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 and revenues are equal (including the use of fund balances).**

Revenue Policy

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 37% of total revenues. Excluding interdepartmental revenues, which are mostly charges from county internal service funds, property taxes account for about 42% 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 attempts to maintain a diversified and stable revenue stream. The County continues its efforts for greater reliance on true user fee service charges to help offset reductions of federal/state funding and to reduce reliance on property tax revenues. 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 appropriate user fees charges for service to cover increasing costs of providing those services.

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. There is minimal risk of market losses 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, the phasing of a new or expanded program, making investments that have future payoffs, and to smooth out the impacts of significant state and/or federal funding reductions.

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

Balanced Budget

A balanced budget is a budget in which revenues and expenditures are equal. Waukesha County's budget is balanced, as County budgeted total expenditures are funded by a combination of various external revenue sources (e.g., intergovernmental grants, licenses, fees, or fines), property taxes, and funds available for appropriation in fund balances as identified in the prior year Comprehensive Annual Financial Report.

Property Tax Levy Increase Limits

Section 66.0602 of Wisconsin Statutes imposes a limit on property tax levies for Counties. The statutes allow a County to increase its total property tax levy by the percentage change in growth in equalized value due to net new construction between the previous year and the current year. The limit includes exemptions for the Federated Library system tax levy, debt services obligations (including related refinancings and refundings), bridge and culvert repaid aids to Towns paid with County tax levy, and a provision to allow for adjustments for consolidated (shared) services as well as services transferred from one unit of government to another. In addition, unused tax levy authority up to a maximum of 1.5% of the prior year levy could be carried forward if authorized by a vote of the County Board.

FINANCIAL MANAGEMENT POLICIES, CONT.

The 2016 Waukesha County Budget tax levy increase is 0.45% as compared to the net new construction between 2014 and 2015 of 1.07%.

Operating Expenditure Budget

1. State statutes require budgetary control at the total expenditure level by agency or department. 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, with the exception of the Tarmann Park Land Acquisition Fund which has bottom line expenditure control. 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.

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

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 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 this 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 overall costs and 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 has phased out tax levy subsidy by shifting it into appropriate department program budgets, but uses EUTF Fund Balance appropriations to fund depreciation expense and provides a small subsidy funding amount until all related costs can be absorbed by annual charges to departments. .

7. Health & Dental Insurance Fund is budgeted in Non-Departmental functional areas as an Internal Service Fund to make the self insured insurance costs more transparent in the budget. The Fund is used to account for all claims and costs filed against and paid by the County's self-funded insurance, the premiums paid for these plans, and costs associated with the wellness programs.

8. 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.

Operating Expenditure Budget (cont.)

9. 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.

10. The 2011 budget included the first long term plan for the Sheriff's jail equipment replacements, funded with prior year jail assessment fee revenues and some base budget equipment funding. In addition, Circuit Court services started a furniture and equipment replacement program in 2011 and funding continues for this program in the 2016 Budget.

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, usually in excess of seven years.

3. The Capital Plan maintains emphasis on planning and funding for infrastructure and capital improvements projects, as they are needed rather than reacting to crisis situations. New projects should be requested in the last year of the five-year plan, unless circumstances require a more immediate time frame. County Code Sec 7-16 (c) requires design and implementation for larger projects to be, at a minimum, in separate calendar years. This project methodology further identifies documentation and justification requirements to support the project from the first year included in the plan to project completion. Information Systems Technology projects are required to follow an established Technology review process that includes a business case analysis.

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 department's 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.

FINANCIAL MANAGEMENT POLICIES, CONT.

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. A long range goal to managing overall debt service is to use annual cash balances from tax levy and governmental fund balance to fund capital projects at a minimum of 20 percent of net capital expenditures. This "down payment", reduces the need to borrow additional funds and manages debt service growth in relationship to the operating budget. This also 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. Larger payments are structured in later years to take advantage of call provisions of the market rates when warranted. (see Debt Service Section Requirements page and Projected Debt Service illustration page).
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 2015 debt issue.

Reserve Policy

1. The County will maintain unassigned 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 working capitals amounts are used to generate interest income and to assist in maintaining the County's Aaa/AAA bond ratings.
   - The unassigned Fund Balance to general and special revenue fund expenditures ratio is maintained at a minimum of 11%. The current target is 15%.
   - 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. 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 and equipment replacement plans, or to address the phase out of a significant loss of revenue. To the extent possible, reserves will be used to make investments to provide operating efficiencies over the long term.
3. 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.
4. When committed, assigned and unassigned fund balances are available for use, it is the county's policy to use committed fund balances first, followed by assigned amounts and then unassigned amounts. Additionally, all spendable, unrestricted revenue amounts in the Special Revenue funds (except for the Transportation Special Revenue Fund), Debt Service, and Capital Project Funds are assigned to be used for the purpose for which the fund was established (See "Fund Balance" entry in glossary near end of the book for definitions of the five Fund Balance classifications).

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, 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.

FINANCIAL MANAGEMENT POLICIES, CONT.

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 the Governmental Accounting Standards Board (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 Comprehensive Annual Financial Report (CAFR).
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, and the Tarmann Land Acquisition special revenue fund 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 Generally Accepted Accounting Principals (GAAP). 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 capital projects, and related debt service and jail equipment replacements. 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. In order to comply with SEC Rule 15c2-12, the County uses the Electronic Municipal Market Access (EMMA) continuing disclosure service, which has been designated by the Securities and Exchange Commission as the single repository for municipal bond continuing disclosure. The information is available at www.emma.msrb.org.