAN), Commercial Paper, lines of credit, or other forms of short-term financing. TRANs are typically issued to help bridge temporary cash flow shortages. Commercial Paper, lines of credit, or other short-term financing instruments like Bond Anticipation Notes, may utilized to fund capital projects on an interim basis in anticipation of long term financing.

Long-Term Debt

The County will consider utilizing debt financing for capital acquisition and improvement projects and capital asset equipment purchases under the following circumstances:

- When the project is included in the County's Capital Improvement Plan.
- When the project is not included in the County's Capital Improvement Plan, but has been identified as an emerging critical need whose timing was not anticipated in the Capital Improvement Plan, or is a project mandated immediately by State or Federal requirements.
- When the project's useful life, or the projected service life of the equipment, will be equal to or exceed the term of the financing.
- When there are designated revenues sufficient to service the debt, whether from project revenues, other specified and reserved resources, or infrastructure cost-sharing revenues, or where the General Fund has the capacity to service the debt.

The County may also consider issuing Pension Obligation Bonds (POBs), which are financing instruments that would be used to pay some or all of the County's unfunded pension liability, which itself is a form of "debt" owed to the retirement plan. POBs must be issued on a taxable basis, and the proceeds would be transferred to the Plumas County Employees' Retirement Association (TCERA) as a prepayment of all or part of the County's unfunded actuarial accrued pension liabilities (UAAL). The proceeds would then be invested by TCERA.

POBs would be used to refund at least a portion of the County's UAAL at a lower interest rate to achieve cost savings and would be issued only after careful consideration by the Board of potential benefits and risks. Considerations would include:

- The interest rate spread between the expected borrowing rate for the POBs and the assumed rate of return on retirement plan investments.
- Investment risk associated with the investment of POB proceeds.
- Issuing a sufficient amount of POBs to generate market interest.
- The County's overall pension burden, including both POB debt and UAAL.

Generally, the following criteria may be used by the CAO and the ACTTC to evaluate funding options for capital improvements and other multi-year obligations and make recommendations to the Board:

- Factors that favor pay-as-you-go:
    - Current revenues and adequate unassigned fund balances are available.
    - Payoff can be accomplished over time.
    - Debt levels would exceed County affordability targets.
- Factors that favor long-term financing:
    - Revenues available for debt service are considered sufficient and reliable so that long-term financing can be marketed with the highest possible credit rating.
    - Market conditions present favorable interest rates and demand for governmental financings.
    - A project/payoff is mandated by State or Federal requirements, and current revenues and fund balances are insufficient to meet costs.
    - A project is immediately required to meet or relieve capacity needs, and no resources are currently available.

There are many different types of long-term debt instruments available. Depending on the specific circumstances, the County will consider using the most appropriate type of financing instruments, including, but not limited to:

- General Obligation Bonds (voter-approved)
- Revenue Bonds
- Certificates of Participation/Lease Revenue Bonds
- Pension Obligation Bonds
- OPEB Bonds
- Mello-Roos Community Facilities District Bonds
- Other Bonds
- Other Loans

Long-term debt will not be issued for current operational costs or for recurring uses. Revenue surpluses may be used to pay the debt off early to save interest charges.

Refunding of Indebtedness

The County may issue advance or current refunding bonds (as defined for federal tax purposes) when advantageous, legally permissible, and prudent. The County also may choose to refund outstanding indebtedness when existing bond covenants or financial structure impinge on prudent and sound financial management. In general, current refundings should only be done if value savings are not less than 3.0% of refunded par amount (accounting for debt service reserve fund earnings), and advance refundings should only be done if present value savings of 5% or more of refunded par amount can be achieved.

Adjustments to savings thresholds for both advance refunding and current refundings may be justified based on:

- The length of time from the call to maturity. The longer the time to maturity, the higher should be the savings threshold. Conversely, a shorter time to maturity may justify a lower savings threshold.
- Interest rates at the time of the refunding relative to historical markets. In low-interest rate markets, a lower threshold may be justified, while a higher threshold would be justified in high-interest rate markets. Generally, refunding transactions should not extend the final maturity of the existing financing, net of any reserve fund offset. The County may consider shortening the term of the originally issued financing to realize greater interest savings.

Credit Enhancements

The County shall seek to use credit enhancements (letters of credit, bond insurance, surety bonds, etc.) when such enhancements prove cost-effective. The use of credit enhancements must meet the County's debt financing goals and objectives.

Credit Worthiness

The County places a high priority on maintaining the highest possible credit ratings for all categories of short and long-term debt in order to achieve the lowest possible borrowing interest rates.

Conduit Financing

The County may sponsor conduit financing (financing for private projects with identified public benefits issued by a governmental agency) for other governmental entities that are consistent with the County's overall service and policy objectives. All conduit financing must insulate the County to the maximum extent possible under the circumstances from any credit risk or exposure and from all other liability exposure and must be approved by the County Board of Supervisors.

Debt Repayment

The County commits to full and timely repayment of debt. Debt will be structured to accommodate fair allocation of costs to both current and future beneficiaries of the financed capital project. The duration of repayment shall not exceed the economic or useful life of the capital project to be financed.

Revenue surpluses may be used to pay debt off early to save interest charges.

Relationships within the Financial Community

The County places a high priority on maintaining good working relationships with credit rating agencies, investors, and others in the financial community who are involved with the County’s long-term debt. The County will provide full and open financial disclosures with these partners.

Professional Assistance

The County will use the services of independent Financial Advisors and Bond Counsel for all debt financing. Other professional services may include disclosure counsel, underwriting, trustee, verification agent, escrow agent, arbitrage consulting, and special tax consulting. The goal in selecting service providers is to achieve a good balance between cost and service.

Due Diligence

The County will conduct “due diligence” meetings with all relevant County staff and consultants prior to the issuance of new bonds and notes. A Preliminary Official Statement will be released to the market only after the completion of the “due diligence” meetings.

Method of Sale

The County’s goal is to protect the public’s interest by obtaining the lowest possible interest cost. To obtain that goal, the County may use a competitive, negotiated, limited-competitive, or private placement (direct purchase) method of sale. The appropriate method shall be determined on a case-by-case basis.

Before selecting a method of sale for public offerings, the financing team shall take into consideration the current market, the issuer’s characteristics, and the proposed bond structure. Market considerations will focus on the supply and demand of the competing issuances. Issuer characteristic considerations will include market familiarity, credit strength, and policy goals. Bond structure considerations will include the type of debt instrument, issue size, structure, and timing.

The County prefers the use of a competitive method of sale for public offerings, where feasible.

Investment of Bond Proceeds

Investments of proceeds shall be consistent with Federal tax requirements, the County’s Investment Policy as modified from time to time, and requirements of the governing bond documents.

Derivatives

A derivative product is a financial instrument that derives its own value from the value of another instrument, usually an underlying asset, such as a stock, bond, or an underlying reference such as an interest rate. Derivatives are commonly used as hedging devices in managing interest rate risk to mitigate risk and borrowing costs. These products bear certain risks not associated with standard debt instruments. Derivative products should only be employed after careful evaluation of potential benefits and risks with prior Board approval and with the adoption of a separate Derivatives Policy, intended to protect the County.

The County prefers not to use derivative products.

Post Issuance Compliance

The County will comply with certain post-debt issuance compliance requirements, including, but not limited to, Continuing Disclosure requirements, as stated in specific financing documents, and arbitrage regulations. Generally, tax-exempt financing issues are subject to IRS arbitrage rebate requirements. These requirements specify that any profit or arbitrage be rebated to the Federal Government. Rebate computations are typically required every five (5) years and upon final redemption, maturity, or refunding of the bonds. Any excess earnings are required to be rebated to the Federal Government. The County will also comply with any post-debt issuance reporting requirements of State law, including, but not limited to, the annual report to the California Debt and Investment Advisory Commission required by Government Code section 8855(k)(1).

New Financing Methods and Techniques

This policy is not intended to hinder the County's use of any new financing techniques that may arise. Proposals for new financing methods or structures not included in this Policy should be addressed to the CAO and Auditor/Controller for consideration and, if necessary, referred to the County's Financial Advisor for evaluation. This policy should then be amended to reflect any new financing techniques recommended and approved by the Board

Use of Debt Proceeds

The CAO, the Auditor/Controller, and other appropriate County personnel shall implement Internal Control procedures outlined below to ensure that the proceeds of the proposed debt issuance will be directed to the intended use:

- Monitor the use of Debt proceeds, the use of Debt-financed assets (e.g., facilities, furnishings, or equipment), and the use of output or throughput of Debt-financed assets throughout the term of the Debt to ensure compliance with covenants and restrictions set forth in applicable County resolutions and Tax Certificates. Monitoring will include providing an annual report to the Board of Supervisors;
- Maintain records or contracts identifying the assets or portions of assets that are financed or refinanced with proceeds of each issue of Debt and to document compliance with all covenants and restrictions set forth in applicable County resolutions and Tax Certificates. An applicable Record Retention Policy will be maintained by the ACTTC; and

- Consult with Bond Counsel or other professional expert advisors in the review of any contracts or arrangements involving use of Debt-financed facilities to ensure compliance with all covenants and restrictions set forth in applicable County resolutions and Tax Certificates.

10. INVESTMENT POLICIES

The Treasurer/Tax Collector Investment Policy Statement for the Pooled Investment Fund is presented annually to the Treasury Oversight Committee for review and to the County Board of Supervisors for approval as recommended by California Government Code§53646 and §27133 and shall remain in effect until the succeeding policy is adopted. This policy has been researched, prepared, and written under the direction of the Treasurer/Tax Collector County of Plumas. Each issue addressed in this policy is considered to be of timely and significant importance to the administration of the investment portfolio. The purpose of the investment policy is to facilitate the accomplishment of the goals and objectives of the Treasurer with regard to the investment of idle funds, to provide a framework within which to carry out the business of administering and investing the idle funds of the Treasury, and to improve communications at all levels between those involved and those interested in the process of investing and administering the idle funds of the Treasury.

<u>Treasury Pool</u>

The Treasurer/Tax Collection oversees the Pooled Investment Funds (the Pool) which includes funds belonging to local school districts and many local special districts in addition to County funds.

<u>County Treasury Oversight Committee</u>

The Board of Supervisors, in consultation with the Treasurer/Tax Collector has created a County Treasury Oversight Committee to promote the public interest by involving depositors in the management of their funds and by enhancing the security and investment return of their funds through the establishment of criteria for the withdrawal of funds. The County of Plumas Treasury Oversight Committee shall annually review and monitor the Investment Policy and cause an annual audit to determine the Treasurer’s compliance with the Investment Policy. Nothing in this policy shall be construed to allow the County Treasury Oversight Committee to direct individual investment decisions, select individual investment advisors, brokers or dealers, or impinge on the day-to-day operations of the County Treasury.

<u>County Investment Policy Goals</u>

The Treasurer/Tax Collector’s primary goals for the investment of idle funds (the portfolio) are, in order of priority as per California Government Code §§27000.5 and §§53600.5:

> 1. Safety – Safety of capital shall mean the safeguarding of capital through the selection of investments and investing procedures to best protect against loss arising from default, fraud, or error. This objective will be obtained through diversification and investment in securities of high quality to minimize credit risk and loss of principal.
>
> 2. Liquidity – The investment portfolio shall remain sufficiently liquid to enable the Treasury Pool to meet the operating requirements of its participants which might be reasonably anticipated and shall always have the ability to convert sufficient securities in the portfolio to cash to meet contingency needs.

3. Yield – The investment portfolio shall be designed with the objective of attaining the highest rate of return, taking into consideration income preservation, current market conditions, the present phase of the market cycle, both present and future cash flow needs, and the other primary goals of Safety and Liquidity.

Performance measurements are laid out in the Annual Investment Policy and are measured from time to time throughout the year.

Treasurer's Quarterly Investment Report

The Treasurer/Tax Collector provides a quarterly Investment Report to the Board of Supervisors, County Administrative Officer, the County Auditor, and the Oversight Committee, within thirty (30) days following the end of the quarter covered by the report. The quarterly investment report contains, but is not limited to, the following investment information:

A. The type of investment, name of issuer, date of maturity, par and dollar amount invested in all securities, investments, and monies:

B. A description of any funds, investments that are under the management of contracted parties:

C. The market value as of the date of the report, and the source of this valuation for any security within the treasury or under management by contract;

D. The weighted average maturity of investments within the treasury;

E. Purchase dates, book values, and current credit rating of issuers;

F. Yield to maturity;

G. Overall portfolio yield based on cost;

H. Statement that the portfolio is in compliance with the Investment Policy or the manner in which the portfolio is not in compliance;

I. A statement denoting the County's ability to meet its expenditure requirements for the next six months, or an explanation as to why sufficient money shall not be available.

In addition, an annual audit of the portfolios, procedures, reports, and operations related to the Pool will be conducted in compliance with California law.

Treasury Pool Investment Guidelines

The Treasury Pool Investment Guidelines are available online or by request from the Treasury Division.

11. FINANCIAL REPORTING POLICIES

The County's accounting and financial reporting systems will be maintained in conformance with all State and Federal laws, generally accepted accounting principles (GAAP), GASB standards and recommendations, and recommended practices of the GFOA.

Level of Accountability

The County strives to maintain the highest level of accountability expected by any major stakeholder group. The degree of accountability is measured by the extent to which:

- Resources are acquired and used effectively and efficiently.
- Laws and regulations are complied with.
- Results are appropriately reported to demonstrate good stewardship.

Accountability should extend to all levels of the County organizational structure.

Financial Reporting

Financial transactions will be recorded and summarized into financial reports in accordance with GAAP. The ACTTC will prepare a Comprehensive Annual Financial Report (CAFR) of the County's financial position and changes in financial position in conformity with GAAP.

Internal Controls

County management is responsible for maintaining adequate internal controls to obtain reasonable assurance that long-term County goals are achieved efficiently and in compliance with law.

County accountant-auditors (as available) or outside auditors may be called upon to validate financial data reported by departments and may be asked to make recommendations to improve controls when appropriate. The CAO will determine the source of funding for requested financial audits.

The risk of non-accountability should be periodically assessed countywide and mitigated through audits.

Independent Audits

An annual independent audit of the CAFR will be conducted in accordance with GAAP. All material audit findings and recommendations, whether arising from internal or external audits, shall be reported to the Audit Committee and resolved in a timely manner.

APPENDIX A: MAINTENANCE OF POLICIES

These Financial Policies are maintained by the County Administrative Office and the County Auditor-Controller's Office. Each department works collaboratively together to ensure the integrity of the policies. The core focus of each department with respect to the Financial Policies is as follows:

County Administrative Office:

- Balanced Budget
- Revenue
- Operating Budget
- Capital Improvement Projects Debt (with ACTTC's Office)
- Financial Reporting (with ACTTC's Office)

Auditor-Controller/Treasurer-Tax Collector Office:

- Investment
- Debt (with CAO)
- Financial Reporting (with CAO)