

WAC 173-360A-1071 Mechanism—Local government financial test.

(1) **Applicability of mechanism.** A local government owner or operator may satisfy the requirements of WAC 173-360A-1015 by passing the financial test specified in this section.

(2) **Eligibility requirements.** To be eligible to use the financial test, the local government owner or operator must have the ability and authority to assess and levy taxes or to freely establish fees and charges.

(3) **Financial test requirements.** To pass the local government financial test, the owner or operator must meet the following criteria based on year-end financial statements for the latest completed fiscal year:

(a) The local government's year-end financial statements, if independently audited, cannot include an adverse auditor's opinion or a disclaimer of opinion;

(b) The local government cannot have outstanding issues of general obligation or revenue bonds that are rated as less than investment grade; and

(c) The local government owner or operator must have a letter signed by the chief financial officer worded as specified in WAC 173-360A-1090.

(4) **Financial information requirements.** The local government owner or operator must have the following information available, as shown in the year-end financial statements for the latest completed fiscal year:

(a) **Total revenues**, consisting of the sum of general fund operating and nonoperating revenues including net local taxes, licenses and permits, fines and forfeitures, revenues from use of money and property, charges for services, investment earnings, sales (property, publications, etc.), intergovernmental revenues (restricted and unrestricted), and total revenues from all other governmental funds including enterprise, debt service, capital projects, and special revenues, but excluding revenues to funds held in a trust or agency capacity. For purposes of this test, the calculation of total revenues excludes all transfers between funds under the direct control of the local government using the financial test (interfund transfers), liquidation of investments, and issuance of debt;

(b) **Total expenditures**, consisting of the sum of general fund operating and nonoperating expenditures including public safety, public utilities, transportation, public works, environmental protection, cultural and recreational, community development, revenue sharing, employee benefits and compensation, office management, planning and zoning, capital projects, interest payments on debt, payments for retirement of debt principal, and total expenditures from all other governmental funds including enterprise, debt service, capital projects, and special revenues. For purposes of this test, the calculation of total expenditures excludes all transfers between funds under the direct control of the local government using the financial test (interfund transfers);

(c) **Local revenues**, consisting of total revenues (as defined in (a) of this subsection) minus the sum of all transfers from other governmental entities, including all monies received from federal, state, or local government sources;

(d) **Debt service**, consisting of the sum of all interest and principal payments on all long-term credit obligations and all interest-bearing short-term credit obligations. Includes interest and principal

payments on general obligation bonds, revenue bonds, notes, mortgages, judgments, and interest bearing warrants. Excludes payments on noninterest-bearing short-term obligations, interfund obligations, amounts owed in a trust or agency capacity, and advances and contingent loans from other governments;

(e) **Total funds**, consisting of the sum of cash and investment securities from all funds, including general, enterprise, debt service, capital projects, and special revenue funds, but excluding employee retirement funds, at the end of the local government's financial reporting year. Includes federal securities, federal agency securities, state and local government securities, and other securities such as bonds, notes and mortgages. For purposes of this test, the calculation of total funds excludes agency funds, private trust funds, accounts receivable, value of real property, and other nonsecurity assets; and

(f) **Population**, consisting of the number of people in the area served by the local government.

(5) **Letter from chief financial officer**. To demonstrate that it meets the financial test under subsection (3) of this section, the chief financial officer of the local government owner or operator, must sign, within one hundred twenty days of the close of each financial reporting year, as defined by the twelve-month period for which financial statements used to support the financial test are prepared, a letter worded exactly as specified in WAC 173-360A-1090, except that the instructions in brackets are to be replaced by the relevant information and the brackets deleted.

(6) **Obtaining alternate coverage if fail test**. If a local government owner or operator using the test to provide financial assurance finds that it no longer meets the requirements of the financial test based on the year-end financial statements, the owner or operator must obtain alternate coverage within one hundred fifty days of the end of the year for which financial statements have been prepared.

(7) **Requests by department and findings of failure**. The department may require reports of financial condition at any time from the local government owner or operator. If the department finds, on the basis of such reports or other information, that the local government owner or operator no longer meets the financial test requirements of subsection (3) of this section, the owner or operator must obtain alternate coverage within thirty days after notification of such a finding.

(8) **Notification of department if fail to obtain alternate coverage**. If a local government owner or operator fails to obtain alternate coverage within one hundred fifty days of finding that it no longer meets the requirements of the financial test based on the year-end financial statements or within thirty days of notification by the department that it no longer meets the requirements of the financial test, then by that date the owner or operator must notify the department of such failure and submit the evidence of financial responsibility specified in WAC 173-360A-1040(2).

[Statutory Authority: Chapter 90.76 RCW. WSR 18-15-083 (Order 16-02), § 173-360A-1071, filed 7/18/18, effective 10/1/18.]