

## Financial Policies - Capital Improvement

### OBJECTIVE

The purpose of the Capital Improvement Program (CIP) is to systematically identify, plan, schedule, finance, track, and monitor capital projects to ensure cost-effectiveness as well as conformance to established policies, procedures, and appropriations.

The performance and continued use of capital infrastructure is essential to delivering public services. Deferring essential maintenance and/or asset replacement can negatively impact service delivery and increase the long-term costs. As such, the County will periodically assess the condition of assets and infrastructure and appropriately plan for required major maintenance and replacement needs. Efforts will be made to allocate sufficient funds in the six-year CIP and operating budgets for condition assessment, preventative and major maintenance, and repair and replacement of critical infrastructure.

### POLICY

- I. The CIP shall consist of all funds appropriated by the Board of County Commissioners for capital improvements either by county departments, external organizations, offices of county government, or outside agencies for which the County provides capital funding.
  - a. Capital improvement projects shall be defined as construction projects, renovation projects, property acquisition, and equipment purchases that cost at least \$100,000 and have a useful life of at least ten years.
    - i. For the purposes of the CIP, information technology projects of at least \$100,000 may be considered as capital improvement projects provided the useful life is at least five years.
    - ii. For the purposes of the CIP, fleet acquisition will be evaluated and recommended in accordance with fleet replacement procedures.
  - b. Minor capital outlay and equipment acquisition (less than \$100,000 or a useful life of less than ten years) shall be included in the operating budget.
- II. The County Manager, as the County's Budget Officer, shall annually submit a financially balanced, six-year Capital Improvement Program for review and approval by the County Commission, pursuant to the timelines established in the annual budget preparation schedule.
  - a. The CIP will be updated annually as part of the annual budget process.
  - b. The first year of the adopted CIP will be the capital budget for that year.
  - c. Submission of the CIP shall be consistent with the requirements established by North Carolina General Statutes Chapter 159.
  - d. The County Manager will develop necessary procedures and internal controls to develop and manage the implementation of the adopted CIP.
- III. The County Manager will develop necessary procedures and internal controls to develop and manage the implementation of the adopted CIP.
  - a. A Capital Improvement Program Message that provides a statement of CIP objectives and clearly demonstrates the program's relationship to the County's operating budget proposal and strategic and master plans.
  - b. Summaries of project request and funding sources that demonstrate the six-year Capital Improvement Program is balanced.

- c. Detailed capital project descriptions to include the following:
    - i. Scope of the project that defines or describes the project.
    - ii. Justification for the project that clearly states the need and pertinent history.
    - iii. Estimated cost by project phase.
    - iv. Estimated funding by project.
    - v. Estimated operating budget impact by budget category.
    - vi. Estimated implementation schedule that provides for the coordination of project timing, construction, and funding.
    - vii. Identification of Managing Department.
  - d. Schedule of proposed and existing debt requirements.
- IV. Staff will monitor projects in progress to ensure their timely completion or identify needed adjustments of the CIP as approved by the Board of County Commissioners.
- a. The County Manager may make necessary transfers between phases and accounts within a project, however, transfers between projects, regardless of funding source, require Board of County Commissioner approvals.
  - b. Within ninety-days of the completion of a capital project any remaining appropriated funds for the project will revert to the fund balance of the funding source. Expenditure of excess funds may only occur by Board of County Commission action.
  - c. Appropriations for capital projects lapse three years after budget adoption if there is no progress on project implementation, as determined by the County Manger and recommended to Board of County Commissioners. Projects which lapse from a lack of activity may be resubmitted for inclusion in a future capital improvement program.
- V. Project expenditures and related accounting shall be in accordance with Generally Accepted Accounting Principles (GAAP), Governmental Accounting Standards Board (GASB) requirements, and other bond and legal requirements.
- a. Project funding shall be in accordance with the County's Debt Policies and the North Carolina General Statutes Chapter 159.
  - b. The County Finance Officer will evaluate project funding and expenditures to ensure compliance and appropriate accounting in accordance with applicable policies, procedures, principles, and standards.
- VI. It is anticipated that new general obligation debt funded projects shall be voted by referendum.
- a. It is anticipated that new general obligation debt will be funded through increased tax rate, and that voter approval of general obligation debt represents a tacit approval of the accompanying tax rate.
  - b. It is anticipated that new general obligation debt matures; the associated tax rate will be reduced accordingly.

Adopted by the Board of County Commissioners on November 19, 2012.

## Financial Policies - Debt

Union County's Finance Director is charged with the responsibility for prudently and properly managing any and all debt incurred by Union County, (the "County"). The following policy provides the methods, procedures, policies and practices which, when exercised, ensure the sound fiscal management of the County's debt program.

### SCOPE

This policy applies to all debt issued or incurred by the County. This may include general obligation bonds, certificates of obligation/participation, limited obligation bonds, revenue bonds, capital leases, private placements, installment financings, and letters of credit.

### DEBT LIMITS

The net debt of the County, as defined in G.S. 159-55, is statutorily limited to 8% of the assessed valuation of the taxable property within the County. Total General Fund debt service will not exceed any limits imposed by the Local Government Commission (LGC). As a guide, formulas established by the LGC and rating agencies will be monitored and appropriately applied by the County. Debt service as a percentage of the General Fund operating budget should not exceed 15%.

The County evaluates new debt issuance as it relates to the current debt level. The amount of debt retired each year is compared to the amount of debt to be issued any given year and an analysis performed to determine the community's ability to assume and support additional debt service payments. When appropriate, the issuance of self-supporting revenue bonds and other self-supporting obligations are also considered.

An objective, analytical approach is used to make the determination of whether debt is issued. The process compares generally accepted standards of affordability to the current values for the County. Those standards may include measures such as: debt per capita, debt as a percent of assessed value, debt service payments as a percent of current revenues and/or current expenditures, and the level of overlapping net debt of all local taxing jurisdictions.

### OBJECTIVES

#### Legal and Regulatory Compliance

The County's debt policies and procedures are designed to ensure compliance with all State and Federal Law governing debt, including but not limited to, State Law, Federal Law, Internal Revenue Service rules and regulations, Securities and Exchange Commission ("SEC") regulations, Municipal Securities Rulemaking Board ("MSRB") regulations, court rulings, and existing debt covenants.

As a result of the importance of complying with all legal and regulatory requirements, the Finance Director and the County Attorney will coordinate all activities necessary to issue debt, including but not limited to:

- selection of bond counsel;
- review of ordinances and resolutions provided by bond counsel;
- review of all documents necessary to issue debt provided by bond counsel; and
- verify compliance with the North Carolina Local Government Commission (LGC)

### RESPONSIBILITY AND CONTROL

The ultimate responsibility and authority for issuing debt is approval by the County's governing body, the Union County Board of Commissioners. The Finance Director is charged with the responsibility for the appropriate management of the County's debt program. The Cash and Debt Management Analyst executes the day-to-day debt functions of the debt program following the policies and procedures as well as the guidance and recommendations of the Finance Director, the Senior Management, and Commissioners.

## SELECTION OF SERVICE PROVIDERS

### Financial Advisor

The Finance Director provides recommendations to Senior Management and the Board for the selection of a financial advisor for the County's debt program. The financial advisor may perform the following duties including but not limited to: presenting all available financing alternatives, comprehensive analyses for debt refinancing, recommendations for alternative financial structures, development of timing and sale of new issues, coordinating the market timing and pricing of debt securities, issuing and disseminating the bond offering documents and other disclosure requirements, coordinating with the underwriters of the bond issuance, seeking and coordinating ratings from the nationally recognized rating agencies, and providing guidance and advice about debt-related topics and the capital markets.

The recommendations to select a financial advisor will be based on the results of a formal request for proposal process. When the recommendation is made for Senior Management and Board approval, the basis for the recommendation will be submitted for review. The engagement of a financial advisor is implemented through the approval of a contract by the Union County Board of Commissioners that has a term of no more than five years.

### Bond Counsel

The Finance Director coordinates with the County Attorney and Senior Management on the selection of bond counsel for any issue. When the bond counsel has been selected, they are responsible for providing opinions to investors in two specific areas: first, the bond counsel must assure investors that the securities are valid and legally binding obligations of the County; and second, the bond counsel will state whether the interest on the bonds is exempt or not from federal taxation. The bond counsel also prepares or supervises the preparation of all bond documents necessary to execute the bond issuance. The bond counsel is responsible for coordinating with the County Attorney's office, Clerk to the Board and Finance Office as well as the County's financial advisor to ensure that all tasks associated with the bond issuance are completed within prescribed timeframes.

### Underwriters

In a negotiated sale (See Methods of Sale), the Finance Director, after review with Senior Management, makes recommendations concerning underwriting firms to include in the underwriting syndicate. A diverse group of securities firms will be chosen based on past performance, demonstrated ability to resell, prior municipal issuance experience and other factors. While past demonstrated performance is the primary criteria for selection, within those criteria, the participation of historically underutilized businesses (HUBs) will be strongly encouraged.

The primary function of the underwriter is to purchase securities from the County and resell them to investors. Underwriters will be selected for each issue based on the particular experience and expertise necessary for that issue. The underwriter's compensation (an "underwriter's discount") is a percentage of the amount of bonds sold and is negotiated for each issuance. When the amount of bonds to be issued exceeds twenty million dollars (\$20 million) the LGC requires a Co-Manager Underwriting firm in addition to the primary Underwriting firm (Senior Managing Underwriter). Underwriter's employ their own Counsel.

### Trustee

The Trustee receives funds from the County and makes payments to bondholders, maintains records of bond ownership and acts as fiduciary agent for the benefit of the bondholders in enforcing the terms of the bond contract.

### Local Government Commission

All bonds issued under the authority of the Local Government Bond Act are approved by the Local Government Commission (LGC). Approval of an application as noted in N.C.G.S. 159-51 for a bond issue to the LGC is contingent on criteria established in N.C.G.S. 159-52. Such criteria require resolution of issues such as low tax collection rate (below ninety percent (90%)), receipt of a qualified audit opinion, or violations of the Local Government Budget and Fiscal Control Act.

The County is required to send notice to the Joint Legislative Committee on Local Government at least 45 days before the LGC approves the County's application for all bonds or other debt obligations issued over \$1,000,000 for new projects, with the exception of schools, jails, courthouses, and administrative buildings.

No part of this policy may be construed or interpreted to supplant LGC authority or alleviate the County of any LGC requirements.

### **Bond Insurers / Liquidity Providers**

Credit quality and marketability of securities may be enhanced through the purchase of municipal bond insurance. The County may pay a single premium and in turn the bond insurer unconditionally guarantees the payment of principal and interest to bondholders in the event of default. Prior to purchasing insurance for an issue, the County performs a cost effectiveness analysis with assistance from the financial advisor and bond counsel. Due to the County's high credit quality, the costs of insurance typically outweigh the benefits the County may derive by insuring an issue, but due consideration will be given to the possibility of insurance.

### **METHODS OF SALE**

The County typically chooses from three different methods of selling debt securities. The methods and the description of each method are listed below:

1. Competitive Sale - Bonds are awarded in an auction-style of sale to an underwriter or syndicate of underwriters that provides the lowest True Interest Cost (TIC) bid. TIC is defined as the rate, which will discount the aggregate amount of debt service payable over the life of the bond issue to its present value on the date of delivery.

2. Negotiated Sale - The County chooses an underwriter or underwriting syndicate that is interested in reoffering a particular series of bonds to investors. The terms of the sale, including the size of the underwriter's discount, date of sale, and other factors are negotiated between the County and the Underwriter(s).

Although the method of sale is termed negotiated, individual components of the sale may be competitively bid. The components are subject to a market analysis and reviewed prior to recommendation by staff. Negotiated sales are more advantageous when there needs to be some flexibility in the sale date and market volatility is a concern. Negotiated sales are also often used when the issue is particularly large, if the sale of the debt issuance would be perceived to be more successful with pre-marketing efforts when a desired debt structure is a necessity and when market timing is a consideration.

3. Private Placement - Debt may be privately placed with a lending institution when private placement will enhance the attractiveness of the offering consistent with the receipt of the lowest true interest cost possible. The Local Government Commission must approve the use of all private placements, in accordance with NC Statute 159-153.

The County considers the following criteria when determining the appropriate method of sale for any debt issuance:

(1) Complexity of the Issue - Municipal securities with complex security features require greater marketing and buyer education efforts on the part of the underwriter, to improve the investors' willingness to purchase.

(2) Volatility of Bond Yields - If municipal markets are subject to abrupt changes in interest rates, there may need to be some flexibility in the timing of the sale to take advantage of positive market changes or to delay a sale in the face of negative market changes.

(3) Familiarity of Underwriters with the County's Credit quality - If underwriters are familiar with the County's credit quality, a lower True Interest Cost may be achieved. Awareness of the credit quality of the County has a direct impact on True Interest Cost an underwriter will bid on an issue. Therefore, where additional information in the form of presale marketing benefits the interest rate, a negotiated sale may be recommended.

(4) Size of the Issue – The County may choose to offer sizable issues as negotiated so that pre-marketing and buyer education efforts may be done to promote the bond sale.

(5) Costs of Issuance – Should the County decide to offer a small issue, it may choose a private placement in order to avoid the usual higher costs of issuance generally associated with competitive and negotiated sales.

### **Bid Verifications**

The County awards successful bidders on the basis of the lowest “True Interest Cost”.

### **Allowable Discounts**

In most cases, the County requires bidders to purchase bonds at par. When there are no prevailing limitations, a discount is permitted when market conditions indicate a discount provides a more competitive bid and when there is flexibility to increase the par amount of the issue. If there is considerable market activity on the date of the proposed sale or other market related factor to necessitate improving the marketability of the issue, discounts may be permitted. Bidders are notified in advance of the allowance for discounts.

### **Term Bonds**

Bidders may form term bonds based on the length of the maturity schedule. The resulting term bond structure must completely mirror the serial bond structure and must comply with the LGC requirements for weighted average maturity.

### **Retention**

Prior to pricing a bond issue, the County will select a lead underwriter and co-managing underwriters for the underwriting syndicate. Each member of the syndicate will then be assigned an “account liability” for purposes of determining the amount of the unsold bonds that will be allocated to each member of the syndicate. The total account liabilities will add up to 100 percent and the lead underwriter will typically have a larger liability than the co-managing underwriters.

### **Management Fee**

A management fee may be awarded to compensate the underwriters for providing assistance in structuring of the transaction, review of documents, coordination of the working group, efforts to obtain credit enhancement and other tasks. The management fee is typically allocated in the same allocation as the account liabilities.

## **BOND RATING AGENCY APPLICATION**

Prior to issuing new debt or to issuing refunding debt, the County will submit a rating application to at least two of the nationally recognized rating agencies, which are Moody’s Investors Service, Standard & Poor’s Rating Service and Fitch Ratings.

As part of the application process, County staff may make a bond rating presentation directly to the credit analysts of the selected rating agencies. The County evaluates each time whether the circumstances favor making the presentation at the Bond Rating Agency offices, as a site visit or in some other convenient location. Included in the presentation, staff compiles information relevant to the County’s current economic and financial condition as well as County initiatives.

When issues occur the rating agency application and offering document will be supplemented by a minimum of a written presentation of updated information about the County since the last rating application.

Annually, the County will distribute the ACFR and the current operating and capital budgets to each of the bond rating agencies that maintain ratings on the County’s outstanding debt obligations. Information about the County is also available on the County’s website, [www.co.union.nc.us](http://www.co.union.nc.us).

## DISCLOSURE DOCUMENTS

The financial advisor normally assists the County in the preparation of the Official Statement in conjunction with the sale of bond. The Official Statement contains relevant economic, financial and debt information to prospective purchasers of the new issue. Underwriters are required by SEC Rule 15c2-12 to obtain a copy of the Official Statement that is “deemed final” within 7 business days following the bidding or purchasing a new issue of securities. The senior underwriter files a copy of each Official Statement with the MSRB via its Electronic Municipal Market Access database (“EMMA”).

### Continuing Disclosure

The County is required under the provisions of SEC Rule 15c2-12 to provide current information annually to update certain information typically required in each Official Statement. The Official Statement provides relevant information in a series of tables. Those tables are updated and provided in the County’s Annual Comprehensive Financial Report on an annual basis. This ensures the underwriters and investors have the opportunity to preview current information about the County prior to bidding or purchasing part or all of a County issuance or purchasing outstanding obligations in the secondary market. The ACFRs are filed with EMMA.

Additionally, the County will also provide timely notices of certain events to the MSRB. The County will provide notice of any of the following events with respect to bonds issued within ten business days after the occurrence of an event: (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Obligations, or other material events affecting the tax status of the Obligations; (7) modifications to rights of holders of the Obligations, if material; (8) redemption of the Obligations, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Obligations; (11) rating changes; (12) bankruptcy, insolvency, receivership or similar event of the County; (13) the consummation of a merger, consolidation, or acquisition involving the County or the sale of all or substantially all of the assets of the County, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and (14) appointment of a successor Paying Agent/Registrar or change in the name of the Paying Agent/Registrar, if material.

## CAPITAL PROGRAM

One of the County’s goals is to maintain the excellent quality of the County’s infrastructure. One of the mechanisms to achieve that objective is the maintenance of a Capital Program. The Capital Program is outlined in the County’s Capital Improvement Program Management Policy and also recommends a course of action if a new debt issuance is required.

## BOND TYPE & STRUCTURE

### Fixed Interest versus Variable Interest

The County primarily issues fixed rate bonds to protect the organization against interest rate risk. The County has the option to issue variable rate bonds, and may if market conditions warrant consideration of such a structure. The County will limit the amount of variable rate bonds to no more than 10% of its total debt portfolio.

## DERIVATIVES

A derivative is a financial instrument whose value depends on other, more basic underlying variables. Derivatives may take the form of interest rate swaps; futures and options contracts; options on swaps; and other hedging mechanisms such as caps, floors, collars, and rate locks. Derivatives can provide interest rate savings, alter debt service patterns, and provide a hedge against risk associated with variable interest rate debt. However, derivatives also come with multiple risks that currently outweigh the benefits. The County believes capital objectives can be accomplished with traditional and more conservative financing methods and therefore limits the use of derivatives. The County will also use an outside financial advisor for the preparation of derivative disclosures in its ACFR.

### **General Obligation Bonds**

The County issues General Obligation Bonds for general purpose capital improvements when benefits accrue to the entire community. General Obligation Bonds are also used when the expectation of the project is that it will not generate significant revenues. The County pledges its “full faith and credit” and levies property tax to repay the debt. In order to issue General Obligation Bonds, the County’s voters must authorize the amount to be issued through a referendum. General Obligation Bonds are sold for a term equal to, or less than, the useful life of the project that it is funding. The County may also issue two-thirds bonds of the prior year’s general obligation net reduction without voter referendum as defined in N.C. GS 159-49.

As stated in the Union County Capital Improvement Program Management Policy, it is anticipated that new general obligation debt will be funded through increased tax rate, and that voter approval of general obligation debt represents a tacit approval of the accompanying tax rate. It is also anticipated that as new general obligation debt matures; the associated tax rate will be reduced accordingly.

### **Installment Financings / Certificates of Participation / Limited Obligation Bonds**

The County has the opportunity to enter into installment financings under N.C. GS 160A-20, which are basically general obligation debts that do not require voter approval, and the debt service obligations are subject to the annual appropriation by the Board of Commissioners. Although voter approval is not required, additional notification requirements do apply. The installment financings are secured by a lien on all or a portion of the property being financed, but otherwise are non-recourse to the County.

The County can enter into an installment financing as a private placement directly with a financial institution or, with the assistance of the Union County Public Facilities Corporation (Corporation), use Certificates of Participation (COPs) or Limited Obligation Bonds (LOBs) as a vehicle to finance the projects in the public markets.

The Corporation is a blended component unit of the County and exists to solely assist the County in financing public facilities. The Corporation is governed by a three-member board, all of whom are appointed by the County Board of Commissioners. The Board can remove any Corporation member with or without cause. The corporation’s transactions are reported within the General and Capital Projects Funds. The Corporation does not issue separate financial statements.

### **Revenue Bonds**

The County issues Revenue Bonds primarily for Union County’s Water and Sewer Enterprise Systems. Revenue Bonds are secured by a specific source of revenue. There is no tax pledge. Revenue Bonds are issued to pay for improvements that benefit the users that repay the debt through user fees. When Revenue Bonds are issued or are outstanding, coverage requirements consistent with the bond covenant will be maintained. In addition to coverage requirements, additional system maintenance and renewal contribution levels may be required.

### **Conduit Securities**

The County acts as a conduit for tax-exempt financing for several entities within the County. Union County Industrial Facilities and Pollution Control Financing Authority (Authority) is a component unit of the County and exists to issue and service revenue bond debt of private business for economic development purposes. The Authority is governed by a seven-member board, all of whom are appointed by the County Board of Commissioners (Board). The Board can remove any Authority member with or without cause. The Authority has no financial transactions or account balances; therefore, it is not presented in the basic financial statements. The Authority does not issue separate financial statements.

The County may compel the entity issuing conduit financing to (1) commit to provide the municipal securities market with continuing disclosure information, (2) issue an Official Statement or other disclosure document that clearly describes the lack of direct financial support from the County or (3) obtain an opinion that states that the County will not be liable for the payment of principal and interest in the event of default by the conduit borrower. If the opinion

cannot be obtained, the County may ask the conduit borrower to purchase bond insurance or provide a letter of credit in the County's name to protect taxpayers in event of default.

### **Structure**

Bonds are generally issued with an average life of 20 years or less for general obligation bonds or 30 years for revenue bonds. Typically interest is paid in the first fiscal year after a bond sale and principal is paid no later than the second fiscal year after the debt is issued. Call provisions for bond issues shall be made as short as possible consistent with the lowest interest cost to the County. The targeted maximum length to call is 10 years. When considering structure, issues such as asset life, inter-generational equity, and affordability, among others, will be considered.

### **INVESTMENT OF BOND PROCEEDS**

Interest on bond proceeds is restricted such that it may only be used to fund projects that have the same purpose as the purpose for which the bonds were originally issued. Construction proceeds are typically invested in short-term securities so that they are liquid. Interest & Sinking funds may be invested longer as they have to be maintained for the life of the issue.

### **POST-ISSUANCE COMPLIANCE**

The County will comply with all tax rules on its tax-exempt debt, including arbitrage rebate requirements, spending of bond proceeds, use of financed facilities and record keeping as established by the Internal Revenue Service, and all disclosure requirements established by the Securities and Exchange Commission. This effort includes tracking investment earnings on bond proceeds, calculating rebate payments in compliance with the tax law and remitting rebatable earnings to the federal government in a timely manner in order to preserve the tax-exempt status of the County's outstanding debt issues. The County Finance Director is responsible for such compliance efforts in consultation with the County Attorney and bond counsel.

### **REFUNDING & RESTRUCTURING OPTIONS**

The County may elect to refund existing debt for any of the following reasons:

- To achieve interest rate savings in a declining interest rate environment, the minimum savings achieved will be in accordance with LGC standards and guidance;
- To update covenants on outstanding debt which impair efficient operations, require burdensome coverage, or prohibit necessary or desirable activities;
- To restructure the pattern of debt service associated with outstanding bond issues; and
- To alter bond characteristics such as call provision or payment dates.

The Tax Reform Act of 1986 limits each issue to one advance refunding for all issues issued after 1986. When interest rate savings is the principal reason for advance refunding an issue, the County will have as a goal to, but not a requirement to, include issues that contribute three percent or more present value savings. Other factors may also affect the County's decision to advance refund an issue.

### **DEBT RATIOS**

The County has identified key debt ratios that investors and financial analysts use when reviewing the County's creditworthiness. The County will periodically update for investors and others the values for these ratios. These ratios include:

- Debt as a percentage of assessed value - This ratio indicates the relationship between the County's debt and the taxable value of property in the County or the County's ability to repay the debt.
- Debt per capita is the ratio that indicates the per capita debt burden and is a general indicator of the County's debt burden.

- Debt per capita as a percentage of per capita income is a measure of the capacity of the County of citizens to finance tax-supported debt. A low ratio means that taxes required to pay debt represent a smaller portion of the average residents' income.
- Debt Service as a percent of general governmental expenditures - County's ability to repay debt without hampering other County services.
- Unreserved General Fund Balance as a percent of General Fund Operating Expenses.

### **BUDGET & PROJECTIONS**

The annual operating budget will include a detailed debt analysis and discussion to include:

- Debt Service Requirements;
- Debt Ratios;
- Projection of Debt Service Payments for future years; and
- Current Credit Ratings.

In addition, during the annual projection process, all projections should include anticipated debt service for new issuances based on the adopted CIP.

Adopted by the Board of County Commissioners on June 17, 2013.

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## Financial Policies - Finance Best Practices

### FINANCE BEST PRACTICES OVERVIEW

These “best management practices”, adopted by the Board of County Commissioners on March 15, 2004, are influenced by the North Carolina Local Government Budget and Fiscal Control Act, sound financial principles and credit guidelines advocated by the rating agencies and Local Government Commission. Operating independently of changing circumstances and conditions, these practices guide the Board in policy decision making and provide the Manager with a framework in developing budgetary and financial planning recommendations – both in the short term (the annual budget) and long-term (capital planning and financial forecasting).

The practices were modified November 1, 2004, to include parameters defining the use of derivative products to mitigate the County’s interest rate exposure, October 17, 2005, to include limitations regarding the duration in which independent accounting firms may conduct the annual audit, October 15, 2007, to include parameters regarding the imposition of user fees, September 15, 2008, to reflect refinements in the tax-supported debt capacity limits, March 30, 2010, to reflect debt composition (fixed, variable and derivatives), fiscal impact statements, tax rate increases in connection with bond referendums and the expansion of benchmarking metric definitions and June 5, 2023 to add that general obligation bonds should be used for increased capacity to the water and sewer system and to remove depreciation from the calculation used for the fund balance targets for the water and sewer operating fund.

### OPERATING BUDGET

1. The County will annually adopt a balanced budget by June 30, which will provide an operational plan for the upcoming fiscal year.
2. The Manager will develop a budget which contains detailed budget recommendations for the next succeeding fiscal year (year 1) and financial targets for next budget year (year 2) following the first succeeding year.
3. The County will maintain a system of budgetary controls to ensure adherence to the budget.
4. Current operating revenues will be sufficient to support current operating expenditures. Fund balance appropriated for recurring expenditures will not exceed an amount that the County can reasonably expect to save during the fiscal year.
5. The County will maintain an appropriated contingency account. The contingency account will not exceed 5 percent of all other appropriations within the same fund.
6. Debt proceeds or non-recurring revenues will not be used to finance recurring operating and recurring capital expenditures.

### ACCOUNTING

7. The County will establish and maintain an accounting system in accordance with the North Carolina Local Budget and
8. An annual audit will be performed by an independent accounting firm in accordance with generally accepted accounting principles.
9. Auditing independence is enhanced by requiring that the independent accounting firm be replaced at the end of the audit contract period - a period of at least five years.
10. Financial systems will be maintained to monitor revenues and expenditures on a continual basis.

### DEBT - TAX SUPPORTED

11. Tax supported debt to be issued over a 5-year capital planning period will be managed to a projected ratio of no more than 3 percent of the assessed valuation of taxable property of the County, may exceed the 3 percent ratio in any single year during the 5-year capital planning period, with the 5-year capital planning trend at or below 3 percent.
12. Payout of aggregate principal outstanding shall be no less than 50% repaid within 10 years.
13. Capital projects will be financed for a period not to exceed the expected useful life of the project.

14. The County will maintain its financial condition in order to maintain a minimum bond rating in the "AA" category for outstanding G.O. debt and "A" category for outstanding installment financing agreements from at least one nationally recognized municipal debt rating service.
15. Bond referendum and voted and non-voted debt issuance shall be considered only after inclusion of the financed projects in the County's Capital Improvement Plan and Financial Feasibility Plan.
16. Bond referendum initiatives shall be placed on the ballot in connection with countywide or municipal elections.
17. Tax supported bond referendum initiatives shall be placed on the election ballot only after the development of a comprehensive debt service management plan that provides for the:
  - establishment of cash flow projections which provide an indication of fund requirements and the timing of bond sales
  - development of principal and interest repayment schedules associated with bond sales
  - development of annual operating costs associated with capital projects
  - allocation of General Fund unrestricted revenues to support the repayment of issued bonds.
18. Projected bond cash flow deficits (the difference between projected bond repayment schedules and available revenues) shall be funded through increased taxes or reduction in General Fund services and programs.
19. A debt service management plan and fiscal impact statement shall be developed in connection with each bond referendum initiative and shall be disseminated to the general public.
20. Bond referendum initiatives that pass which contain debt service management plans providing for increased taxes shall be imposed in the first fiscal year immediately following the passage of the referendum. Fiscal impact statements that contain property tax rate increases shall be limited to \$0.04 per \$100 in any one fiscal year. By way of illustration, a fiscal impact statement contains a \$0.07 per \$100 property tax rate increase. A property tax rate increase of \$0.04 shall be imposed in the first fiscal year immediately following the passage of the referendum with the balance of \$0.03 occurring the second year following the referendum passage.
- 20a. A comprehensive debt service management plan, repayment plan and fiscal impact statement shall be developed prior to the issuance of non-voted debt.
21. General Fund resources (taxes) required to service debt service expenditures shall be calculated and communicated to the general public with the annual tax bill or annual report.

### **DEBT - UTILITY REVENUE SUPPORTED**

22. Utility debt service coverage ratios shall be maintained at a level of 1.25 to 1.5 times coverage or greater (as measured by net revenues, excluding capital contributions, available for debt service divided by total debt service requirements).
23. Utility system debt to equity shall not exceed 70% - 75% (as measured by total long-term debt divided by total net assets).
- 23a. Combined water and wastewater rates shall not exceed 1.5% of median household income. 23b.
- 23b. Payout of aggregate principal outstanding shall be no less than 40% repaid within 10 years and 80% repaid within 20 years.
- 23c. Capital contributions shall be used to fund non-recurring asset additions contained in the capital improvement plan thereby reducing the requirement to issue utility system debt.
24. Utility capital projects will be financed for a period not to exceed the expected useful life of the project.
25. Utility capital projects shall be consistent and conform with other master plans such as Land Use, Economic Development and Transportation.
26. Utility capital projects shall satisfy area wide benefits relating to production, treatment, transmission and distribution, as well as being economically viable.
27. The County will maintain its enterprise financial condition in order to maintain a minimum bond rating in the "A" category for outstanding Revenue debt from at least one nationally recognized municipal debt rating service.

28. Utility debt issuance shall be considered only after inclusion of the financed projects in the County's Capital Improvement Plan and Financial Feasibility Plan.
29. Debt issuance shall be considered only after the:
  - establishment of cash flow projections which provide an indication of fund requirements and the timing of bond sales
  - development of principal and interest repayment schedules associated with bond sales
  - development of annual operating costs associated with capital projects
  - development of a financial feasibility plan to support the repayment of issued bonds
30. Utility capital projects funded by the County that increase the capacity of treatment or production of water or wastewater facilities owned and operated by the County shall be financed through General Obligation Bonds, which shall be voted upon by referendum, pursuant to Chapter 159 of the North Carolina General Statutes and other applicable law. At the time of issuance, the County shall declare that the GO bonds shall be payable as "General Obligation Indebtedness" from the revenues of the Water and Sewer Enterprise Systems in accordance with the priorities set forth in the General Trust Indenture that governs the County's Enterprise Systems Revenue Bonds and applicable law.
31. Upon the approval of the Board of County Commissioners in each instance of debt issuance, the issuance of debt to fund capital projects that are not to increase treatment or production capacity at water or wastewater facilities owned and operated by the County may continue to be issued as revenue bonds, Subordinate Indebtedness, or Other Indebtedness permitted by the County's General Trust Indenture that governs the County's Enterprise Systems Revenue Bonds and applicable law.

## INVESTMENTS

32. The County will monitor the receipt and disbursement of all funds to ensure the maximum investment of idle cash.
33. The County will invest only in instruments which comply with the North Carolina Budget and Fiscal Control Act.

## CAPITAL PLANNING

34. The County will develop, and annually update, a comprehensive 5-year capital improvement plan for the General Fund (in collaboration with and to include the Union County Public Schools) which identifies and balances both sources (where the money comes from) and uses (where the money goes).
35. The County will develop, and update semi-annually, a comprehensive 5-year capital improvement plan for the Enterprise Funds which identifies and balances both sources (where the money comes from) and uses (where the money goes).

## FUND BALANCE TARGETS

36. The maintenance of adequate fund balance is necessary to provide working capital, funds for unanticipated expenditures, funds for capital expenditures in advance of their reimbursement from debt proceeds and tax rate stabilization.
37. General Fund target unreserved fund balances are estimated at 16% (as measured by unrestricted cash and investments minus liabilities divided by expenditures plus recurring interfund transfers).
38. Water and Sewer Operating Fund target fund balances are estimated at 365 days cash on hand (as measured by unrestricted cash and investments minus non-GAAP liabilities divided by operating expenses).

## EXCESS FUND BALANCE

39. General and Enterprise Fund balances in excess and Enterprise Fund balances in excess of target levels will be transferred to capital reserve funds to provide equity resources to fund the County's capital improvement plan or will be used to redeem outstanding debt.

## SWAP AGREEMENTS

40. Authorized to achieve a reduction and/or limit the financial exposure of debt service payments.

41. Must receive an opinion of bond counsel law firm that agreement is legal and binding.
  42. Must receive Local Government Commission approval.
  43. Must retain independent certification from financial advisor that swap agreement provides fair market value and that the associated risks are prudent risk appropriate for the County.
  44. Counterparty must have two long-term, unsecured credit ratings in at least double A category.
  45. Swap agreements may be procured either through negotiation or competitive. If negotiated, County must receive fair market opinion from financial advisor.
- 45a. Swap agreements which synthetically fix variable rate debt, combined with unhedged variable rate debt, will not exceed 20% to 30% of all long-term debt outstanding; this metric will be applied separately to tax supported and enterprise debt.

### USER FEES

46. County encourages the establishment of fees at a level that maximizes revenues.
47. Regulatory fees shall be set at a level that strives to recover full costs (direct and indirect costs, such as depreciation or usage costs associated with capital assets) of providing the service, unless statutory restrictions limit the fee amount.
48. Non-regulatory fees are charged for a wide variety of services with the primary purpose for non-regulatory fees being to:
  - 48a. influence the use of the service and
  - 48b. increase equity.
49. Non-regulatory goods or services provided to specific, identifiable recipients shall be self-sustaining and therefore, shall be financed through user fees.
50. Non-regulatory user fees shall be set at a level that is competitive in the marketplace and strives to recover full costs (direct and indirect costs, such as depreciation or usage costs associated with capital assets) except when:
  - free or subsidized service provides a significant public benefit;
  - the County has determined that it should influence personal choice to achieve community-wide public benefits;
  - full cost recovery would result in reduced use of the service or limit access to intended users thereby not achieving community-wide public benefits;
  - the cost of collecting the user fees would be excessively high;
  - ensuring the users pay the fees would require extreme measures.

Adopted by the Board of County Commissioners on June 5, 2023.

## Financial Policies - Not Supplanting

### OBJECTIVE

Supplanting, for the purposes of this policy, refers to the substituting of local funds for reductions in State, federal, or private funding.

The residents of Union County receive important, beneficial services from a wide variety of State, federal, and private agencies, as well as County programs which rely on funding from these agencies. These agencies are critical partners with the County and Union County Public Schools (UCPS) in the provision of programs to the community. When these agencies terminate programming, reduce services, or curtail funding, it cannot be assumed that the County will maintain these programs. The County's ability to assume the financial responsibility for these services without significantly impacting other service areas which are solely the responsibility of the County or without having to increase tax rates is limited.

The purpose of this policy is to formalize a Board of County Commissioners policy of not automatically supplanting funds from State, federal, or private agencies with local funds when those agencies reduce or eliminate funding to County or UCPS programs.

### POLICY

1. It is the policy of the Board of County Commissioners to prevent, to the extent possible, the shifting of financial responsibility for State, federal, or privately funded programs to the residents of Union County by not supplanting those funds with local funds when those agencies reduce funding to the various community programs that rely on that funding.
2. The County Manager will provide information, on a periodic basis, to the Board of County Commissioners concerning any reductions in funding from State, federal, or private sources that are expected to adversely affect services to the residents of Union County. When services are severely affected by such reductions, the County Manager will determine what actions, if any, may be necessary to mitigate the impact on local services.
3. The Board of County Commissioners may from time to time express concerns, via resolution, to the County's legislative delegation, concerning possible impacts of reduced funding or increased/unfunded mandates.

Adopted by the Board of County Commissioners on February 4, 2013.

## Financial Policies - Cash Handling

### PURPOSE

The purpose of this policy is to establish the Cash Handling Policy in accordance with North Carolina General Statutes (N.C.G.S.) §§159-25(a) and §159-32.

### APPLICABILITY

All employees or County representatives that receive moneys on behalf of the County.

### POLICY

The Finance Officer, in accordance with N.C.G.S. §159-25(a), will supervise the receipt and deposit of all moneys received by the County.

It is required by N.C.G.S. §159-32 that any officer or employee of local government who collects and receives taxes or other moneys deposit the collection and receipts daily, except as otherwise provided by law.

Pursuant to N.C.G.S. §159-32, the Board of Commissioners does hereby approve requiring daily deposit only when the moneys on hand amount to as much as five hundred dollars (\$500), but in any event a deposit shall be made on the last business day of the month. The five hundred dollar limit is an aggregate total for all County operations on a given day and not a limit for each individual County department or division. The Finance Officer, in such officer's sole discretion, is authorized to apply the five hundred dollar exception when determined necessary and appropriate for business reasons for a given department or division.

Pursuant to N.C.G.S. §159-32, the Finance Officer shall have the authority to audit the records of any officer or employee collecting or receiving taxes or other moneys for the County. The Finance Officer may also prescribe the methods to be used and records necessary to accomplish this review.

The Finance Officer is authorized to establish the necessary system of internal controls, procedures, and training to implement this policy. These controls and procedures shall require the segregation of related duties, proper authorizations, adequate documentation and written procedures.

The County's independent auditor shall review for compliance with the established cash handling policy as part of their annual audit and include any findings in the Management Letter presented to the Board of County Commissioners.

Adopted by the Board of County Commissioners on April 20, 2020.

## Financial Policies - Donations

### PURPOSE

On occasion, the County receives donations to support County projects and programs. Contributions made to the County may be deductible for Federal Income Tax purposes under provisions of the Internal Revenue Code.

The Union County Donations Policy provides general guidelines and authorizes the County Manager and the Finance Director to have certain authority relative to the receipt of donations.

### APPLICABILITY

This policy applies to donations of personal property received by the County.

### POLICY

Donation is defined as a gift or a free contribution, something voluntarily transferred by one person or entity to Union County without compensation. The Finance Director shall establish procedures and processes necessary to ensure that donations are managed to their optimum potential and that they are properly accounted for.

For single monetary donations less than or equal to \$15,000, the Finance Director shall estimate the annual operating impact of the donation, if any, and obtain approval from the County Manager prior to acceptance. Such donations may be used for their intended purpose without approval of the Union County Board of Commissioners (the "BOCC").

Monetary donations greater than \$15,000 will require approval and appropriation by the BOCC. The BOCC, in its sole discretion, may decline to accept monetary donations of any value. (Note: The Annual Operating Budget will contain a reserve for donations that will provide small donation appropriations in accordance with the budget ordinance. The reserve for donations will be funded through anticipated small donations and transferred as donations are received.)

For non-monetary donations the estimated value of which is less than or equal to \$50,000, the Finance Director shall estimate the annual operating impact of the donation, if any, and obtain approval from the County Manager prior to acceptance. Such donations may be used for their intended purpose without approval of the BOCC. If the estimated value of the donation is greater than \$50,000, the Finance Director shall instruct the recipient Department to notify the BOCC in writing by describing the donation, its intended use, and possible operating impacts. The BOCC, in its sole discretion, may decline to accept non monetary donations of any value.

It shall be the responsibility of the recipient Departments to send letters of appreciation to donors and to ensure that each donation is used only for its intended purpose. It is also the responsibility of the recipient Department to provide the donor with a "Donation Receipt." County staff will not provide tax advice concerning the impact of donations on an individual or business's tax liabilities.

Adopted by the Board of County Commissioners on April 6, 2015.

Revised August 14, 2023.

## Financial Policies - Capital Asset

### PURPOSE

It is required by North Carolina General Statute §159-26(b)(8) that local governments, including counties, establish and maintain “[a] ledger or group of accounts in which to record the details relating to the capital assets of the unit or public authority” in its accounting system.

The Capital Asset Policy provides certain guidelines and authorizes the Finance Director to establish procedures and processes necessary to adhere to the North Carolina General Statutes and Generally Accepted Accounting Principles, subject to approval by the County Manager.

### APPLICABILITY

All capital assets, as defined below.

### POLICY

Capital assets will be defined as tangible and intangible assets that have initial useful lives that extend beyond a single reporting period and a capitalization threshold of \$10,000.00 or more. Capital assets include land, land improvements, buildings, building improvements, water tanks, water distribution lines, wastewater collection lines, water and wastewater operating plants, software, equipment and vehicles.

Capital assets are recorded at their original cost at the time of acquisition. As a general rule, cost includes the purchase price and other acquisition costs such as installation costs, freight charges, and transportation. Donated assets are recorded at their estimated fair value at the date of donation.

The acquisition, disposal, and transfer of fixed assets is done in accordance with applicable North Carolina General Statutes and with the appropriate procedures and processes not inconsistent with such statutes, as implemented by the Finance Director.

Capital assets are depreciated using the straight-line method over the asset’s estimated useful life. Capital assets will be reported in the County’s Annual Comprehensive Financial Report.

The Finance Director is authorized to establish procedures and processes to implement this policy in accordance with North Carolina General Statutes, Generally Accepted Accounting Principles, and best practices, subject to approval by the County Manager.

Adopted by the Board of County Commissioners on October 20, 2014.

Revised August 14, 2023.