FINANCIAL MANAGEMENT POLICIES

Waukesha County's long- and short-term financial policies are derived from various sources. The State of Wisconsin Statutes prescribes the basic budgeting standards for county governments. The Waukesha County Code establishes the basis of accounting in conformance with Generally Accepted Accounting Principles (GAAP). Below is a description of the County's fiscal management policies for revenues, operating expenditures, capital improvements, debt, investments, reserves, and the basis of budgeting and accounting methods. **The County budget is balanced as County budgeted expenditures are funded by a combination of external revenue sources, property taxes, and funds available in fund balances, which are identified in the prior year financial statements in the Comprehensive Annual Financial Report (CAFR), and shown in the Budget Summary.**

In addition to statutory requirements and conformance with recognized financial standards, Waukesha County's commitment to strategic budgeting requires decisions to be made in conformance with the County's budget philosophy.

Waukesha County Budget Philosophy

The overriding goal of the Waukesha County budget is to keep the County's spending needs and the homeowners' ability to pay in balance.

- **Incorporate citizen and stakeholder involvement**
- **Establish links to strategic planning**
- **Decisions based on measurable objectives**
- **Maintain best budgeting practices (for stable future budgets)**
- **Protect the County's Aaa / AAA bond ratings**

Revenue

1. The County relies on property tax as its sole source of local tax revenues to fund state and local programs and services. Property taxes account for about 38% of total revenues. Excluding interdepartmental revenues, which are mostly charges from county internal service funds, property taxes account for about 44% of revenue. Other tax options allowable by statute to counties include a 0.5% County sales tax and a local motor vehicle registration fee. Waukesha County has not implemented these other tax options.

2. The County continues its efforts for greater reliance on user fee service charges to offset reductions of federal/state funding and to supplement property tax revenues. The County attempts to maintain a diversified and stable revenue stream. Service fee charges (user fees) are implemented for services that can be individually identified and where costs can be directly related to the level of service provided. The County's budgeting philosophy is to annually review and provide at least nominal inflationary increases on most user fees to cover increasing costs.

3. The County maximizes its return on investment consistent with its investment policy. Investment income is used to reduce reliance on the property tax levy. It is a reliable funding source because of the strict adherence to investment and liquidity guidelines.

4. One-time revenues shall not be used to fund continuous operating costs, except to manage a short-term spike in program costs or phase in a new or expanded program.

5. Revenue forecasts (estimates) need to document the methods employed and the underlying assumptions that the revenue projections are based on.

Property Tax Levy Increase Limits

Enrolled 2009 Wisconsin Act 28 (2009-2011 State Budget) imposed local tax levy increase limits for the 2010 and 2011 budgets. The law prohibits a County from increasing its total property tax levy for the 2010 Budget by the greater of the percentage change in the County growth in equalized value due to new construction between the previous year and the current year or 3.0%. The Federated Library system tax levy, debt service tax levy (including related refinancings and refundings) and bridge and culvert repair aids to towns paid with County tax levy are exempt from the levy limit. There is also an exemption provision to allow for payments of consolidated (shared) services. Waukesha County does not plan to utilize these exemptions to meet its 2010 tax levy budget.

The 2010 Waukesha County Budget meets the tax levy limit as adopted in Wisconsin Act 28.

Property Tax Levy Rate Limit

Since 1993, limits have been imposed on the property tax levy rates for Wisconsin counties. There are separate limits for the operating levy and the debt service levy. The baseline for the limits is the actual 1992 tax rate adopted for the 1993 Budget. The operating levy rate and the debt levy rate cannot exceed the baseline rates unless the county qualifies for one of the exceptions allowed under the statute, as described below. The statute establishes specific penalties for failure to meet the freeze requirements. Among the penalties for exceeding the limits is a reduction of state shared revenues and transportation aids.

The operating levy rate can be exceeded only if responsibility for services is transferred to the county from another governmental unit (transfers by the county to other governmental units reduce the maximum rate) or if an increase in the maximum rate is approved by referendum.

A county can exceed the debt service levy limit if the individual borrowing is adopted by at least three-fourths vote of the county board. The Waukesha County Board has adopted each debt issue since the tax levy limits took effect by votes of greater than 3/4 of the members elect. Therefore, each note issued is not subject to the debt service rate limit.

The 2010 Budget is within both the operating and debt tax levy rate limitations contained in the state law, and is within the limit even without the exception from the debt service rate limits, which apply to the County's obligations.

Operating Expenditure Budget

1. State statutes require budgetary control at the total expenditure level by agency. However, the County's policy requires more stringent controls. The operating budget control is established for a department's fund budget by appropriation unit category or class of accounts (i.e. Personnel costs, Operating expenses, Interdepartmental charges, and fixed assets) for governmental funds. For proprietary funds, capital projects and debt service funds total expenditure levels are the control limit.

2. The fixed asset capitalization level is at $5,000 to be consistent with Federal and State fixed asset capitalization levels and to efficiently administer the asset inventory tracking requirements imposed by Governmental Accounting Standards Board (GASB) pronouncement #34.

3. The County Executive establishes specific departmental operating budget tax levy target guidelines to limit county spending and taxes in budgets presented to the County Board by October 1st of each year. This year the County Executive set tax levy targets to limit the proposed tax levy increase to be within the State Tax Limit provisions. Tax levy targets issued for all departments are tighter than normal and, in many cases, do not provide fully for the cost to continue operations because of these established tax levy targets.

   - Departments having Enterprise, Internal Service, and certain non-tax levy supported Special Revenue funds are expected to generate operating revenues sufficient to offset costs. At this time, tax levy is provided to the Airport enterprise fund budget to fund an estimated net operating loss, or to provide cash flow for fixed assets purchases. Internal Service fund operations (except the End User Technology Fund (EUTF) see 6 below) receive no direct tax levy (although department revenues may be levy funded) and are limited to billing rate service charge increases at or near inflationary costs (with any proposed rate increases based on cost justification).

   - Special initiative or decision service package requests that are sound investments may receive funding over target amounts or cost to continue funding. If these requests are granted, they are based on need or specific cost/benefit justification.

4. The Public Works Department includes a highway pavement replacement program in the Capital Projects budget. The estimated 15 to 20 year replacement cycle is implemented based on pavement ratings system to address safety concerns and highways with the greatest need of upgrade.

5. A five-year Vehicle/Equipment Replacement Plan is updated annually to specify the replacement cycle for county vehicles and equipment that meet the required criteria. Adopted in 1990 by the County Board, the plan reduces year-to-year fluctuations in departments' fixed asset budgets, and helps to ensure that the County's vehicles and equipment are replaced before age or usage cause excessive maintenance costs and expensive equipment downtime. A Vehicle/Equipment Replacement Fund was created to implement the plan. Replacement vehicles and equipment are purchased from this fund, and user departments pay for the asset (and associated insurance coverage) through an annual charge similar to a lease (see the Public Works section, Vehicle/Equipment Replacement Fund).

6. The End User Technology Fund (EUTF) has evolved from a similar fund established in the 1996 Budget to provide funding for computer technology maintenance and equipment replacements on a regular schedule. A long-term plan is intended to manage the year-to-year variation in budgeting requirements by basing computer and infrastructure replacement and repair decisions on changing technology and just-in-time replacement, maintenance and other economic issues. The fund is used to approximate "total cost of ownership concept" in the appropriate departmental program budget. This program uses tax levy and General and EUTF Fund Balance appropriations to provide the necessary funding until the costs can be fully absorbed by annual charges to departments. The 2006 Budget consolidated the former Records Management (internal service) Fund to incorporate and gain efficiencies with identifying appropriate record access/retrieval methods, imaging, and electronic document management technology into the EUTF. Based on Internal Audit recommendations, a major change for the 2008 Budget was a shift in the cost allocation process from a workstation based formula to one based on actual utilization of IT resources considering server usage, connected devices, and user identification.

7. Health & Dental Insurance Fund is budgeted in Non-Departmental for as an Internal Service Fund beginning in 2009.

Operating Expenditure Budget (cont.)

8. A new special revenue fund is established in the Non-Departmental section of the budget to provide low interest rate revolving loans to small businesses for sustainable energy efficient investments funded with American Reinvestment and Recovery Act (ARRA) federal stimulus funding.

9. The Parks and Land Use department is responsible for the County's Grounds Maintenance and Parks Pavement Management Program. The department has established a three-year Parks maintenance program, which includes a parks roadway and parking lot maintenance program as well as continued maintenance of county grounds and park facilities as a priority area within the Department's operating budget.

10. The Public Works Department maintains a five-year Building Improvement Plan. The five-year Building Improvement Plan identifies and prioritizes future building improvement projects, including mechanical infrastructure replacements required for proper maintenance of County facilities. The first year of these plans is included in the operating budget, and individual projects are usually less than $100,000. Therefore, the capital budget and related financing is not used to fund these projects.

Capital Improvement Plan

1. The County prepares and adopts a five-year capital improvement plan, which provides comprehensive planning, budget stability, and analysis of the long-range capital needs of the County. The plan describes details of each capital project, estimates the project cost and priorities, identifies funding, provides a cost/benefit or return on investment analysis justification, considers alternatives, and estimates the impacts to the operating budget.

2. A Capital Project is defined as an active or proposed non-recurring expenditure in one or more specified plan years, of an amount in excess of $100,000 (including non County funding sources) for a permanent fixed asset (building, land, or technology improvements or equipment installation), which has or extends the useful life of an existing fixed asset in excess of seven years.

3. Building construction and renovation projects in the Capital Plan are required to follow the County's established building methodology process. Information Systems projects are required to follow an established Technology review process.

4. Operational impacts of capital projects indicate the annual on-going and one-time costs or savings associated with implementing the capital improvement program. The additional on-going impacts are included in the departments' operating budget requests. This includes providing for additional personnel, operating costs, needed fixed assets or any new/additional revenues to be achieved. Cost savings are also identified in the department's budget if base budget costs can be reduced or cost increases are offset or avoided. Major operating impacts (excluding Debt Service) in the budget are identified in each departments' operating budget, and explained in further detail in the Capital Projects section. Debt Service impacts are also identified in further detail in the Debt Service section.

Debt Policy

1. Capital projects are in part financed through the issuance of general obligation promissory notes with a goal to borrow less than 80% of the net capital project expenditures. This allows the County to manage the debt service to operating budget expenditures ratio at less than 10%. The five-year Debt Service Plan is based on net capital expenditures planned in the County's five-year Capital Plan. See Debt Service Activity data for current trends.

2. The County structures its debt borrowing issues with a moderate term of nine to ten years to maintain stable annual debt service payments and to avoid major fluctuations between years.
   - Promissory notes are amortized with larger payments in final years to integrate new debt with existing debt in order to achieve operating budget stability. The continuation of the current debt strategy allows for the larger principal payments of each successive annual debt issue in the years that previous years' issues have been retired (see Debt Service Section Requirements page and Projected Debt Service illustration page).

Debt Policy (cont.)

3. By state statute, the County's debt obligations cannot exceed 5% of the equalized value of all property in the County, including Tax Increment Financing Districts. The County has over 95% availability of its statutory debt limit with the planned 2009 debt issue.

Reserve Policy

1. The County will maintain unrestricted fund balances to provide necessary working capital (for at least eight weeks) to avoid cash flow interruptions and short-term borrowing to fund daily operations. These fund balance reserves are used to generate interest income and to assist in maintaining the County's Aaa/AAA bond ratings.

   - The unrestricted governmental (general and special revenue) Fund Balance to governmental expenditures ratio is maintained at a minimum of 11%.

   - An explanation of the County's Fund Balance projections for each year-end December 31 is provided in the summary section of the adopted budget document and is published as part of the state mandated budget public notice issued in October of the preceding year.

2. The County's contingency fund provides for emergencies or other expenditures which could not have been planned for or anticipated during the budget review process. Contingency fund transfers are authorized by the Finance Committee (fund transfer) and/or the County Board (by ordinance) as allowed by state law, if the need is of sufficient urgency, and it is not a circumvention of the budget process.

3. There will be no shifting from Fund Balance reserves to offset continuous on-going operations, except to phase in new major service costs unlikely to be repeated and building project (one-time) improvements, or to address the phase out of a significant loss of revenue.

Investments

The County has adopted an investment policy with the primary objectives of preservation of capital in the overall portfolio, in order to protect investment principal, to maintain liquidity, and to maximize returns on investment. Investments are primarily limited to U.S. Treasury obligations, Government Agency Securities, highly rated taxable municipal (G.O.) bonds, Aaa rated Money Market Funds, and the State of Wisconsin Investment Pool. Significant management effort is directed toward managing the average and maximum life and duration of securities in the portfolio to ensure that liquidity needs are met. The County's CAFR complies with Governmental Accounting Standard Board (GASB) Statement 40 regarding disclosure of various investment risks, such as interest rate and custodial credit risk.

Accounting Policy and Basis of Budgeting

1. The official books and records of the County will be maintained in conformance with accounting principles generally accepted in the United States of America as promulgated by GASB.

2. The accounting records of the County are maintained on the modified accrual basis of accounting for the General Fund, Special Revenue Funds, Debt Service Funds, Capital Project Funds. Enterprise Funds, Internal Service Funds, and Fiduciary Funds are maintained with the full accrual basis of accounting. In general, under the modified accrual basis of accounting, revenues are recognized when they become measurable and available as net current assets. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred. In addition, the County publishes entity-wide statements prepared on the full accrual basis. Under the full accrual basis of accounting, revenues are recognized when earned, and expenses are recognized when liabilities are incurred or economic asset used without regard to receipt or disbursement of cash. The County's fiscal year is on a calendar year basis from January 1 to December 31. An expanded explanation of the County's accounting policies is contained in the Notes to Combined Financial Statements in the CAFR.

Accounting Policy and Basis of Budgeting (cont.)

3. Budgetary control is maintained by a formal appropriation and encumbrance system. The annual budget approved by the County Board, is by department appropriation unit in each fund (with the exception of proprietary funds, which are controlled by total expenditure budgets and capital projects, which are controlled by project). An appropriation unit is a group of accounts within a department. Types of appropriation units include Personnel costs, Operating expenses, Interdepartmental charges, fixed assets and Improvements (capital outlay), and Debt Service. The appropriation unit within each department and within fund maintains budgetary control. Purchase orders or payment vouchers, which result in an overrun of the appropriation unit, are not released or paid until additional appropriations are made available in accordance with county policy.

4. An appropriation system of internal control will be maintained to provide reasonable, but not absolute, assurance regarding: (1) the safeguarding of assets against loss from unauthorized use or disposition and (2) the reliability of financial records for preparing financial statements and maintaining accountability for assets. The concept of reasonable assurance recognizes that: (1) the cost of control should not exceed the benefits likely to be derived, and (2) the evaluation of costs and benefits requires estimates and judgments by management.

5. The County budget is adopted as required by state statutes and prepared on substantially the same basis as the financial statements. The basis of budgeting is in accordance with GAAP. However, budgetary expenditures include encumbrances, and budgetary revenues include all property taxes levied for the fiscal year and unrestricted Fund Balance appropriations. In addition, Proprietary Fund budgets do not budget for compensated absences and non-operating gains or losses on disposal of fixed assets. Fixed asset purchases and debt principal repayments in Proprietary Funds are shown as memo items for budget disclosure purposes to comply with state law. For certain funds with significant outside (i.e. non-county) capital investment, the county budgets only for the portion of depreciation expense proportionate to the County's contribution. The County does not budget for Jail Assessment fee revenues in the year they are received, but applies these fee payments on a one year delayed basis to fund jail related capital projects and related debt service. **Fiduciary Funds - are not included in the budget. The CAFR shows fund expenditures and revenues on both a GAAP basis and budget basis for comparison purposes.**

6. County policy, which is in accordance with state and federal requirements, provides for an annual audit of the financial records of the government by a competent certified public accountant. In addition to meeting the requirements set forth above, the audit is designed to meet the requirements of the federal Single Audit Act of 1984 and related U.S. Office of Management and Budget Circular A-133. The independent auditors' report on the general purpose financial statements, individual fund statements, and schedules are included in the financial section of the CAFR. The auditors' report that is related specifically to the single audit, is included in a separately issued single audit report.

7. Full disclosure for bond representation is provided in the County's official statement. Beginning in 2005, in order to comply with Section Rule 15c2-12, continuing disclosure has been provided to recognized municipal securities information repositories, utilizing the Disclosure USA service by filing copies of the CAFR.