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INTERIM COUNTY ADMINISTRATOR  
COUNTY ATTORNEY

CONNIE L. SCHROYER  
CLERK TO COUNCIL

AGENDA  
FINANCE COMMITTEE  
WORK SESSION  
Tuesday, September 11, 2018  
**2:00 p.m.**

Executive Conference Room, Administration Building  
Beaufort County Government Robert Smalls Complex  
100 Ribaut Road, Beaufort

Committee Members:

Jerry Stewart, Chairman  
Michael Covert, Vice Chairman  
Rick Caporale  
Gerald Dawson  
Brian Flewelling  
Steven Fobes  
Stu Rodman

Staff Support:

Suzanne Gregory, Employee Services Director  
Alicia Holland, CPA, Assistant County Administrator, Finance  
Chanel Lewis, CGFO, Controller

1. CALL TO ORDER – **2:00 p.m.**
2. PLEDGE OF ALLEGIANCE
3. PROPOSED FINANCIAL POLICIES OF BEAUFORT COUNTY ([backup](#))
4. DISCUSSION / BUSINESS LICENSE FEE ADJUSTMENTS – DEFER TO SEPTEMBER 11, 2018 STRATEGIC PLAN REVIEW WORK SESSION
5. DISCUSSION / COUNTY COUNCIL SALARY COMPENSATION
6. ADJOURNMENT





# Financial Policy Guidelines

*For:*

## Beaufort County, South Carolina

<b>Authority:</b>	South Carolina Statutes and other Public Finance Law
<b>Supersedes:</b>	Financial policies existing prior to date of adoption
<b>Review Responsibility:</b>	Financial Services
<b>Review Scheduled:</b>	Annually or as needed
<b>Approval Needed:</b>	County Council (Resolution # 2018/___)

**Adopted: the \_\_\_ day of \_\_\_\_\_, 2018**

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# Financial Policy Guidelines

Beaufort County, South Carolina  
Adopted August \_\_, 2018

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# Financial Policy Guidelines

Beaufort County, South Carolina  
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## 1. OBJECTIVES

This fiscal policy is a statement of the guidelines and goals that will influence and guide the financial management practices of Beaufort County, South Carolina. A fiscal policy that is adopted, adhered to, and regularly reviewed is the cornerstone of sound financial management. Effective fiscal policy:

- Contributes significantly to the County's ability to insulate itself from fiscal crisis,
- Enhances short-term and long-term financial credit ability by helping to achieve the highest credit and bond ratings possible,
- Promotes long-term financial stability by establishing clear and consistent guidelines,
- Directs attention to the total financial picture of the County rather than single issue areas,
- Promotes the view of linking long-term financial planning with day to day operations, and
- Provides the County Council, citizens and the County professional management team a framework for measuring the fiscal impact of government services against established fiscal parameters and guidelines.

This comprehensive Financial Policy Guideline combines existing policies with new policies. Existing policies were reviewed for accuracy and completeness. Additionally, numerous other jurisdictions financial policies were studied to identify new policy guidelines that are appropriate for Beaufort County. With the above objectives as a guide, the following fiscal policy guideline is presented.

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# Financial Policy Guidelines

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## 2. OPERATING BUDGET

1. The County will develop the Budget in conjunction with a stated program of performance objectives and measures in which to gauge progress toward meeting those objectives.
2. The Financial Services Department will maintain a system for monitoring the County's budget during the fiscal year. This system will provide opportunity for departments and management to monitor and evaluate monthly financial information on expenditures and performance at both the department and fund level. Included will be provisions for amending the budget during the year in order to address unanticipated needs, emergencies, or compliance with State of South Carolina budgetary statutes.
3. The County shall continue to focus on using one-time, non-recurring, or other special revenues for funding special one-time projects.
4. The County will continue to pursue an aggressive policy seeking the collection of delinquent rescue collections, permits and other fees due to the County.
5. For services that benefit specific users, the County shall establish and collect fees to recover the costs of those services. The County Council shall determine the appropriate cost recovery level when establishing user fees. Where feasible and desirable, the County shall seek to recover full direct and indirect costs. User fees shall be reviewed on a regular basis to calculate their full cost recovery attainment levels, to compare them to the current fee structure, and to recommend adjustments where necessary.
6. The County shall endeavor to reduce its reliance on property tax revenues by revenue diversification, implementation of user fees, and economic development. The County shall also strive to minimize the property tax burden on Beaufort County residents.
7. In order to maintain a stable level of services, the County shall use a conservative, objective, and analytical approach when preparing revenue estimates. The process shall include analysis of probable economic changes and resulting impacts on revenues, historical collection rates, and trends in revenues. This approach should reduce the likelihood of actual revenues falling

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## OPERATING BUDGET (cont.)

- short of budget estimates during the year and should help avoid the need for mid-year service reductions.
8. The County shall take immediate corrective actions if at any time during the fiscal year expenditure and revenue updates are such that an operating deficit (i.e., projected expenditures in excess of projected revenues) is projected at year-end. Corrective actions can include a hiring freeze, furloughs, lay-offs, forced days off, expenditure reductions, fee increases, or use of fund balance. Expenditure deferrals into the following fiscal year, short-term loans, or use of one-time revenue sources shall be avoided to balance the budget for recurring expenditures.
  9. The tax rate will be set each year in accordance with state law and based on the cost of providing general governmental services and paying debt service. Consideration will be given to future net revenue requirements for capital improvement projects, operational expenditure impacts and programmed debt service.
  10. Expenditure budgets are reviewed by staff, the County Administrator, and County Council prior to adoption and are continually monitored throughout the budget year. Budgeted funds will be spent for the categorical purposes for which they were intended. The annual operating budget ordinance defines staff authorization for operating budget adjustments. No appropriations of the proceeds of a debt instrument will be made except for the purpose for which such debt instrument was issued. Donations will be spent only toward the intent for which they were given.
  11. Annually, the County will update a five-year period forecast (for both revenues and expenditures). This forecast will assist in taking a long-term view of the financial planning of the General Fund and will assist with the preparation of the County's strategic biennial budget.

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## 3. CAPITAL IMPROVEMENT BUDGET POLICY

1. The County will prioritize all capital improvements in accordance with an adopted capital improvement program (CIP) and South Carolina law.
2. The County will develop a five-year plan for capital improvements and review and update the plan at least every two years. The County conducts a needs assessment and projects are ranked according to priority. The estimated costs and potential funding sources for each capital project proposal will be identified before it is submitted for approval within the Capital Improvement Program (CIP) budget. The estimated costs will include consideration for inflation; the inflation rate to be determined annually in the budget process and disclosed in the capital budget. Additional projects can be added to the CIP without ranking, but funding for projects added in this manner are subject to normal operating budget constraints.
3. The County will enact a capital budget at least every two years based on the five-year capital improvement plan. Future capital expenditures necessitated by changes in population, changes in real estate development, or changes in economic base will be calculated and included in capital budget projections.
4. In general, effective maintenance and operations of capital facilities should be given priority over acquisition of new facilities, unless a cost/benefit analysis indicates to the contrary. In addition, state or federal mandates or new service demands may require acquisition of new facilities even when maintenance needs are not fully met. The County shall have an on-going 10-year facilities improvement plan to respond to maintenance and operational needs timely.
5. The County will coordinate development of the capital improvement budget with development of the operating budget. Future operating costs associated with new capital improvements will be projected and included in operating budget forecasts.
6. The County will seek intergovernmental assistance to finance those capital improvements that are consistent with the capital improvement plan and County priorities, and whose operating and maintenance costs have been included in operating budget forecasts.
7. The County will maintain all its assets at a level adequate to protect the County's capital investment and to minimize future maintenance and replacement costs. The County will maintain accurate information on the condition, lifespan and estimated replacement cost of its major physical assets to assist in long term planning.

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## CAPITAL IMPROVEMENT BUDGET (cont.)

8. The County will identify the estimated costs and potential funding sources for each capital project proposed before it is submitted for approval.
9. The County will attempt to determine the most cost effective and flexible financing method for all new projects.
10. The County will match the financing of major capital assets to the debt schedules that closely assign payments with the expected major asset life span to insure intergenerational equity.
11. The capitalization for fixed assets resulting from purchases shall be \$5,000. Fixed assets will only be capitalized if they have a useful life of at least two years following the date of acquisition.

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## 4. FINANCIAL RESERVES POLICIES

In 2014 the County adopted a General Fund Balance Policy. It is found in Beaufort County's Code of Ordinances Section 2-403 through 2-405.

### A. General Fund Reserve Policy

1. The County will establish and maintain a General Fund Reserve to pay for needs caused by unforeseen emergencies. This reserve will be maintained within a range of fifteen percent (15%) and thirty percent (30%) of the total General Fund expenditures for the previous fiscal year and be held in the General Fund account.
2. The General Fund Reserve balance should only be used in certain limited situations such as to stabilize revenues, mitigate a projected deficit in the current operating period, retire or defease outstanding bonds or notes of the County, fund one-time or unanticipated expenditures, and pay judgments or otherwise settle legal disputes and claims.
3. Any action that results in reducing the General Fund Reserve balance below the fifteen percent (15%) threshold shall contain a provision specifically authorizing the use of such funds.
4. The County Administrator or Finance Director shall inform the Council, with as much advance time as may be practical under the circumstances, whenever the County has obligations that would reasonably be expected to result in the General Fund balance to decline below the minimum fifteen percent (15%) threshold.
5. At any time that the Council determines that the use of the General Fund Reserve balance within the fifteen (15%) to thirty percent (30%) range is needed for one or more of the reasons provided for in this section, the Council shall, by resolution, authorize the use of such reserves.
6. At no time shall County Council take action which shall have the effect of reducing the General Fund balance to an amount below an average of two (2) months' worth of total General Fund expenditures for the previous fiscal year without first declaring that an emergency exists within the County thereby necessitating the use of such funds.
7. Beaufort County shall, during the August through October hurricane season, maintain a fund balance of unrestricted and available cash equal to a minimum of fifteen (15%) of the General Fund Appropriation. Funding sources may include, but are not limited to, credit instruments, bond anticipation notes and tax anticipation notes.
8. The General Fund Reserve balance should be reported to County Council quarterly and be reviewed annually or as needed.

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## **B. Debt Service Fund Policy**

1. The County will confine long-term borrowing to capital improvement or projects that cannot be paid for from current revenues or fund balance except where approved justification is provided.
2. The County will utilize a balanced approach to capital funding utilizing debt financing, draws on capital reserves and/or fund balances in excess of policy targets, and current-year (pay-as-you-go) appropriations.
3. When the County finances capital improvements or other projects by issuing bonds or entering into capital leases, it will repay the debt within a period not to exceed the expected useful life of the project. Target debt ratios will be calculated at least every two years and included in the review of financial trends.
4. Where feasible, the County will explore the usage of special assessment, revenue, or other self-supporting bonds instead of general obligation bonds.
5. Prior to the issuance of new General Obligation (GO) debt, consideration shall be given to forecasted tax rate requirements, ratio of net GO debt to assessed taxable value, net GO debt per capita, and debt service payments to General Fund operating budget.
6. Direct net debt as a percentage of total assessed value of taxable property should not exceed 2.5%. Direct net debt is defined as any and all debt that is tax-supported.
7. The ratio of direct debt service expenditures as a percent of total governmental fund expenditures will be targeted to remain at or below 10.0% but in any case should not exceed 12.0% with an aggregate direct debt ten-year principal payout ratio target of 60.0% or better.
8. The County recognizes the importance of underlying and overlapping debt in analyzing financial condition. The County will regularly analyze total indebtedness including underlying and overlapping debt.
9. The County may employ municipal finance professionals to assist in developing a bond issuance strategy, preparing bond documents, and marketing bonds to investors.

## **DEBT SERVICE FUND (cont.)**

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10. The County shall use the Comprehensive Annual Financial Report (the "CAFR") as the disclosure document for meeting its financial reporting obligations.
11. The County will use fixed rate debt in most cases to finance its capital needs; however, the County may issue variable rate debt when necessary if deemed in the best interest of the County.
12. Debt structures that result in significant "back loading" of debt should be avoided.
13. The Chief Financial Officer will maintain good communications with bond rating agencies:
  - a. The CFO will provide periodic updates on the County's financial condition.
  - b. Required disclosures on every financial report and bond prospectus will be followed.
  - c. The County may request ratings prior to the sale of securities from the major rating agencies for bond issues.
14. The County will strive to achieve and maintain the highest credit rating awarded by the bond rating agencies.
15. The County may undertake refinancing of outstanding debt:
  - a. When such refinancing allows the County to realize significant debt service savings (net present value savings equal to at least 2.0 percent of the refunded par amount) without lengthening the term of refinanced debt and without increasing debt service in any subsequent year; or
  - b. When the public policy benefits outweigh the costs associated with the issuance of new debt and any increase in annual debt service; or
  - c. When a restrictive covenant is removed to the benefit of the County.
16. The CFO shall maintain a system of record keeping and reporting to meet the arbitrage rebate compliance requirements for the federal tax code.
17. The County will maintain enough fund balance, net of any potential incoming revenue, within its Debt Service Fund and County Purchase Property Fund to cover the County's interest-only payments occurring on August 1 and September 1 of every fiscal year. The additional revenues required to grow

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the fund balance may be achieved by maintaining all borrowing premium revenues. (Ordinance No. 2014/7)

## V. CASH MANAGEMENT AND INVESTMENT POLICY

The Treasurer serves as the County's chief banker and investment officer, charged with the responsibility of investing funds that are not needed for immediate expenditures. The Following is the investment policy of the Beaufort County and the Beaufort County Treasurer's Office. The scope of this investment policy applies to all moneys and other financial resources available for deposit and investment by the Beaufort County Treasurer's Office on behalf of Beaufort County and on behalf of any other agency.

1. The primary objectives of the Treasurer's Office investment activities are, in priority order:
  - a. To conform with all applicable federal, state and other legal requirements (legality);
  - b. Adequately safeguard principal (safety);
  - c. To provide sufficient liquidity to meet all operating requirements (liquidity) and;
  - d. To obtain a reasonable rate of return (yield).
2. To appropriately meet these objectives, the Treasurer's Office will make investment decisions based on current and ongoing cash flow needs.
3. All participants in the investment process shall seek to act responsibly as custodians of the public trust and shall avoid any transaction that might impair public confidence. Investments shall be made with prudence, diligence, skill, judgment and care, under circumstances then prevailing, which knowledge and prudent persons acting in like capacity would use, not for speculation, but for investment, considering the safety of the principal as well as the probable income to be derived.
4. All participants involved in the investment process shall refrain from personal business activity that could conflict with proper execution of the investment program or which could impair their ability to make impartial investment decisions.
5. It is the policy of Beaufort County and the Treasurer's Office to diversify its deposits and investments by financial institution, by investment instrument, and by maturity schedule. Diversification of deposit and investment assets should be determined with the utmost care, with safety and liquidity being the primary

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objectives. As portfolios may range in size by account and purpose, depositories and investment managers should seek to invest as prudently as possible, with no investment representing more than 5% of the total portfolio value; including all accounts.

As some accounts may be smaller in size, 5% of the total portfolio value may not be prudent from a diversification standpoint. With these types of accounts special care must be taken to ensure liquidity and safety. Under no circumstance should any investment in smaller accounts represent more than 20% of its portfolio value.

6. It is the policy of Beaufort County and the Treasurer's Office for all moneys collected by any officer or employee of Beaufort County, with the exception of certain special revenues and funds maintained by certain countywide elected officials, to transfer those funds to the Treasurer's Office, or the financial institution designated by the Treasurer's Office, within two (2) business days of deposit, or within the time period specified in law, whichever is shorter.

The Treasurer is responsible for establishing and maintaining internal control procedures to provide reasonable, but not absolute, assurance that deposits and investments are safeguarded against loss from unauthorized use or disposition, that transactions are executed in accordance with management's authorization, properly recorded, and managed in compliance with applicable laws and regulations.

Except as may otherwise be provided in a contract with bondholders or noteholders, any moneys invested may be commingled for investment purposes, provided that any investment of commingled moneys shall be payable or redeemable at the time the proceeds are needed to meet expenditures for which such moneys were obtained. The separate identity of the sources of these funds shall be maintained at all times through the general ledger and any income received shall be credited on a pro rata basis to the general ledger fund or account from which the moneys were invested.

7. The Treasurer may utilize the services of any bank, trust company, or savings and loan association authorized to do business within the State of South Carolina.
8. All deposits and investments at a bank, trust company, or savings and loan association (hereinafter, collectively referred to as "depository"), including all demand deposits, certificates of deposit and special time deposits (hereinafter, collectively referred to as "deposits") made by the Treasurer's Office that are in excess of the amount of insured under the provisions of the Federal Deposit

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Insurance Act, including pursuant to a Deposit Placement Program in accordance with law, shall be secured by the depository in accordance with South Carolina State Statute 6-5-15, which dictates the securing and collateralization of public funds.

9. As provided by the State of South Carolina Code of Laws Section 6, the Treasurer will invest moneys not required for immediate expenditure, for terms not to exceed its projected cash flow needs, in investments that adhere with South Carolina State Statutes 6-5-10 and 12-45-220.

The Beaufort County Treasurer may also deposit public monies in excess of current needs into the South Carolina State Treasurer's Local Government Investment Pool.

Repurchase agreements (referred to as REPOs) are complex transactions that can expose the investing local government to significant risks. If utilized, the Treasurer must submit the agreement to Beaufort County's legal counsel for review and approval; have the resources to negotiate the agreement with trading partners and custodial banks or trust companies, and monitor the investment daily. At a minimum, any repurchase agreement must comply with the requirements listed in Appendix A.

10. Some investments, although in conformity with South Carolina Code of Laws, may be in conflict with the County and the Treasurer's primary objectives of safety and liquidity. As such, the following investments are not permitted:
  - a. Interest-only Mortgage Securities
  - b. Principal-only Mortgage Securities
  - c. Z-Traunch Collateralized Mortgage Obligations (CMO's)
  - d. Floating Rate CMO's, including Inverse Floaters

11. All financial institutions and dealers with which the Treasurer's Office transacts business shall be creditworthy, and have an appropriate level of experience, capitalization, size and other factors that make the financial institution or the dealer capable and qualified to transact business with and hold public funds. The Treasurer shall evaluate the financial position and maintain a listing of proposed depositories, trading partners, and custodians.

If the Treasurer elects to utilize the services of a financial advisor, that advisor should have at least ten (10) years of experience managing public funds, five (5) years of which should be experience in managing funds within the State of South Carolina, and, at a minimum, should be a registered investment advisor.

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At least annually, the advisor must provide to the Treasurer their ADV forms, part I and II, filed with the Securities and Exchange Commission.

The Treasurer shall maintain a list of financial institutions and dealers approved for investment purposes. To maximize safety, the Treasurer's Office could purchase through, deliver to and hold in custody of a bank or trust company all obligations, unless registered or inscribed in the name of the applicable government agency.

12. The Treasurer shall review this investment policy annually, or as needed, and shall have the power to amend this policy at any time. County Council shall regularly request reporting from the Treasurer regarding the status of investments and changes in investment policy.

Investment performance should be evaluated at least semi-annually and be taken into consideration when reviewing the investment policy. Investment performance benchmarks may include time weighed return, net of fees, on individual accounts as well as the overall portfolio.

13. The State Treasurer is authorized to assist the Treasurer's Office in investing funds that are temporarily in excess of operating. This can be accomplished by explaining investment opportunities through publication and other appropriate means; acquainting the Treasurer's Office with the State's practice and experience in investing short-term funds; and providing technical assistance in investment of idle funds when such assistance is requested.

## Appendix A- Repurchase Agreements

At a minimum, a repurchase agreement must comply with the following:

1. Trading partners should be limited to creditworthy banks or trust companies located and authorized to do business in the State of South Carolina or to registered primary dealers.

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2. Unless the obligations that are purchased pursuant to the repurchase agreement are registered or inscribed in the name of the local government, obligations must be purchase through, delivered to and held in the custody of a bank or trust company located and authorized to do business in the State of South Carolina. The custodial bank or trust company may not be the seller of the obligations that are the subject of the repurchase agreement.
3. A Master Repurchase Agreement must be entered into, outlining the basic responsibilities and liabilities of the buyer and seller and a written agreement with the custodial bank or trust company, outlining the basic responsibilities and liabilities of the buyer, seller and custodian.
4. The custodial agreement should provide that the custodian takes possession and maintains custody of the obligations exclusively for the local government, that the obligations are free of any claims against the trading partner, and that any claims by the custodian are subordinate to the local government's claims or rights to those obligations.
5. The obligations must be credited to Beaufort County, or the applicable agency, on the records of the custodial bank or trust company, and the transaction must be confirmed in writing to the local government by the custodial bank or trust company.
6. The obligations purchased may only be sold or presented for redemption of payment by the custodian upon written instructions of the Treasurer.
7. A perfected security interest must be obtained in the obligation.
8. Agreements may be for no more than 30 days.
9. Agreements must specify whether to include margin requirements.
10. No substitution of obligations is permitted.
11. Payment for the purchased obligations should not be made by the custodial bank or trust company until the obligations are actually received, preferably done simultaneously.
12. Obligations that are purchased to a repurchase agreement are deemed to be payable or redeemable, for purposes of the **GML**, on the on which the purchased obligations are scheduled to be repurchased by the seller.

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