



LAKWOOD CITY COUNCIL STUDY SESSION AGENDA

Monday, August 25, 2014

Following the Transportation Benefit District Board meeting

City of Lakewood
City Council Chambers
6000 Main Street SW
Lakewood, WA 98499

Page No.

CALL TO ORDER

ITEMS FOR DISCUSSION:

- (3) 1. Joint Public Safety Advisory Committee meeting.
- (6) 2. Review of financial policies. - (Memorandum)

BRIEFING BY THE CITY MANAGER

ITEMS TENTATIVELY SCHEDULED FOR THE SEPTEMBER 2, 2014 REGULAR CITY COUNCIL MEETING:

- 1. Authorizing the execution of a grant agreement with the U.S. Department of Justice, in the amount of \$53,861, for the Partnership between Mental Health Care Professionals and Law Enforcement project, from October 1, 2013 through September 30, 2017. - (Motion – Regular Agenda)
- 2. Authorizing the execution of an interlocal agreement with the Lakewood Water District to construct water mains along South Tacoma Way between SR 512 to 96th Street SW. – (Motion – Regular Agenda)

CITY COUNCIL COMMENTS

ADJOURNMENT

The City Council Chambers is accessible to persons with disabilities. Equipment is available for the hearing impaired. Persons requesting special accommodations or language interpreters should contact the City Clerk's Office, 589-2489, as soon as possible in advance of the Council meeting so that an attempt to provide the special accommodations can be made.

<http://www.cityoflakewood.us>

The Council Chambers will be closed 15 minutes after adjournment of the meeting.

CITY OF LAKEWOOD (CITY HALL)
 6000 Main Street SW, Lakewood, WA 98499-5027
 (253) 589-2489

WEEKLY MEETING SCHEDULE
August 25, 2014 – August 29, 2014

Date	Time	Meeting	Location
Aug 25	7:00 P.M.	Transportation Benefit District Board Meeting	Lakewood City Hall Council Chambers
	<i>Following the TBD Board Meeting</i>	City Council Study Session	Lakewood City Hall Council Chambers
Aug 26	5:30 P.M.	Citizens' Transportation Advisory Committee	Lakewood City Hall 1st Floor, Conference Room 1D
Aug 27	6:00 P.M.	City Council Special Meeting	Lakewood City Hall Council Chambers
Aug 28	3:30 P.M.	City Talk with the Mayor or another Councilmember. Please call 253-589-2489 for an appointment	Lakewood City Hall 3rd Floor, Mayor's Office
Aug 29	No Meetings Scheduled		

TENTATIVE WEEKLY MEETING SCHEDULE
September 1, 2014 – September 5, 2014

Date	Time	Meeting	Location
Sept 1	No Meetings Scheduled	City Hall closed in Observance of Labor Day	
Sept 2	6:00 P.M.	Youth Council	Lakewood City hall 3rd Floor, Conference Room 3A
	7:00 P.M.	City Council	Lakewood City Hall Council Chambers
	<i>Following the Council Meeting</i>	Transportation Benefit District Board Meeting	Lakewood City Hall Council Chambers
Sept 3	5:15 P.M.	Public Safety Advisory Committee	Lakewood Police Station Multi-Purpose Room 9401 Lakewood Drive SW
	6:30 P.M.	Planning Advisory Board	Lakewood City Hall Council Chambers
Sept 4	9:30 A.M.	Civil Service Commission	Lakewood City Hall 1st Floor, Conference Room 1E
	6:30 P.M.	Tillicum/Woodbrook Neighborhood Association	Tillicum Community Center 14916 Washington Blvd SW
Sept 5	No Meetings Scheduled		

NOTE: The City Clerk's Office has made every effort to ensure the accuracy of this information. Please confirm any meeting with the sponsoring City department or entity.



**Public Safety Advisory Committee
2013/2014 Summary & 2014/2015 Work Plan**

Members:

Bryan Thomas, Chairperson
Sheri Badger, Vice-Chairperson
Ray Dotson
Alan Hart
Aaron Young
Julio Perez-Tanahashi
Lonnie Lai
Michael Lacadie
Joseph Boyle
Renee Hanna * (resigned as of 8/6/14)
Sam Ross * (resigned as of 8/6/14)

Council Liaison:

Council Member Marie Barth

Committee Advisor:

LPD Police Chief Bret Farrar

Committee Contributor:

West Pierce Fire and Rescue Karl Roth
Lakewood Youth Council Members Amanda Thomas and Riki
Takeuchi

Committee Support:

Administrative Assistant Joanna Nichols

Meeting Schedule:

First Wednesday of each month in Lakewood Police Station 5:15 to
6:30 p.m.

Significant Accomplishments 2013/2014:

- Came up with a fundraising event for SummerFest; manned it and raised \$553.00 for the Lakewood Officer's Charity.
- Participated in National Night Out.
- Succeeded in filling all board member positions.
- Added Youth Council member as a contributor to the committee.
- Solicited presentations from community organizations and partners such as WSH, Emergency Management, and TPC Health Department.

Work Plan:

- Work with the Police Department and City Council to create a policy that will deal with the shopping cart safety issue which is currently a problem throughout Lakewood.
- Look closer at the abandoned homes issue which is causing public safety concerns as well as economic development concerns. Possibly help with new policies that will force owners (usually long distance companies) keep their property in better shape so as not to encourage illegal and dangerous activity/squatting.
- Further explore Public Safety issues related to people who are homeless and the mentally ill; possibly come up with policies or programs that might help both the officers and the community when working with these individuals.
- Continue to follow the progress of the railroad expansion in Lakewood, as it pertains to Public Safety, specifically at grade crossings, signage, public notification, and research additional pedestrian crossing alternatives.
- SummerFest- Look at ways to build on this year's successful event.
- Increase the visibility of the PSAC by visiting local community groups: neighborhood associations, minority groups, volunteer organizations.
- Continue to work with LPD, City Government, and West Pierce Fire and Rescue (WPFR) on Emergency Management, specifically

citizens' responsibilities, ways to educate the public, and how to increase number of shelters/equipment in Lakewood.

1. Research an avenue for local business and churches to be better prepared to help support the community during a disaster.
 2. Spreading the word about PC Alert as well as other community notification systems for "off-normal" situations such as a neighborhood calling tree.
 3. Shelter and equipment needs in Lakewood.
- Continue to promote the on-going Community Emergency Response Team (CERT) program offered by WPFR.
 - Revisit/Update progress on recent ordinance and policy changes.
 - Assist with brainstorming ideas for how to increase diversity in the recruitment of police officers for the Lakewood Police Department.
 - Look into possibly assisting with the US Open next year, if LPD is asked to assist with that event, etc.

The PSAC would like to thank the council for the opportunity to serve our local community.

Bryan Thomas
PSAC Chairman

Sheri Badger
PSAC Vice-Chairman



To: Mayor and City Councilmembers
From: Tho Kraus, Assistant City Manager/Finance & Administrative Services
Through: John J. Caulfield, City Manager *John J. Caulfield*
Date: August 25, 2014
Subject: Draft Financial Policies

BACKGROUND

The financial integrity of our City government is of utmost importance. The establishment of financial policies will promote the fiscal health of the City of Lakewood, as well as cost effective and efficient delivery of services to our citizens.

The benefits of written, adopted financial policies include:

- Assist the City Council, City Manager and leadership in the financial management of the City;
- Save time and energy when discussing financial matters;
- Increase public confidence and credibility with investors and bond rating agencies;
- Provide continuity over time as elected officials, the City Manager and leadership change; and
- Provide a means for dealing with fiscal emergencies.

These policies should be reviewed annually and reaffirmed by the City Council at least once every two years, as part of the biennial budget process.

DRAFT FINANCIAL POLICIES & NEXT STEPS

Although the City Council has been briefed on elements of the Fund Balance Reserve Policy, this memo and the attached comprehensive draft financial policies is the first of a series of formal discussions on the topic. Additionally, included in this report are financial policies from neighboring and/or similar size cities.

City Council may choose to add, delete and/or make modifications to the draft financial policies.

Other dates scheduled for City Council review and approval of the draft financial policies are:

- September 2, 2014 Regular City Council Meeting for Review
- September 15, 2014 Regular City Council Meeting for Adoption

CITY OF LAKEWOOD DRAFT FINANCIAL POLICIES

OPERATING BUDGET

The objective of the operating budget policy is to ensure the appropriate levels of City services at reasonable costs.

Biennial Budget Document. The budget should be a performance, financing and spending plan agreed to by the City Council, City Manager and Department Directors. It should contain information and data regarding expected revenues, expected expenditures and expected performance. The budget should be developed using a performance based, results oriented approach that incorporates line items, zero-based, programs, and priorities of governments.

- As a comprehensive business plan, the budget should provide the following critical elements recommended by the Government Finance Officers Association: public policies, financial plan, operations guide, and communications device.
- The City's budget presentation should display the City's service delivery/performance plan in a City Council/constituent-friendly format. Therefore, the City will use a program budgeting format to convey the policies for and purposes of City operations. The City will also prepare the line-item format materials for those who wish to review that information.

Goals to Guide Preparation. The City will prepare and annually refine written policies and goals to guide the preparation of performance, financing and spending plans for the City budget. Adopted budgets will comply with the adopted budget policies and City Council priorities.

Long Range Forecast. With each budget, the City will update expenditure and revenue projections for the next six years. Projections will include estimated operating costs for capital improvements that are included in the capital budget. This budget data will be presented to the City Council in a form that will facilitate budget decisions, based on a multi-year perspective. This forecast is intended to be an internal planning tool and shall be included in the biennial budget document and updated at least annually as part of the adopted budget process in the even years and the mid-biennial review in the odd years.

Capital Projects. Decision making for capital improvements will be coordinated with the operating budget to make effective use of the City's limited resources for operating and maintaining facilities.

Balanced Budget. The City will adopt a balanced budget for all funds. Balanced budget for operating funds means ongoing operating program costs do not exceed the amount of ongoing revenues to finance those costs. The ongoing revenue will be identified along with new program costs including impact from new capital projects. Any available carryover balance will only be used to offset one-time or non-recurring costs. Balanced budget for non-operating funds means total resources equal to or exceed total uses.

Excess Cash Balances. Cash balances in excess of the amount required to maintain General and Street Operations & Maintenance Fund reserves may be used to fund one-time or non-recurring costs.

Department Director Responsibility. All Department Directors will participate in the responsibility of meeting policy goals and ensuring long-term financial health. Under the City Manager's direction, Department Directors have primary responsibility for: formulating budget proposals in line with City Council priority and direction; and implementing those proposals once they are approved.

Citizen Involvement. Citizen involvement shall be encouraged in the budget decision making process through public hearings and study sessions.

Nonprofit Organizations. Funding decisions regarding nonprofit organizations shall be based on policy guidelines and priorities determined by the City Council and availability of funds.

Budgetary Controls. Legal budgetary control is established at the fund level, i.e., expenditures for a fund may not exceed the total appropriation amount. Any unexpended appropriation balances for annually budgeted funds lapse at the end of the year. Appropriations for other special purpose funds that are non-operating in nature are adopted on a "project-length" basis and, therefore, are carried forward from year to year without re-appropriation until authorized amounts are fully expended or the designated purpose of the fund has been accomplished.

Quarterly Financial Reports. The budget will be produced so that it can be directly compared to the actual results of the fiscal year and presented in a timely quarterly report. All budget amendments, both revenues and expenditures, will be noted in the quarterly financial report.

FUND BALANCE

The objective of the fund balance policy is to provide adequate working capital for cash flow and contingency purposes.

General Fund. The General Fund ending fund balance reserves shall be 12% of the combined General and Street Operations & Maintenance Funds operating revenues. These reserves are as follows:

- *2% General Fund Contingency Reserves:* The purpose of this reserve is to accommodate unexpected operational changes, legislative impacts, or other economic events affecting the City's operations which could not have been reasonably anticipated at the time the original budget was prepared. The City Council will determine how the Contingency Reserves are spent.
- *5% General Fund Ending Fund Balance Reserves:* The purpose of this reserve is to provide financial stability, cash flow for operations and the assurance that the City will be able to respond to revenue shortfalls with fiscal strength.
- *5% Strategic Reserves:* The purpose of this reserve is to provide some fiscal means for the City to respond to potential adversities such as public emergencies, natural disasters or similarly major, unanticipated events.

Enterprise Funds. The City shall maintain a minimum cash balance in its enterprise funds equal to 17% of operating expenses (equivalent to two months of operating expenses). This balance shall be maintained to ensure adequate maintenance reserves and cash flow. Balances in excess of 17% may be utilized for capital projects.

Internal Service Funds. The City shall maintain a balance equivalent to the accumulated replacement reserves at year-end for those internal service funds that collect replacement reserves. Replacement reserves based on estimated replacement value will be established for fleet and equipment when the need will continue beyond the estimated useful life, regardless of whether the vehicle or equipment is acquired via lease, gift, grant or purchase. An equal amount will be included in the service charges paid by the user department to the Fleet and Equipment Fund during the expected life of the asset.

The City shall maintain separate internal service funds to account for the activities of Fleet and Equipment, Property Management, Information Technology, and Risk Management. The City shall establish replacement reserves for information technology related equipment and property management related to facilities no later than year 2020.

All Other Funds. The appropriate balances shall be the amount needed to maintain positive cash balances throughout the year.

Use of Fund Balances. Fund balance is the cumulative years' excess or deficit of all revenues and expense. Available fund balances shall not be used for ongoing operating expenditures, unless a determination has been made that available balances are in excess of required guidelines and plans have been established to address any future operating budget shortfalls. Emphasis shall be place on one-time uses that achieve future operating cost reductions and/or service level efficiencies.

Timeline. The timeline to achieve the target reserves is no later than December 31, 2016.

Replenishing General Fund Balance. The fund balance shall be replenished within one to two years depending on the reserve fund. The 2% General Fund Contingency Reserves and 5% General Fund Ending Fund Balance Reserves shall be replenished within one year while the 5% Strategic Reserves shall be replenished within 2 years. The sources for replenishment shall be via expenditure control, expenditure savings, one-time revenues and/or excess revenues.

REVENUE

The objective of the revenues policy is to ensure that funding is derived from fair, equitable, defensible, and adequate resource base, while minimizing tax burdens.

Revenue Estimates. Revenues shall be estimated conservatively so as not to introduce regular shortfalls in individual revenue accounts. Revenue estimates shall not assume excess growth rates. Real growth that occurs will be recognized through budgetary adjustments only after it takes place. This practice imposes short term constraint on the level of public goods or services. However, in the event that revenues are less than expected, it minimizes the likelihood of severe cutback actions which may be profoundly disruptive to the goal of providing a consistent level of quality services.

Revenue Diversification. The City shall maintain a stable and diverse revenue system to shelter programs and services from short-term fluctuations in any single source of revenue. Services that have a city-wide benefit shall be financed by revenue sources generated from a broad source such as property tax, utility tax and sales tax. Services where the customer determines the use shall be financed by a combination of broad-based revenues as well as user fees and charges.

Fees. Fees shall be phased toward covering 100% of the cost of service delivery, unless such amount prevents an individual from obtaining an essential service. Fees or service charges should not be established to generate money in excess of the cost of providing service. Fees may be less than 100% if other factors (e.g. market forces, competitive position, etc.) need to be recognized.

User Charges. User charges for enterprise services such as the Surface Water management Fund shall be set at rates sufficient to finance all direct and indirect operating, capital, reserve/working capital, and debt service. Overhead expenses and general government services provided to the enterprise activities shall be included as indirect costs. Rates shall be set such that the enterprise fund maintains a positive cash position throughout the year and provide for sufficient reserves as determined by the fund balance policy.

Use of One-Time/Unpredictable Revenues. The City shall not utilize one-time revenues for recurring operating expenditures. One-time revenues include, but are not limited to: proceeds from the sale of land or surplus equipment, legal settlements, or revenue windfalls.

Investment Income. Investment income earned through the City's investment pool shall be budgeted based upon the allocation methodology, i.e. the projected average monthly balance of each participating fund.

Grants. Grant applications to fund new services/programs will be reviewed by the City as they become available, with due consideration being given to whether locally generated revenues will be required to support these programs when outside funding is no longer available.

EXPENDITURES

The objective of the expenditure policy is to prioritize services, establish appropriate levels of service, and administer the resources to ensure that fiscal stability is attained and that services are delivered in an effective and efficient manner.

Operating Funding Basis. Operating expenditures shall be budgeted and controlled to not exceed operating revenues.

Operating Deficits. Immediate corrective action should be taken if at any time during a fiscal year expenditures are projected to be greater than projected revenues at year-end. Corrective actions could include, but are not limited to expenditure reductions, fee increases, or new revenues.

Capital Asset. Capitalization of assets shall occur with assets that have a useful life of at least two years following the date of acquisition with a historical or market value at time of acquisition equal to or greater than \$5,000. The threshold is applied to individual items rather than to groups of similar items unless the effect of doing so would eliminate a significant portion of total capital assets.

DEBT MANAGEMENT

The objective of the debt management policy is to articulate the guiding principles for City debt issuance and management before consideration of specific actions. This policy set forth certain equally important objectives for the City and establishes overall parameters for responsibly issuing and administering the City's debt.

- Minimize debt service and issuance costs
- Maintain access to cost-effective borrowing
- Achieve and maintain highest practical credit rating
- Full and timely repayment of debt
- Maintain full and complete financial disclosure and reporting
- Ensure compliance with state and federal laws and regulations

Debt Capacity. A long-term debt capacity will be completed on an annual basis as a means for ensuring that the City does not exceed the debt limits within the limits of applicable laws and regulations.

Bond Rating. The City will seek to maintain, and if possible, improve its current bond rating(s) in order to minimize borrowing cost and preserve access to credit.

Minimize Debt. Whenever possible, the City shall identify alternative sources of funding and shall examine the availability of those sources in order to minimize the level of debt.

New Issues and Refinancing. New issues, and refinancing of existing debt, must be analyzed for compatibility within the City's overall financial planning. The review shall include, but not limited to: cash flow analysis; potential for unexpected revenue changes; and the maintenance of the City's bond ratings. Annual debt service shall not produce an inordinate impact upon future operations.

- *Long-term Debt.* Long-term debt may be used to finance the acquisition or improvement of land, infrastructure, facilities, or equipment for which it is appropriate to spread costs over more than one budget year. Long-term debt may also be used to fund capitalized interest, cost of issuance, required reserves, any other financing-related costs that may be legally capitalized. Long-term debt shall not be used to fund City operating cost.
- *Short-term Debt.* Short-term debt will be considered as an interim source of funding in anticipation of long-term debt. Short-term debt may be issued for any purpose for which long-term debt may be issued, including capitalized interest and other financing-related costs. Short-term debt is also appropriate to address legitimate short-term cash flow requirements during a given fiscal year to fund operating costs of the City to provide necessary public services. The City will not engage in short-term borrowing solely for the purpose of generating investment returns.
- *Refunding.* Periodic reviews of outstanding debt will be undertaken to identify refunding opportunities. Refunding will be considered (within federal tax law constraints) when there is a net economic benefit of the refunding. Noneconomic refundings may be undertaken to achieve City objectives relating to changes in covenants, call provisions, operational flexibility, tax status, issuer, or the debt service profile, etc. When contemplating a refunding, the City shall have a minimum of 3.0% economic savings, as expressed on a net present value basis, as a benchmark to proceed with a refunding. The City may purchase its bonds in the open market for the purpose of retiring the obligation when the purchase is cost effective.

Financing Period. The City shall structure its debt issues so that the maturity of the debt service does not exceed the economic or useful life of the capital project to be financed.

Method of Sale. The City may use either a competitive bidding or negotiated process in the sale of debt due to market timing requirements, or a unique pledge of debt or debt structure.

Bond Counsel. The City will use the services of a legally certified and credible bond counsel in the preparation of all bond representations.

Underwriter(s). An underwriter(s) will be used for all debt issued in a negotiated or private placement sale method. The underwriter(s) is responsible for purchasing negotiated or private placement debt and reselling the debt to investors.

Fiscal Agent. A fiscal agent will be used to provide accurate and timely securities processing and timely payment to bondholders.

Debt Administration. The Assistant City Manager/ Finance & Administrative Services shall maintain written procedures outlining required actions to ensure compliance with local, state, and federal regulations. Such procedures shall include: continuing disclosure, arbitrage rebate, and other requirements.

CAPITAL IMPROVEMENT

The objective of the capital improvement policy is to forecast and match projected revenues and capital needs. Long range capital planning is an important management tool that strengthens the linkages between infrastructure needs and the financial capacity of the City.

Capital Project Proposals. Capital project proposals should include as complete, reliable, and attainable cost estimates as possible. Project cost estimates for the Capital Budget should be based upon a thorough analysis of the project and are expected to be as reliable as the level of detail known about the project. Project cost estimates for the 6-Year City Capital Improvement Plan will vary in reliability depending on whether they are to be undertaken in the first, second or 3rd biennium years of the plan.

- *Resource Plan.* Capital proposals should include a comprehensive resource plan. This plan should include the amount and type of resources required, and the funding and financing strategies to be employed. The specific fund and timing should be outlined. The plan should indicate resources needed to complete any given phase of a project in addition to the total project.
- *Expenditure Plan.* All proposals for the expenditure of capital funds shall be formulated and presented to the City Council within the framework of a general capital budget and, except in exceptional circumstances of an emergency nature, no consideration will be given to the commitment of any capital funds, including reserve funds, in isolation from a general review of all capital budget requirements.
- *Changes in Project Estimates.* Changes in project estimates for the comprehensive resource plan should be fully reported to the City Council for review and approval.
- *M&O Impact.* Project proposals should indicate the project's impact on the operating budget, including, but not limited to, long-term maintenance costs necessary to support the improvement.
- *Biennial Budget.* The biennial capital budget shall include only those projects which can reasonably be accomplished in the time frame indicated. The detail sheet for each budgeted capital project should include a projected schedule.
- *Carry Over.* Capital projects which are not encumbered or completed during the fiscal year will be re-budgeted or carried over to the next fiscal year except as reported to and subsequently approved by the City Council. All re-budgeted capital projects should be so noted in the adopted capital budget. Similarly, multi-year projects with unencumbered or unexpended funds will be carried over to the subsequent year(s).
- *Revenue Expectation.* Capital projects will not be budgeted unless there are reasonable expectations that revenues will be available to pay for them.
- *Negative Impact from Project.* If a proposed project will cause a direct negative impact on other publicly-owned facilities, improvements to the other facilities will be required as part of the new project and become a part of the new project's comprehensive costs.

Capital Improvement Plan

The purpose of the Capital Improvement Plan is to forecast and match projected revenues and capital needs over a 6-Year period. Long range capital planning is an important management tool that strengthens the linkages between infrastructure needs and the financial capacity of the City. The City's Capital Improvement Plan includes transportation, parks, storm water and sewer improvement projects.

Citizen Participation and City Council Review. Citizen participation in the Capital Improvement Program is a priority for the City. Among the activities which shall be conducted to address this need are the following:

- *Timing.* The 6-Year Capital Improvement Plan shall be provided to the City Council in a timely manner to allow time for the City Council members to review the proposal with constituents before it is considered for adoption.
- *Public Meeting Notice.* The City Council study sessions on the Capital Improvement Plan shall be open to the public and advertised sufficiently in advance of the meetings to allow for the attendance of interested citizens.
- *Public Hearing.* Prior to the adoption of the Capital Improvement Plan, the City Council shall hold noticed public hearings to provide opportunities for citizens to express their opinions on the proposed plan.
- *Committee, Boards and Commission Review.* The appropriate committee, board and/or commission shall review the proposed Capital Improvement Plan and provide its comments on the Plan's contents before the City Council considers the Plan for adoption.

Capital Improvement Plan in Relation to the Comprehensive Plan. All projects included in the Capital Improvement Plan shall be consistent with the City's Comprehensive Plan. The goals and policies for services, facilities, and transportation should be followed in the development of the City Improvement Plan. The Comprehensive Plan service level goals should be called out in the Capital Improvement Plan.

Financing. Capital projects shall be financed to the greatest extent possible through user fees and benefit districts when direct benefit to users results from construction of the project. Refer to Debt Management policy for further detail.

Intergovernmental Cooperation. Projects that involve intergovernmental cooperation in planning and funding should be established by an agreement that sets forth the basic responsibilities of the parties involved.

Project Criteria Factors. The City Council will annually review and establish criteria against which capital proposals should be measured. Included among the factors which will be considered for priority-ranking are the following:

- Projects which have a positive impact on the operating budget (reduced expenditures, increased revenues);
- Projects which are programmed in the 6-Year Operating Budget Forecast;
- Projects which can be completed or significantly advanced during the 6-Year Capital Improvement Plan;
- Projects which can be realistically accomplished during the year they are scheduled;
- Projects which implement previous City Council-adopted reports and strategies.

Criteria for Determining Project Inclusion/Priority. The following is a comprehensive list of criteria for determining project inclusion, listed in priority order.

1. Projects which are required by statute or by an existing agreement with another agency.

2. Projects which are essential to public health or safety.
3. Projects which are urgently needed by some other criteria than public health or safety, e.g. environmental or public service.
4. Projects which have exhibited a high degree of public support.
5. Projects which are grant funded and would have minimal or no operating cost impact on the General Fund.
6. Projects which, if not acted upon now, would result in the irrevocable loss of an opportunity, or other major alternative actions would have to be initiated.
7. Projects which would preserve an existing capital facility, avoiding significantly greater expenses in the future (e.g. continuation of a ten-year cycle street maintenance program).
8. Projects which would result in significant savings in General Fund operating costs.
9. Projects which would fulfill a City commitment (evidenced by previous inclusion in the annual CIP and community support) to provide minimal facilities in areas which are deficient according to adopted standards.
10. Projects which would provide significant benefits to the local economy and tax base.
11. Purchase of land for future projects at favorable prices prior to adjacent development.
12. Purchase of land for future City projects (landbanking).
13. Projects which would provide new facilities which have minimal or no operating costs or which have operating costs but have been designated as exceptions to the operating cost policy by previous City Council actions.
14. Projects which would be constructed in conjunction with another agency with the other agency providing for the operating costs.
15. Projects which would generate sufficient revenue to be essentially self-supporting in their operation.
16. Projects which would make an existing facility more efficient or increase its use with minimal or no operating cost increase.
17. Projects which would fulfill City commitment (evidenced by previous inclusion in the annual CIP and community support) to provide greater than minimal facilities.
18. Projects which are grant funded but would require increased operating costs in the General Fund.
19. Projects which are not grant funded and would require increased operating costs in the General Fund, and have not been designated as exceptions to the operating cost policy by previous City Council actions.

CASH MANAGEMENT AND INVESTMENTS

The objective of a cash management and investment policy is to help balance the day-to-day need for revenues while achieving the highest rate of interest that is reasonable and within the City's acceptable level of investment risk.

Funds will be invested in only those investments permitted by Federal and State law as it relates to public funds. All of the City's funds will be invested with the following objectives (listed in order of priority):

- *Safety.* Investments will be undertaken in a manner that seeks to ensure the preservation of capital in the portfolio. Specifically, the City will: (a) seek to avoid realizing any loss through the sale or disposal of an investment; and (b) seek to mitigate the risk of unrealized losses due to a decline in value of investments held in the portfolio.
- *Liquidity.* The investment portfolio will remain sufficiently liquid to meet all cash requirements that may be reasonably anticipated. This will be accomplished by structuring the portfolio in the following manner: (a) the City will purchase investments scheduled to mature in accordance with its anticipated cash needs, in order to minimize the need to sell investments prior to maturity; (b) a portion of City funds will be maintained in cash equivalents, including money market fund, investment pools and overnight securities, which may be easily liquidated without a loss of principal should an unexpected need for cash arise; and (c) the portfolio will consist largely of investments with active secondary markets.
- *Yield.* The City's investments will be designed with the objective of maximizing a fair rate of return consistent with the safety and liquidity noted above.

FINANCIAL REPORTING

Reporting Frequency. Departments will be provided monthly budget and actual reports and comprehensive quarterly reports will be presented to the City Council.

Reporting Improvements. The City will strive to continue to make improvements in its financial reporting scheme so that information is available to the City Council, City Manager, departments and public is the best available for sound financial decisions.

Comprehensive Annual Financial Report (CAFR). The City will produce the CAFR within 150 days and submit to the GFOA's award program for Excellence in Financial Reporting.

Transparency. All financial reports will be posted to the City's website in a timely manner.

FINANCIAL POLICIES

Executive Summary

The importance of sound financial management makes it desirable for a city to establish goals and targets for its financial operations so that policies will be consistent and complete and performance can be monitored on an ongoing basis. Because a fiscally sound city government is in the best interest of the citizens of the City of Olympia, this Financial Management Policy Statement has been adopted as the guiding management principles which are to be applied in the management of the City's finances.



General Principles

1. Budgeting Policy

Budget practice for the City will conform to the following policies:

- Budgets will be formulated and approved according to the following procedural guidelines:
 - The administration decides on programmatic need and recommends funding levels.
 - The Capital Facilities Plan (CFP) is submitted 90 days, and the operating budget presented 60 days, prior to the end of the fiscal year.
 - By State law, the Council must approve the operating budget with a capital budget element prior to the end of the fiscal year.
- The capital budget is submitted on a functional six-year basis, to be updated annually.
- The operating budget is presented at a fund level and shall be adopted annually.

Performance monitoring of the operating budget will include:

- Forecast statements for each budget program.
- A “work measurement system” which compares the costs and benefits for each funded activity.
- An accounting system which ensures that actual operating expenditures conform to the budget.

Capital Budgeting Policies and Procedures:

- Projects will be funded by a combination of bond proceeds, grants, leases, and operating funds, with a maximum of

80% funded by long-term debt.

- Planning for capital projects will include a six-year plan titled *Capital Facilities Plan*, which must be updated annually and include a statement of projected costs and sources of funds.
- Capital projects must meet the following criteria:
 - If debt funded, the term of debt should not exceed the useful life of the project.
 - Capital projects should be built according to specifications which enable them to be self-sustaining whenever possible.
 - Long-term debt should be funded through revenue bond issue whenever feasible to maximize the general obligation debt limitation.
- Six-year budget projections will be prepared and updated annually and will include any expected changes in revenues or expenditures.

2. Revenue Structure

The City currently receives revenues through Federal and State grants, local taxes, and fees. To achieve the most desirable flow of revenues, planning must be undertaken as follows:

Tax policy must try to avoid:

- Over-reliance on property taxes.
- Adverse effects of excessively heavy taxes.
- Disproportionate burdens levied on any particular taxpayer group.

Structuring of taxes should attempt to:

- Provide a stable and predictable stream of revenue to fund City programs.
- Make collection of revenues simple and reliable.
- Retain/promote business (industry).

When revenues are increased, the following administrative practices will be pursued:

- User fees on certain activities chosen so that low-income families do not bear heavy costs.
- Service fees on activities where either raising revenues or limiting demand would prove beneficial.



FINANCIAL POLICIES (CONTINUED)

- A cash-management system which obtains maximum interest income within State guidelines.

3. Debt Management

The Objectives of the City's Debt Management Policy will be:

- To smooth the use of debt so that debt service payments will be a predictable and manageable part of the operating budget.
- To raise capital at the lowest cost, consistent with the need to borrow. This will be accomplished by:
 - Keeping a high credit rating (while making attempts to strengthen credit rating).
 - Maintaining a good reputation in the credit markets by adjusting the capital program for regular entry to the bond market and by managing the annual budget responsibly.

Debt instruments the City can use are:

- Short-Term Debt:
 - Short-term debt will not be issued for operating purposes nor will it be rolled over (except for Bond Anticipation Notes --BANs) from one period to another.
 - Tax Anticipation Notes (TANs) and Revenue Anticipation Notes (RANs) can be issued in amounts up to 60% of expected appropriations and must mature within the fiscal year.
 - BANs can be issued with a maximum three-year maturity and can be rolled over when interest rates make short-term debt preferable. BANs cannot be used to extend the life of a bond.
 - GANs (Grant Anticipation Notes) can be used when grant reimbursement for a project lags behind the payment schedule for large construction costs.
- Long-Term Debt:
 - Long-term debt will be used to maintain and develop municipal infrastructure when the economic life of a fixed asset exceeds five years.
- Revenue bonds will generally be used for projects which are financially self-sustaining.
- General Obligation bonds can be used to finance public works, which benefit the community and have revenues insufficient to amortize the debt.
- General Obligation pledges can be used to back self-sustaining projects financed through revenue bonds when costs can be reduced and the municipal credit rating is not put in jeopardy by this action.

Debt Issuance Policy will ensure that:

- An attempt to enter the market will be smooth or with regular volume and frequency, as much as possible.
- Advantage be taken of favorable market conditions.
- The timing of revenue bonds considers project, market, and General Obligation factors.
- The municipal credit rating is kept high.

The credit rating component of debt issuance will be strengthened by keeping assessments current.

Disclosure statements will be used to keep taxpayers and investors informed of the City's financial position. These include printed copies of:

- Annual Reports
- Operating Budget and Capital Facilities Plan
- Official Statements

Debt issues will be sold on a competitive basis (except when conditions make a negotiated sale preferable) and awarded to the bidder who produces the lowest interest cost. Revenue bonds can be issued through a negotiated sale when the issue is unusually large, the project is speculative or complex, the issue is refunding, or the market is unstable.



4. Accounting and Financial Reporting

The objectives of a System for Accounting and Financial Reporting areas:

- To maintain the confidence of the Council, taxpayers, and investors by providing information which demonstrates that:
 - Money and property are handled responsibly, the current financial position is fully disclosed, and activities are operating at a maximum level of efficiency.
 - Financial performance conforms to all laws, ordinances, and procedures.

To maintain financial control in order that:

- Managers have an information system to use for policy setting, decision-making, and program supervision.
- Municipal activities can monitor their revenues, expenditures, and performance levels.
- Forecasts can be made of future operating and capital budgets, and of future initiatives in taxing policy.

The standards to be followed by the System of Accounting and Financial Reporting fall into the following areas:

- Accounting and Auditing:
 - Procedures will allow reporting per Budget and Accounting Reporting System (BARS) and follow Generally Accepted Accounting Principles (GAAP).
 - Recording will be on a modified accrual basis for revenues and expenditures.
 - New procedures will be developed whenever they can contribute to the quality of timely information flows.
- Financial Reporting:
 - BARS, GASB, and GFOA reporting principles will be followed.

- Reports will be organized in pyramidal form: at the top, a streamlined Annual Report; then an overview of financial position; and results of operations categorized by fund accounts.
- These reports will be used to promote the City's good financial profile.

- Manuals:

- BARS manuals will codify procedures, be used by accounting personnel and City officials, and specify the source of data for each account. They will be maintained by the Accounting Office of Administrative Services.
- Policy and procedure manuals will be maintained with current information.

5. Investments

The policy on investments applies to the investment of all City funds, excluding pension funds. The investment program is intended to provide safe, maximum returns and adequate liquidity to meet cash flow requirements. The minimum requirement for liquidity for operating funds is ten percent (10%) of the annual operating budget.

The City may invest in any of the securities identified as eligible investments as defined by RCW 35A.40.050. In general, these include: Certificates of Deposit, United States Securities, Banker's Acceptances, Repurchase Agreements and Certificates, and Notes and Bonds of the State of Washington. Speculative investments are not allowed.

All investments shall be made through an informal bidding process. The policy shall be to assure no single institution or security is invested into, to such an extent that a delay of liquidation at maturity is likely to cause a current cash flow emergency.



Financial Policies

- I. Financial Planning Policies
- II. General Budget Policies
 - A. No Operating Deficit
 - B. Resources Greater than Estimates
 - C. Budget Adoption Level
 - D. Necessary to Implement City Council Goals Identified in Annual Workplan
 - E. Public Safety Protection
 - F. Degradation of Current Service Levels
 - G. Investments that are Primarily funded by Additional Fees or Grants
 - H. Investments that delay Future Cost Increases
 - I. Investments that Forestall Adding Permanent Staff
 - J. Commitments that can Reasonably be Maintained over the Long Term
 - K. Overhead and Full Cost Allocation
 - L. Maintenance of Quality Service Programs
 - M. Distinguished Budget Presentation
- III. Formulation and Approval of Budgets
- IV. Budget Adjustment and Amendment Process
 - A. Adjustment
 - B. Amendment
- V. Reserve and Contingency Fund Policies
 - A. General Policy
 - B. Revenue Stabilization Fund
 - C. General Fund Operating Reserves
 - D. Equipment and Vehicle Replacement Reserves
 - E. City Street Fund Reserve
 - F. Surface Water Utility Fund Reserve
- VI. Capital Improvement Program Plan Policies
 - A. Relationship of Long-Range Plans to the CIP
 - B. Capital Improvement Plan Coordination Team
 - C. Establishing CIP Priorities
 - D. Types of Projects Included in the CIP
 - E. Scoping and Costing Based on Predesign Study
 - F. Required Project Features and Financial Responsibility
 - G. Predictability of Project Timing, Cost and Scope
 - H. CIP Maintenance and Operating Costs
 - I. Local Improvement Districts (LID)
 - J. Preserve Existing Capital Infrastructure Before Building New Facilities
 - K. New Facilities Should be of High Quality, Low Maintenance, Least Cost
 - L. Public Input at All Phases of Projects
 - M. Basis for Project Appropriations
 - N. Balanced CIP Plan
 - O. Use of Debt in the CIP
 - P. Finance Director's Authority to Borrow
 - Q. CIP Plan Update and Amendment
 - R. Formalization of Monetary Agreements
 - S. Applicable Project Charges
- VII. Debt Policy

I. FINANCIAL PLANNING POLICY

The City shall develop and maintain a 6-year financial forecast that estimates resource and expenditure behavior for the five years beyond the current budget period. This forecast will provide the City's decision makers with an indication of the long-term fiscal impact of current policy and budget decisions. This planning tool must recognize the effects of economic cycles on the demand for services and the City's resources. To this end, the forecast should differentiate between revenue associated with one-time economic activities and revenues derived as a result of base economic growth. City financial planning should ensure the delivery of needed services (many of which become more critical during economic downturns) by assuring adequate reliance on ongoing resources in order to support continued City services during economic downturns.

II. GENERAL BUDGET POLICIES

These general budget policies are the basis on which staff develops budget recommendations and establishes funding priorities within the limited revenues the City has available to provide municipal services.

- A. No Operating Deficit: Current revenues will be sufficient to support current expenditures. Revenue estimates will be realistic and debt financing will not be used for current operating expenses.
- B. Resources Greater than Budget Estimates: Resources (fund balance) greater than budget estimates in any fund shall be considered "one-time" resources and shall not be used to fund ongoing service delivery programs.
- C. Budget Adoption Level: Budget adoption by the City Council shall be at fund level. Any changes in appropriations at fund level require City Council approval.
- D. Necessary to Implement City Council Goals Identified in Annual Workplan: The City Council identifies specific goals as part of its work-plan, and departmental budgets should include adequate resources to accomplish those goals in the expected timeframes.
- E. Public Safety Protection: Public safety is a top priority, and as such, unmet needs in this area should have a priority over other service areas.
- F. Degradation of Current Service Levels: When increased service demands are experienced over a sustained period of time, resources should be provided to prevent service level degradation below an acceptable level.
- G. Investments that are Primarily Funded by Additional Fees or Grants: Programs and investments that are funded through a dedicated revenue source (i.e., non-tax revenue), that meet the goals of the City Council, will receive priority consideration.
- H. Investments that Delay Future Cost Increases: When practical, resources should be allocated for selective preventative investments that can be made to avoid even larger costs in the future.
- I. Investments that Forestall Adding Permanent Staff: Recognizing that personnel related expenditures represent the largest portion of the City's budget, methods to increase efficiency and effectiveness of the delivery of City services through technology improvements should receive priority funding if it can forestall the addition of permanent staff.
- J. Commitments that can Reasonably be Maintained over the Long-Term: Funding for new programs and services in operating funds should be limited to the extent that they can be reasonably funded over the near-to-long-term given the current revenue stream.
- K. Overhead and Full Cost Allocation: Department budgets should be prepared in a manner to reflect the full cost of providing services.
- L. Maintenance of Quality Service Programs: The City of Shoreline will offer quality service programs. If expenditure reductions are necessary as a result of changing economic status, selective service elimination is preferable to poor or marginal quality programs that are caused by across the board cuts.

- M. Distinguished Budget Presentation: The City will seek to comply with the suggested criteria of the Government Finance Officers Association in producing a budget document that meets the Distinguished Budget Presentation program criteria as policy document, as an operations guide, as a financial plan, and as a communication device.

III. FORMULATION AND APPROVAL OF BUDGETS

In accordance with RCW 35A.33, departments shall be requested by the Finance Director to prepare detailed estimates of revenues and expenditures for the next fiscal year by no later than the second Monday of September. Responses will be due by no later than the fourth Monday in September, and by no later than the first business day in October, the Finance Director will present to the City Manager a proposed preliminary budget setting forth the complete financial program, showing expenditures requested by each department and sources of revenue by which each program is proposed to be financed.

Although the schedule outlined above meets the requirements of the Revised Code of Washington, the Shoreline budget process usually follows an accelerated time schedule. The Finance Director typically requests departments to prepare their detailed estimates of revenues and expenditures for the next fiscal year in July, with those responses due in August.

By no later than the first Monday in October, the City Manager will provide the City Council with current information on estimates of revenues from all sources as adopted in the budget for the current year. The City complies with this requirement by providing the City Council with a quarterly report and a comprehensive overview of the City's current financial position at a summer Budget Retreat.

The administration will analyze program priorities and needs and recommend funding levels for each program in a proposed operating budget and six-year capital improvement program, which will be submitted to the Council by no later than 60 days prior to the end of the fiscal year. The City Manager typically presents the proposed budget to the City Council in late October.

As part of the budget document, a budget message will be prepared that contains the following:

- An explanation of the budget document.
- An outline of the recommended financial policies and programs of the City for the ensuing fiscal year.
- A statement of the relation of the recommended appropriation to such policies and programs.
- A statement of the reason for salient changes from the previous year in appropriation and revenue items.
- An explanation of any recommended major changes in financial policy.

The operating budget proposal for the general fund will include a financial plan that shows projected revenues and expenditures for at least the next five fiscal years. The financial plan will provide an explanation of the assumptions used in projecting future year expenditure and revenue levels, such as growth in tax revenues, inflation, cost of services, and other factors that may impact the financial condition of the City.

The operating budget will be classified and segregated according to a standard classification of accounts as prescribed by the State Auditor.

The Council will hold public hearings as required and approve operating and capital budgets prior to the end of the fiscal year in accordance with State law.

IV. BUDGET ADJUSTMENT & AMENDMENT PROCESSES

Under the provisions of State law and the City's operating procedures, the operating budget may be adjusted or amended in two different ways. Adjustment of the budget involves a reallocation of existing appropriations and does not change the budget "bottom line." Amendment of the budget involves an addition to or reduction of existing appropriations.

A. Adjustment

The City departmental expenditures and program goals are monitored throughout the year. Certain departments may develop the need for additional expenditure authority to cover unanticipated costs that cannot be absorbed within the budget, while other departments may unexpectedly not require their full budget authorizations. The Finance Department reviews and analyzes all department and/or fund budgets to determine what adjustments are necessary and whether the adjustments can be made within existing appropriation limits and within the City Council and Departmental goals as provided in the budget. Necessary adjustments are then reviewed with the affected department and/or fund managers. When an adjustment is needed, the Finance staff will look first to savings within the department and then consider budget transfers between departments. The Finance Director, in conjunction with the Department Directors and the City Manager, reviews and decides if any specific budget reductions are needed. No City Council action is needed as State law allows budget adjustments to be done administratively and approved by the City Manager. As a matter of practice, staff will include any adjustments made between departments with the quarterly financial information provided to the City Council.

B. Amendment

Amending the City's budget occurs whenever the requested changes from departments and/or funds will cause the existing appropriation level for the fund to change. This situation generally occurs when the City Council authorizes additional appropriation. This is done by an ordinance that amends the original budget and states the sources of funding for the incremental appropriations.

V. RESERVE AND CONTINGENCY FUND POLICIES

Adequate fund balance and reserve levels are a necessary component of the City's overall financial management strategy and a key factor in external agencies' measurement of the City's financial strength.

Maintenance of fund balance for each accounting fund assures adequate resources for cash flow and to mitigate short-term effects of revenue shortages. Reserve funds are necessary to enable the City to deal with unforeseen emergencies or changes in condition.

A. General Policy

The City shall maintain reserves required by law, ordinance and/or bond covenants.

All expenditures drawn from reserve accounts shall require prior Council approval unless previously authorized by the City Council for expenditure within the City's annual budget.

If reserves and/or fund balances fall below required levels as set by this policy, the City shall include within its annual budget a plan to restore reserves and/or fund balance to the required levels.

All reserves will be presented in the City's annual budget.

B. Revenue Stabilization Fund

The City will establish a Revenue Stabilization Fund and shall accumulate a reserve equal to thirty percent (30%) of annual economically sensitive revenues within the City's operating budget to cover revenue shortfalls resulting from unexpected economic changes or recessionary periods.

C. General Fund Operating Reserves

The City shall maintain a General Fund Operating Reserve to provide for adequate cash flow, budget contingencies, and insurance reserves. The General Fund Operating Reserves will be determined as follows:

1. Cash Flow Reserve: The City shall maintain a cash flow reserve within the General Fund in an amount equal to \$3,000,000. This is approximately equal to 1.5 months of operating expenditures. The City will review annually the required cash flow reserve level that is necessary to meet the City's cash flow needs. If it is determined that \$3,000,000 is not adequate, the Finance Director shall propose an amendment to these policies.
2. Budget Contingency: The City shall maintain a budget contingency reserve within the General Fund equal to 2% of budgeted operating revenues.
3. Insurance Deductible Reserve: The City shall maintain an insurance reserve within the General Fund to be used for potential substantial events that cause damage to the City's fixed assets and/or infrastructure.

D. Equipment and Vehicle Replacement Reserves

The City will maintain fully funded reserves for the replacement of vehicles, computer equipment, and equipment identified on the City's fixed asset listing. Contributions will be made through assessments to the using funds and maintained on a per asset basis.

E. City Street Fund Reserve

The City shall maintain an operating reserve within the City's Street Fund an amount equal to 20% of annually budgeted operating revenues.

F. Surface Water Utility Fund Reserve

The City shall maintain an operating reserve within the Surface Water Utility Fund an amount equal to no less than 20% of budgeted operating revenues.

VI. CAPITAL IMPROVEMENT PROGRAM PLAN POLICIES

A number of important policy considerations are the basis for the Capital Improvement Program (CIP) Plan. These policies provide guidelines for all financial aspects of the CIP, and ultimately affect the project selection process.

A. Relationship of Long-Range Plans to the CIP

The CIP will be updated annually as part of the City's budget process. The City Council may amend the CIP Plan at any time as required.

Virtually all of the projects included in the CIP are based upon formal long-range plans that have been adopted by the City Council. This ensures that the City's Capital Improvement Program, which is the embodiment of the recommendations of these individual planning studies, is responsive to the officially stated direction of the City Council as contained in the Comprehensive Plan, Council work goals, and supporting documents. Examples of these supporting documents: Pavement Management System Plan and the Parks and Open Space and Recreation Services Plan. There are

exceptions, but they are relatively small when compared to the other major areas of expenditure noted above.

B. CIP Coordination Team

A CIP Coordination Team is a cross-departmental team which participates in the review and recommendation of the CIP program to the City Manager. The Team will review proposed capital projects in regards to accurate costing (design, capital, and operating), congruence with City objectives, and prioritize projects by a set of deterministic criteria. The Finance Director, or his/her designee, will serve as the lead for the team.

C. Establishing CIP Priorities

The City uses the following basic CIP project prioritization and selection process:

1. Each CIP program area establishes criteria to be used in the prioritization of specific projects submitted for funding. These specific criteria are developed by staff in conjunction with City Council priorities and input from citizens, associated City boards and commissions. The criteria are identified in the City's budget document. The City has divided its CIP projects into the following program areas: General Facilities & Parks Capital Projects, Roads Capital Projects, and Surface Water Capital Projects.
2. Designated personnel within City departments recommend project expenditure plans to the Finance Department. The project expenditure plans include all capital costs and any applicable maintenance and operation expenditures along with a recommended funding source.
3. The CIP Coordination Team evaluates the various CIP projects and selects those with the highest priority based on input from citizens, project stakeholders, appropriate advisory committees, and City Council goals.
4. A Preliminary CIP Plan is developed by the Finance Department and is recommended to the City Council by the City Manager.
5. The City Council reviews the Operating and Preliminary CIP Plan, holds a public hearing(s) on the plan, makes their desired alterations, and then officially adopts the CIP and establishes related appropriations as a part of the City's budget.
6. Within the available funding, the highest priority projects are then selected and funded in the CIP.

D. Types of Projects Included in the CIP Plan

The CIP Plan will display, to the maximum extent possible, all major capital projects in which the City is involved. It is difficult to define precisely what characteristics a project should have before it is included in the CIP Plan for the public's and City Council's review and approval. While the following criteria may be used as a general guide to distinguish among projects which should be included or excluded from the CIP Plan, there are always exceptions which require management's judgment. Therefore, the City Manager has the administrative authority to determine which projects should be included in the CIP Plan and which projects are more appropriately contained in the City's operating budget.

For purposes of the CIP Plan, a CIP project is generally defined to be any project that possesses all of the following characteristics:

1. Exceeds an estimated cost of \$10,000;
2. Involves totally new physical construction, reconstruction designed to gradually and systematically replace an existing system on a piecemeal basis, replacement of a major component of an existing facility, or acquisition of land or structures; and
3. Involves City funding in whole or in part, or involves no City funds but is the City's responsibility for implementing, such as a 100% grant-funded project or 100% Local Improvement District funded project.

4. Involves the skills and construction needs beyond those needed for a general repair and maintenance project.

These should be considered general guidelines. Any project in excess of \$25,000 meeting the criteria of (2), (3) and (4) above, or various miscellaneous improvements of a like nature whose cumulative total exceeds \$25,000 (i.e., street overlays) should be considered as part of the CIP process.

Program area managers are responsible for the cost estimates of their proposed programs, including future maintenance and operations costs related to the implementation of completed projects.

E. Scoping and Costing Based on Predesign Study

For some projects it is difficult to develop accurate project scopes, cost estimates, and schedules on which no preliminary engineering or community contact work has been done. To address this problem, some projects are initially proposed and funded only for preliminary engineering and planning work. This funding will not provide any monies to develop final plans, specifications, and estimates to purchase rights-of-way or to construct the projects. Future project costs are refined through the predesign study process.

- F. Required Project Features and Financial Responsibility: If a proposed project will cause a direct impact on other publicly-owned facilities, an equitable shared and funded cost plan must be coordinated between the affected program areas.

- G. Predictability of Project Timing, Cost and Scope: The predictability of timing and costs of projects is important to specific private developments, such as the provision of street improvements or the extension of major sewer lines or water supply, without which development could not occur. These projects generally involve significant financial contributions from such private development through developer extension agreements, LIDs, and other means. Once a project has been approved by the City Council in the CIP, project scheduling is a priority to maintain.

The City Council authorizes the City Manager to administratively approve the acceleration of project schedules so long as they can be accomplished within budgeted and any allowable contingency expenditures, with the understanding that all controversial issues will be brought before the City Council. All project additions or deletions must be approved by the City Council.

- H. CIP Maintenance and Operating Costs: CIP projects, as approved by the City Council, shall have a funding plan for maintenance and operating costs identified in the project description. These costs will be included in the City's long-term financial planning.

I. Local Improvement Districts (LID)

Examples of when future LIDs may be formed are as follows: 1) where old agreements exist, committing property owners to LID participation on future projects; 2) when a group of property owners wish to accelerate development of a certain improvement; 3) when a group of property owners desire a higher standard of improvement than the City's project contemplates; or 4) when a group of property owners request City assistance in LID formation to fund internal neighborhood transportation facilities improvements, which may or may not have City funding involved. If City funding is proposed by the project sponsors (property owners), they shall so request of the City Council (through the City Clerk) in writing before any LID promotion activity begins. The City Manager shall analyze such request and report his conclusions and recommendation to Council for their consideration. The Council shall by motion affirm or deny the recommendation. The

Council's affirmative motion to financially participate shall expire in 180 days, unless the project sponsors have submitted a sufficient LID petition by that time.

In the event that the request is for street resurfacing in advance of the City's normal street resurfacing cycle, the City's contribution, if any, will be determined based on a recommendation from the Public Work's Department and a financial analysis of the impact of completing the project prior to the City's original timeline.

On capital projects whose financing depends in part on an LID, interim financing will be issued to support the LID's portion of the project budget at the same time or in close proximity to the issuance of the construction contract. The amount of the interim financing shall be the current estimate of the final assessment roll as determined by the administering department.

In the event that the project is 100% LID funded, interim financing shall be issued either in phases (i.e., design phase and construction phase) or up front in the amount of the entire estimated final assessment roll, whichever means is estimated to provide the lowest overall cost to the project as determined by the Finance Department.

The City will recapture direct administrative costs incurred by the City for the LID project by including these in the preliminary and final assessment roles.

- J. Preserve Existing Capital Infrastructure Before Building New Facilities: It is the City's policy to ensure that adequate resources are allocated to preserve the City's existing infrastructure before targeting resources toward building new facilities that also have maintenance obligations. This policy addresses the need to protect the City's historical investment in capital facilities and to avoid embarking on a facility enhancement program which, together with the existing facilities, the City cannot afford to adequately maintain.
- K. New Facilities Should Be of High Quality, Low Maintenance, Least Cost: The intent of this policy is to guide the development and execution of the CIP Plan through an emphasis on lowest life-cycle cost. Projects should only be built if the necessary funding to operate them is provided. Also, priority is given to new facilities that have minimal ongoing maintenance costs so as to limit the impact upon both the CIP and the operating budget.
- L. Public Input at All Phases of Projects: The City makes a serious commitment to public involvement. The City's long-range plans are developed through an extensive citizen involvement program.
- M. Basis for Project Appropriations: During the City Council's CIP Plan review, the City Council will appropriate the full estimated project cost for all projects in the CIP Plan. Subsequent adjustments to appropriation levels for amendments to the CIP Plan may be made by the City Council at any time.
- N. Balanced CIP Plan: The CIP Plan is a balanced six-year plan. This means that for the entire six-year period, revenues will be equal to project expenditures in the plan. It is anticipated that the plan will have more expenditures than revenues in single years of the plan, but this imbalance will be corrected through the use of interim financing, if actually needed. Over the life of the six-year plan, however, all planned interim debt will be repaid and all plan expenditures, including interest costs on interim debt will be provided for with identified revenues. Any project funding plan, in which debt is not retired within the current six-year plan, must have specific City Council approval.
- O. Use of Debt in the CIP: The CIP is viewed as a long-term program that will continually address capital requirements far into the future. As such, the use of long-term debt

should be minimized, allowing the City to put money into actual projects that benefit Shoreline residents and businesses rather than into interest payments to financial institutions. There may be exceptions to this policy for extraordinary circumstances, where voted or non-voted long-term debt must be issued to achieve major City goals that otherwise could not be achieved, or would have to wait an unacceptably long time. Issuance of long-term debt must receive City Council authorization.

Staff monitors CIP cash flow regularly and utilizes fund balances to minimize the amount of borrowing required. Funds borrowed for cash flow purposes are limited to short-term obligations. Projected financing costs are included within a project in the administrative program area.

- P. Finance Director's Authority to Borrow: The Finance Director is authorized to initiate interim and long-term borrowing measures, as they become necessary, as identified in the CIP Plan and approved by the City Council.
- Q. CIP Plan Update and Amendment: The CIP Plan will be updated at least annually. The City Council may amend the CIP Plan at any time if a decision must be made and action must be taken before the next CIP review period. All project additions or deletions must be approved by the City Council.
- R. Formalization of Monetary Agreements: All agreements between the City and outside jurisdictions, where resources are exchanged shall be in writing specifying the financial terms of the agreement, the length of the agreement, and the timing of any required payments (i.e., Joint CIP projects where the City is the lead agency, grant funded projects, etc.). Formalization of these agreements will protect the City's interests. Program areas shall make every effort to promptly request any reimbursements that are due the City. Where revenues from outside jurisdictions are ongoing, these requests shall be made at least quarterly, unless alternative arrangements are approved by the City Manager or City Council.
- S. Applicable Project Charges: CIP projects should reflect all costs that can be clearly shown to be necessary and applicable. Staff charges to CIP projects will be limited to time spent actually working on those projects and shall include an overhead factor to cover the applicable portion of that person's operating cost.

VII. DEBT POLICY

The Objectives of the City's Debt Management Policy are:

- A. To limit the use of debt so that debt service payments will be a predictable and manageable part of the operating budget.
- B. To raise capital at the lowest cost, consistent with the need to borrow. This will be accomplished by:
 - 1. Keeping a high credit rating (while making attempts to strengthen credit rating).
 - 2. Maintaining a good reputation in the credit markets by adjusting the capital program for regular entry to the bond market and by managing the annual budget responsibly.
 - 3. Institute and maintain procedures that ensure full and timely repayment of City obligations.

General Debt Policies

Before issuing any debt, the City will consider the impacts of such debt on the operating budget, the effect on the City's credit rating, the debt capacity remaining under constitutional and statutory limitations, the most cost-effective term, structure, and type of debt, and the impact on taxpayers.

Disclosure statements will be used to keep taxpayers and investors informed of the City's financial position. These include printed copies of:

- A. Annual reports
- B. Operating budget and Capital Facilities Plan
- C. Official Statements

Debt issues will be sold on a competitive basis (except when conditions make a negotiated sale preferable) and awarded to the bidder who produces the lowest true interest cost.

Debt issues may be sold on a negotiated basis if the issue is unusually large or small, the project is complex, the issue is a refunding, flexibility is desired in the structure, the market is volatile, or other conditions make it in the City's best interest to conduct a negotiated sale.

Long Term Debt: Long term debt will be used to maintain and develop the municipal infrastructure when the economic life of a fixed asset exceeds five years.

Revenue bonds will generally be used for projects which are financially self-sustaining.

General Obligation bonds can be used to finance public works projects which benefit the community and where there are sufficient dedicated revenues to amortize the debt.

General Obligation pledges can be used to back self-sustaining projects financed through revenue bonds when costs can be reduced and the municipal credit rating is not put in jeopardy by this action.

The City may rely on a local improvement district program for certain local or neighborhood street improvements.

The City will use interfund borrowing where such borrowing is cost effective to both the borrowing and the lending fund. Such borrowing shall implement Council directed policy in a simplified manner, such as borrowing associated with interim financing for local improvement district projects.

BUDGET STABILITY POLICY

General Fund operating budgets shall be based on Core Revenues as estimated by the Finance Department. To reduce volatility related to temporary conditions and business cycles, revenue estimates will be developed at line item level, generally the minimum of the last two full years' known amounts. Sales tax minimums shall be inflated by 3% per year. Property taxes will be based on the actual levy amounts. Budgets should reflect known tax rate changes and conservatively estimate any new revenue sources.

Tier 1 Expenditures - Budgets for Core Services will be limited to the amounts provided by the core revenues. Core services include the non capital portion of the operating programs funded in the General Fund, along with transfers for debt service.

Tier 2 Expenditures - Modeling has shown this method to produce very conservative revenue estimates, with actual revenues typically exceeding the core estimates by two to four million dollars. Accordingly, the budgets should also include a second level of funding for ongoing capital needs. Contingent revenues and expenditures will be budgeted to provide for the annual commitment for equipment replacement rates funded by our internal service funds, and pre-funding the next year's annual street maintenance contracts. The contingent expenditures would be incurred typically at year end, only after sufficient revenues have been generated to support them.

Tier 3 Allocations - Revenues in excess of the core services and the contingent expenditures at year end will be allocated as follows:

First priority is to maintain or restore the general fund reserves to the Council's minimum target balance of 8%. After the 8% reserve has been met, remaining revenues shall be applied to three areas: further increasing the fund balance, paying down outstanding obligations and pre-funding the next year's capital improvement plan. Capital improvement spending will be based on city revenues already received and available.

To minimize the need for tax and rate increases, funds previously allocated to debt service will be directed toward cash funding of capital projects as debt issues are paid off.

In growing and recovering business cycles, this policy would ensure that expansion of core services does not exceed continuing, stable funding. In recessionary cycles the next year's capital plan would be automatically eliminated first and contingent expenditures second, before fund balance is reduced. This delayed usage of fund balance would help minimize impacts on core services.

Whenever it becomes clear that revenues are not sufficient to provide a transfer to the next year's capital improvement plan, a policy of selective hiring and/or early retirement incentive should be implemented. Reducing core services through attrition should be continued until an appropriate balance of revenues and expenditures is reached.

Council will be presented with options for the allocation of excess funds when availability is known.

BUDGET AND GENERAL FISCAL POLICIES

The Budget Process

The Budget is balanced as required by State Law, that is, total uses do not exceed available resources. In the City of Puyallup, the budget process is a team effort with the City Council setting goals and priorities, each department proposing expenditure levels to meet those goals (with expenditures for personnel and other expenses limited to those goals), and everyone working together to ensure total expenses are within available revenues and the appropriate level of funding is maintained.

The City uses a program level budget approach and uses that level of detail in the budget document. However, the budget is adopted by the City Council at the total fund level.

The process used by the City of Puyallup has evolved over the years to ensure timely and accurate submittals with the most efficiency possible. The underlying assumption is that generally current programs and service levels will be maintained with new programs meeting City Council goals and priorities. All estimates for existing programs and personnel and new programs are made by the operating departments in the summer and compiled to compare against the budget policies and goals. The City Manager's Recommended Budget is compiled for public input and Council review. Budget changes made by the Council are incorporated as the final budget is adopted after public input.

Capital Improvement/Project Budget

The City of Puyallup maintains a Capital Facilities Plan (CFP) which is reviewed and updated annually. A summary is included in the proposed budget document.

All capital improvements are identified in the capital facilities portion of the City's Comprehensive Plan. The capital improvements in the annual budget must be identified in the Capital Facilities Plan and properly funded or the Comprehensive Plan must be amended. This can only be done by the City Council in coordination with the annual budget process. The identification of capital projects is initiated by all departments, and the list of capital projects, after review by the City Manager, is presented to the City Council. The Council reviews the list, holds public hearings, and makes adjustments as deemed necessary. Approved and funded capital projects are then incorporated in the annual budget by fund.

Budget Adjustments

Budget adjustments are made periodically throughout the year when changes in a fund's appropriation are necessary. After careful analysis, the adjustment amount is determined. Transfers between departments within any one fund may be made by the City Manager. Any increase in the total appropriation in any fund requires City Council approval.

Accounting System and Policies

The City's budget and financial statements for governmental funds (General, Special Revenue, Debt Service, and Capital Projects Funds) have been prepared on a modified accrual basis of accounting in conformity with generally accepted accounting principles (GAAP). Revenues are recognized when measurable and available to finance current expenditures; expenditures are recognized when goods and services are received or the liability is incurred. The City's proprietary funds (Enterprise and Internal Service Funds) are accounted for on the full accrual basis, with some exceptions from that approach for budgeting. Generally, revenues on the accrual basis are recognized when earned and expenses are recognized when incurred.

Because the State laws regarding spending control are focused on expenditures, expenses that do not involve cash flow are disregarded for budgetary purposes (depreciation, amortization, etc.). Conversely, principal payments on debt obligations are included as debt service expenditures. Additionally, for budgetary purposes, interfund loans are treated like external loans and the terms “Fund Balance” for governmental funds, and “Working Capital” for enterprise funds denote the excess of current assets over current liabilities, to better reflect the resources available for current expenditures.

Investments

The City invests all cash surpluses with safety of principal as the primary concern, and to maximize interest earnings as a secondary priority. All investment decisions are based on safety assurances, liquidity requirements, and yield. The City of Puyallup investments consist of Federal government obligations, repurchase agreements, certificates of deposit, and participation in the Washington State Local Government Investment Pool (LGIP).

Fixed Assets

The City of Puyallup maintains fixed asset records to identify and account for the long-lived assets of the City. Fixed assets include land, buildings, and machinery and equipment valued at \$5,000 or more with an expected life of at least two years. Depreciation is charged using the straight line method over the estimated service life of the asset.

Long-Term Debt

The City issues long-term debt to finance capital improvements that cannot be financed through current revenues and has never issued debt to cover current operating costs. The City’s bond rating is AA- (Standard & Poors) for the General Obligation debt, AA- for Unlimited Tax General Obligations and AA for Utility Revenue Bonds.

Debt Policy

- *Projects should be cash funded when practical.*
- *Usage of debt should be reserved for necessary projects, or for those that provide a greater return than the interest expense.*
- *The City should maintain sufficient debt capacity for exceptional opportunities.*
- *The City should normally issue debt in small increments on a level payment schedule.*

Operating Reserve Policy – General Fund

Ending General Fund balance will be at least 8%, but no more than 12% of recurring operating expenditures. Funds in excess of the 12% amount are transferred into a Tier 3 Capital Improvement Fund or used to pay down outstanding liabilities.

Transportation Funding Policy

- *Adequate levels of cash should be in hand before commencing major work.*
- *Impact fees can be used to repay debt incurred for capacity adding projects.*
- *Critical projects should be funded first from known City revenues.*
- *For planning purposes, “Necessary Other Funds Needed” may balance the capital plan.*
 - a. *This allows for projects in the Comprehensive Plan that may qualify for future grants, when funds are currently not adequate to do the projects.*
- *The Street Fund may include all kinds of street projects.*

Hotel/ Motel Tax Fund

Hotel/ Motel Tax fund budget should be allocated in this manner:

- *First provide 100 % of the funds necessary for the Pavilion debt service*
- *Allocate 20% of the funds to establish a Parking Improvement Fund*
- *The Lodging Tax Advisory Committee makes a recommendation for allocation of the balance.*

Equipment Rental and Replacement Fund

The Equipment Rental and Replacement Fund reserves target shall be the amount that will ensure that sufficient funds are available for the next two years' replacements over the course of a 10 year replacement schedule. Replacement rates are Tier 2 priority under the Budget Stability Policy.

Information and Technology and Communication (IT&C)

Information and Technology and Communication (IT&C) replacement rates are Tier 2 priority.

Healthcare Insurance Fund

The Healthcare Insurance Fund rates shall be planned to achieve the maximum targeted fund balance reserves in three or four years. Actuary recommends a rolling four to six months of claims.

Insurance Fund Reserves Target

Insurance Fund reserves target shall be set at 1.5 times the amount estimated for Incurred But Not Reported claims (IBNR).

LEOFF 1 Retiree Healthcare Fund

LEOFF1 Retiree Healthcare contributions should be placed in an earmarked sub-fund of the General Fund. Budgeted transfers will be increased annually until the need declines.

Fire Relief and Pension Fund

The liability will be budgeted through gradual increases in transfers from the General Fund until the need declines.

Cost Sharing & Reimbursements

Cost allocation models are used to distribute some costs of indirect service functions. Indirect services are primarily support direct service departments (e.g. Police, Parks, Street Maintenance and Library). Specifically, the City Council, City Manager, Legal, Human Resources, City Clerk, and Finance are indirect service functions. Costs from selected Public Works or Development Services divisions, such as Building and Engineering, are also allocated. The amounts charged to non-general funds are shown as reimbursements against the indirect service. Custodial/Facilities Maintenance costs are now accounted for in an internal service fund.

Fiscal Monitoring

Both revenue and expenditure/expense reports are available to department directors monthly. The reports are reviewed by management with a focus on financial evaluation and control. Monthly financial reports are submitted to the City Council in accordance with City policy and Washington State statutes to keep Council informed of the City's ongoing financial condition.

FINANCIAL POLICIES

Purpose:

The primary purpose of financial management policies is to provide guidelines for the City Council and staff to use in making financial decisions that ensure core services are maintained and the Council's vision for the community is achieved.

In addition, financial policies provide a level of security for the community by ensuring residents' tax dollars are being used openly, legally, efficiently and effectively and in a manner that provides insulation from fiscal crisis and economic disruption.

Priorities and Practices:

The City will maintain the fiscal integrity of its operating, debt service and capital improvement funds in order to provide services and maintain certain public facilities, streets and utilities.

Sound financial management policies enable the City to accomplish the following:

- Ensure the City maintains a financial base to sustain a consistent level of municipal services.
- Ensure the City is able to withstand local and regional economic variations.
- Direct attention to the total financial picture of the City rather than single-issue areas.
- Adjust to changes in the service requirements of the community.
- Maintain a good credit rating in the financial community, which assures taxpayers and ratepayers that City government is well managed financially and is in sound fiscal condition.

Due to Mountlake Terrace's limited revenue base and the limited potential for future revenue growth, the City must prioritize its services in order to maintain the most important services should revenues become constrained. The following services are considered priorities in the following order:

- Public Life, Health and Safety:
 - police, fire, emergency medical services; building inspections; and traffic control;
 - water, sewer, and storm drainage service and infrastructure maintenance.
- Legal Mandates: Accounting/auditing/financial reporting; land-use planning.
- City Facilities and Property: maintenance of park land, buildings, streets, right of way, and equipment.
- Recreational, athletic, aquatic and youth programs.
- Pursue Council and Community goals.

To ensure the community's dollars are being used efficiently and effectively, the City will practice the following:

- Include all potential stakeholders in evaluating proposed alternate services.
- Form partnerships with other local governments for the provision of services to achieve economies of scale. Examples include contracting for jail services, and partnering on home detention methods.
- Review partnerships with local governments on a biennial basis during the preparation of the biennial budget to evaluate impact and benefits.
- Explore the privatization of services on a biennial basis during the preparation of the biennial budget.
- Citizen involvement will be encouraged in the budget decision-making process to receive input from the Mountlake Terrace community on the level of services desired.

Fund Balances:

General Fund

- The undesignated General Fund Balance (the balance not tied to a known project) will be maintained at a level to provide the City with sufficient working capital and a comfortable margin of safety to address emergencies and unexpected declines in revenue without borrowing.
- The City will not use the undesignated General Fund Balance to finance recurring operating expenditures. This means annual General Fund revenues will equal annual regular operating expenditures.
- General Fund revenues will be used for general government, street and recreation programs only. General Fund revenues will not be used to subsidize utility operations, which will be self-supporting through user rates.
- The City will maintain a minimum undesignated General Fund Balance equal to 5% of General Fund expenditures.
- In the event the undesignated General Fund Balance is used to provide for temporary funding of unforeseen emergency needs, the City will restore the undesignated General Fund Balance to the minimum of 5% within two fiscal years.

Enterprise Funds (Water/Wastewater/Storm Water)

- Enterprise funds will be operated in a manner that maintains a minimum ending fund balance that is not be less than 15% of total operating expenditure appropriations.
- Utilities will be self-supporting through user rates and charges.
- To assure ratepayers that utility funds are being readily used for the maintenance of the system, the maximum ending fund balance will not exceed 25% of total fund appropriations.

Charges and Fees for Service:

Cost Recovery

- Where direct beneficiaries of a city program or services can be identified, fees will be established to recover the costs of that service or program.
- Some services provide some benefit to the greater community. When a greater community benefit is identified, the City may choose to subsidize, either whole or in part, such service.
- Rental fees will be established to be comparable to commercial rates, while at the same time recovering full costs of use of the property or facility.
- As a whole, fees charged for Development Services (Building, Engineering and Land Use) will recover 85% of the cost of the program.
- As a whole, the Recreation Department will recover 83% of the overall Department's costs through charges and fees. City residents, who own Recreation facilities and support programs through general taxes, will pay less for programs than non-residents.
- Fees for services will be reviewed and adjusted (where necessary) at least every biennium to ensure that rates are equitable and cover the cost of service. Fees for Recreation programs will be reviewed on an annual basis.

Utility Rates:

- Utility rates will be reviewed each biennium as part of the budget process.
- A detailed study of utility rates and other utility charges will be conducted at least every five years to ensure utility revenue is meeting, and not exceeding, need.
- Utility rates will be established using industry-standard methods, including revenue requirement analysis, cost of service analysis, and rate design analysis.
- In recognition that General Government services, such as Finance and Human Resources, support the City's Enterprise Funds, a detailed study will be conducted every five years to determine the appropriate charges to the Enterprise Funds for General Government services. These charges shall be consistent with State law:

Administration, oversight, or supervision of utility – Reimbursement from utility budget authorized. Whenever any code city apportions a percentage of the city manager's, administrator's, or supervisor's time, or the time of other management or general government staff, for administration, oversight, or supervision of a utility operated by the city, or to provide services to the utility, the utility budget may identify such services and budget for reimbursement of the city's current expense fund for the value of such services.

RCW 35A.33.122/35A.34.205/35.33.123

Cash Management and Investments:

At any one time the City may have several million dollars in various funds that are not needed until some point in the future for operations, capital purchases or the repayment of debt. By placing these revenues in interest-bearing investments until the funds are needed, the City is able to earn interest that in turn serves as a revenue source to reduce costs to the community.

A cash management / investment policy helps to balance the day-to-day need for revenues while achieving the highest rate of interest that is reasonable and within the City's acceptable level of investment risk.

Funds will be invested in only those investments permitted by Federal and State law as it relates to public funds. All of the City's funds will be invested with the following objectives (listed in the order of priority):

- **Safety:** Investments will be undertaken in a manner that seeks to ensure the preservation of capital in the portfolio. Specifically, the City will (a) seek to avoid realizing any loss through the sale or disposal of an investment; and (b) seek to mitigate the risk of unrealized losses due to a decline in value of investments held in the portfolio.
- **Liquidity:** The investment portfolio will remain sufficiently liquid to meet all cash requirements that may be reasonably anticipated. This will be accomplished by structuring the portfolio in the following manner: (a) The City will purchase investments scheduled to mature in accordance with its anticipated cash needs, in order to minimize the need to sell investments prior to maturity; (b) A portion of City funds will be maintained in cash equivalents, including money market funds, investment pools and overnight securities, which may be easily liquidated without a loss of principal should an unexpected need for cash arise; and (c) The portfolio will consist largely of investments with active secondary markets.
- **Yield:** The City's investments will be designed with the objective of maximizing a fair rate of return consistent with the safety and liquidity noted above.

Capital Projects and Purchases:

Mountlake Terrace is accountable for a considerable investment in buildings, parks, roads, sewers, equipment and other capital items. The preservation, maintenance, and future improvement of these facilities are a primary responsibility of the City. Planning and implementing sound capital improvement policies and programs today will help the City avoid emergencies and major costs in the future.

Capital items are defined as those projects and purchases costing more than \$5,000 and lasting three or more years. For example, the construction of Fire Station 19 is considered a capital item, as well as the reconstruction of 220th and the replacement of large water and sewer lines.

- A Capital Improvement Program (CIP) listing capital items to be pursued over the following six-year period, as well as the funding source for each item, will be prepared and updated biennially. This update will be done in conjunction with the development of the biennial budget. The CIP will be consistent with the Capital Facilities Element of the Comprehensive Plan covering transportation, water, sewer, storm water, parks and recreation.
- Under Washington law, revenues from the Real Estate Excise Tax (REET) can be used only for capital items. The City of Mountlake Terrace will use REET specifically for capital items in street, facility and parks areas.
- Each utility should be funding capital projects in an amount that averages two percent (2%) of replacement value per year over a five-year average.

Debt:

Borrowing funds may be necessary when an emergency arises, and debt can also be used as a tool to pay for a project and spread the payments out over time to future users.

- In considering whether to borrow, a reliable funding source to repay the debt will be identified and designated.
- As General Fund debt is paid off, the dollars dedicated to that debt will be reserved for other General Fund capital needs, including debt, replacement and repair. The purpose of this practice is to reduce the need to ask voters for a bond levy to pay for regular maintenance and repair items.
- Long-term debt will not be used to finance ongoing current operations and maintenance.
- The maturity date for any debt will not exceed the reasonable expected useful life of the project or projects financed.
- The City will encourage and maintain good relations with financial and bond rating agencies, and will follow a policy of full and open disclosure on every financial report and bond prospectus.

Reserve Funds:

Reserve funds enable the City to deal with unforeseen emergencies, changes in economic conditions, and to set aside small amounts over time to pay for large capital expenses in future years.

- A Contingency Reserve equal to 2% of General Fund operating expenditures will be budgeted each year to accommodate unexpected operational changes, legislative impacts, or other economic events affecting the City's operations that could not have been reasonably anticipated at the time the budget was prepared. The City Council will determine how the Contingency Reserve is spent.
- A Strategic Reserve Fund will be established to provide funds to offset revenue fluctuations in the General Fund, which may come about due to natural or economic disasters. The Strategic Reserve Fund will be targeted at not less than an amount equal to 5% of annual General Fund operating expenditures.
- An Accumulated Leave Reserve will be maintained to cover the financial liability of employee accrued leave (sick and vacation) that would be paid at the employee's separation from the City.
- For each utility, an operating reserve will be maintained in the amount equivalent to 15% of total annual operations and maintenance expenses.
- A reserve will be established for the replacement of vehicles and similar equipment. The amount of the reserve will be based on estimated replacement value, regardless of whether the equipment is acquired via lease or purchase. City departments will pay into the reserve annually based on the allocated life of the asset to be replaced.

City of Lacey Fiscal Policies

Purpose:

The stewardship of public funds, their safe-keeping, proper use and management, is one of the greatest responsibilities entrusted to officials and managers of the City of Lacey. The establishment and maintenance of wise fiscal policies enables City officials to protect public interests and ensure public trust.

This document defines financial practices and policies to be used by the City to meet its obligations and operate in a financially prudent manner.

Overall Objective:

The fiscal policies of the City are to provide a sufficient financial base and the resources necessary to sustain a high level of municipal services to ensure public health, safety, and welfare while maintaining its physical infrastructure and promoting the social well-being of the citizens of the City.

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Reserve Fund Policies

Purpose:

Adequate reserve levels are a necessary component of the City's overall financial management strategy and a key factor in how external rating agencies (Standard & Poor's and Moody's) measure the City's overall financial strength.

Policies:

1. Reserves required by law, ordinance, and bond covenants shall be maintained.
2. It will be the policy of the City to maintain an operating reserve equal to at least two (2) months operating revenues in the General, Utility, and Internal Service funds.
 - a. This reserve will exclude the beginning fund balance and identified one-time revenues.
 - b. Operating reserves are maintained to address temporary revenue shortfalls; payment of approved expenditures due to cash flow shortage; reserves for expenditures deemed necessary by the City Council; and, temporary short-term interfund loans.
 - c. The committed fund balance designation can only be removed by the same formal action of the City Council
3. Assigned fund balances are established based on the intent expressed by the City Council.
 - a. The City Manager and Finance Director are authorized by Resolution No. 974 to classify fund balances as assigned.
4. All expenditures drawn from committed and assigned reserve accounts will require Council approval unless previously authorized by adoption and/or amendment of the annual budget.
 - a. The order of the spending of fund balances shall be restricted, committed, assigned, and unassigned.

Budget – Revenue and Expenditure Policies

Purpose:

The City's budget is the central financial planning document which embodies all operating revenue and expenditure decisions. It establishes the level of services to be provided by each department within the confines of anticipated revenues. The City Council establishes municipal service levels and priorities for the ensuing year prior to and during the development of the preliminary budget.

Policies:

1. The City Manager will incorporate the Council's priorities in the formulation of the preliminary and final budget proposal.
2. Adequate maintenance and replacement of the City's capital facilities and equipment will be provided for in the annual budget.
3. The framework of the City's budget is to:
 - a. Establish a plan that allocates resources to achieve specific City goals and objectives and guides the activities of all City operating departments.
 - b. Establish financial control by allocating revenue to various activities through prioritization of programs/projects and allowing officials to ensure legality, accuracy, and conformity to legislative and administrative objectives.
4. The main feature in the development of a budget format is to make the budget document readable and understandable to the general public and City officials.
 - a. The budget format will provide sufficient detail to guide departments in program performance and assist the Council and administrative staff in program evaluation and monitoring.
5. The City shall comply with the budget calendar as outlined in 35A.33 RCW.
6. Each annual budget will be presented to the Council balanced, showing that anticipated expenditures do not exceed anticipated current revenues including Beginning Cash.
 - a. Beginning Cash, as a revenue source, will be limited to one-time expenditures, grants, capital items/projects that must be carried forward from one budget year to another, and other limited and unusual circumstances as determined by the City Council.
7. The Council adopts the budget by ordinance at the fund level.
8. Any revisions that alter the total expenditures of a department, affect the number of authorized employee positions of a department, salary ranges, hours, or other conditions of employment must be approved by the City Manager.
9. If a budget amendment is deemed necessary due to extraordinary department/project expenses or the addition of state/federal grants, such amendments will generally occur only one time during the year and prior to year-end with the adoption of an amending ordinance.
10. The City Manager, department directors and managers will review monthly financial reports to monitor and control expenditures to maintain the integrity of adopted balanced budget.
11. Revenue forecasts will be based on the best information available at the time and developed utilizing accepted analytical methods and techniques.
12. The City will develop and maintain a comprehensive list of various fees and charges. Fees will be set at levels sufficient to cover the entire cost of service delivery (i.e., Enterprise Funds), or the service may be subsidized as Council deems appropriate.
 - a. The City will systematically review user fees and rates and consider adjustments as necessary to take into account the effects of additional service costs and inflation.

- b. Rate studies will be conducted to ensure that the rates will continue to support direct and indirect costs of operations, administration, physical plant maintenance, debt service, depreciation (replacement), and moderate system extensions.
 - c. Fees for similar services in other communities may also be considered in rate setting.
- 13. Revenues of a limited or indefinite term ("one-time revenues") will be used for capital projects or one-time operating expenditures to ensure that no ongoing service program is lost when such revenues are reduced or discontinued.
- 14. The City will maintain revenue and expenditure categories according to state statute and administrative regulation.
- 15. All potential grants will be carefully examined for matching requirements. Some grants may not be accepted if the local matching funds cannot be justified. Grants may also be rejected if programs must be continued with local resources after grant funds are exhausted.
- 16. Annual revenues are conservatively estimated for the annual budget as a hedge against possible future economic events that will/could impact City service programs.
- 17. The City will only propose operating expenditures which can be supported from on-going operating revenues unless the City Council determines limited and unusual circumstances warrant the use of one-time revenues.
 - a. Any agreement that would create fixed, on-going expenses must be carefully analyzed to determine current and future obligations it may create.
 - b. Capital expenditures may be funded from one-time revenues but the operating budget expenditure impacts will be reviewed for compliance with this policy.
- 18. Department directors are responsible for managing their budgets within the total appropriation for their department.
- 19. The City will assess and collect funds for services provided internally by other funds.
 - a. The estimated direct and indirect costs (overhead) of service will be budgeted and charged to the fund receiving the service.
 - b. Interfund service fees charged to recover costs will be recognized as revenue to the providing fund.
- 20. Emphasis will be placed on improving individual and work group productivity rather than adding personnel.
 - a. The City will invest in technology and other efficiency tools to maximize productivity.
 - b. The City will hire additional staff only after the need of such positions has been demonstrated and documented.
 - c. Upon vacation of a position, the department director will conduct an assessment of current workload and human resource allocation to determine whether or not to fill that position.
- 21. All compensation planning and collective bargaining will focus on the total cost of compensation which includes all payroll expenses...direct salary/wages, health care benefits, pension contributions, specialty pay, training and educational allowances, and other benefits of a non-salary nature which are a cost to the City.

Enterprise Fund Policies

Purpose:

Enterprise funds are to be established for City services when it is the intent of the City to finance all costs of services through user charges.

Policies:

1. Enterprise funds will be established for all City-operated utility services, which include water, wastewater, stormwater, and reclaimed water.
2. Enterprise fund expenditures will be established at a level sufficient to properly maintain the fund's infrastructure and provide for necessary replacement while also contributing to capital development.
3. Each enterprise fund will maintain an adequate rate structure to cover the costs of all operations, including maintenance, depreciation, capital and debt service requirements, reserves (as established by fiscal policy or bond covenant), and any other cost deemed necessary.
4. Rates may be offset from available fund cash after requirements are met for cash flow and scheduled reserve contributions.
5. Enterprise funds will establish and maintain reserves for general contingency and capital purposes consistent with those maintained for general government services.
6. Revenue bonds will be issued only when projected operating revenues and general facility connection fees are insufficient for the enterprise's capital financing needs.
7. The City will insure that net operating revenues of the enterprise constitute a minimum of 1.2 times the annual debt service requirements.
8. Generally, the City will limit the maturities of all utility revenue bond issues to twenty (20) years but under unusual circumstances shall not exceed thirty (30) years.

Cash Management and Investment Policies

Purpose:

Careful financial control of the City's daily operations is an important part of the City's overall fiscal management program. Adequate cash management and investment control requires sound financial planning to ensure that sufficient revenues are available to meet the current expenditures of any one operating period. Once adequate daily cash flow requirements are protected, it is advantageous to prudently invest idle funds until such time as they are required to make expenditures.

Policies:

1. The City's idle cash will be invested on a continuous basis in accordance with the City's adopted investment policies.
2. The City will maintain a formal investment policy which is consistent with policies endorsed by state and national municipal professional organizations.
3. The City will invest idle funds based upon the following priority:
 - a. Safety;
 - b. Liquidity; and,
 - c. Yield.
4. Investments with City funds will not be made for purposes of speculation.
5. The City is prohibited from investing in derivative financial instruments.
6. Proper security measures will be taken to safeguard investments by requiring banking institutions holding City funds to adequately collateralize and insure deposits.
7. Sufficient cash will be maintained to provide adequate funds for current operating expenditures.
8. If not prohibited, the City will pool its cash resources from various funds for investment purposes.
9. The City will select its official banking institution through a formal request for proposal process in order to provide the City with the most comprehensive, flexible, and cost-effective banking services.

Accounting, Financial Reporting, and Auditing Policies

Purpose:

To effectively manage resources and operate the City, a comprehensive accounting system will be maintained.

Policies:

1. The City will establish and maintain a high standard of accounting practices.
 - a. Accounting and budgetary systems will conform to Generally Accepted Accounting Principles (GAAP), the State of Washington Budgeting Accounting Reporting System (BARS), and Lacey Municipal Code (LMC) regulations.
2. The City will meet the financial reporting standards set by the Governmental Accounting Standards Board or other accredited government accounting organization.
3. Full disclosure will be provided in all City financial reports and bond official statements and representations.
4. Annual audits will be performed by the State Auditor's Office and include the issuance of a financial opinion.

Debt Management Policies

Purpose:

The issuance of debt by the City and the amount of debt is an important factor in measuring the City's financial performance and condition. A debt policy can assist the Council and staff to integrate the issuance of debt with other long-term planning, financial and management objectives. This policy requires an evaluation of the impact of each debt issue on the City's overall financial position, in addition to providing guidance to not exceed acceptable levels of indebtedness.

Policies:

1. The City will not use long-term debt to finance current operations.
2. Whenever possible, the City will identify alternative sources of funding to minimize the level of debt.
 - a. The City will examine and pursue all applicable state and federal grant and low-interest loan programs for funding capital improvement projects.
3. Long-term borrowing will be confined to capital improvements or similar projects with an extended life when it is not practical to be financed from current revenues.
4. Debt payment schedules shall not extend beyond the estimated useful life of the asset being financed.
5. The City will keep the average maturity of general obligation bonds at or below twenty (20) years.
6. The City will maintain good communications with bond rating agencies (Standard & Poor's and Moody's) concerning its financial condition, and will take all appropriate and responsible measures to sustain quality bond ratings.
 - a. The City's annual financial report will be distributed to the rating agencies and The Municipal Securities Rulemaking Board (MSRB) no later than July 31st of the following year of the report.
 - b. The report shall include all secondary market disclosure required by the Securities Exchange Commission (SEC).
 - c. Disclosures required by MSRB will be made within the required timeframes.
7. The City may use interfund loans rather than outside debt instruments to meet short-term cash flow needs.
 - a. Interfund loans are to be authorized by Council resolution and will include a repayment schedule including an interest amount at least equivalent to prevailing rates set through the Washington State Local Government Investment Pool.
 - b. A short-term, interfund loan is defined as three to five years when cash is available and will not impact the lending fund's current operating requirements.
8. Short-term debt instruments (e.g., Bond Anticipation Notes, etc.), if used, should be limited to twelve to twenty-four months and then only to meet the immediate financing needs of a project for which long-term financing has been secured but not yet received.
 - a. Exceptions may be necessary for large scale LID/ULID projects.
9. Special Assessment bonds or other self-supporting bonds will be issued in place of general obligation bonds, where possible, to assure the greatest degree of public equity and flexibility for City finances.
10. The City will use the services of legally certified and credible bond counsel and underwriter in the preparation of all bond representations.

11. The City will comply with all statutory debt limitations imposed by the Revised Code of Washington (RCW).
 - a. The City's debt limit will not exceed an aggregated total of 7.5% of the assessed value of the taxable property within the City.
 - b. Compliance with state law and this policy will be documented each year in the City's CAFR.
 - c. The following individual percentages (as defined by state law) will not be exceeded in any specific debt category:
 - i. General Debt 2.5% of assessed value
 - ii. Utility Debt 2.5% of assessed value
 - iii. Open Space and Park Facilities 2.5% of assessed value
12. No debt will be issued for which the City is not confident that a sufficient, specifically identified revenue source is available for repayment.
13. Credit enhancements will be considered for each long-term bond issue where there is a cost/benefit to the City or unique circumstances warrant the expense.
14. Reserve accounts will be maintained as required by bond ordinances and where deemed advisable.
 - a. The City will structure such debt service reserves so that they do not violate IRS arbitrage regulations.
15. The City will use refunding bonds where appropriate when restructuring its current outstanding debt and/or improving restrictive bond conditions.
16. Bond refunding opportunities will be evaluated as they become available. The net present value savings percentage and current market conditions will be considered before beginning the refunding process. The net present value savings percentage should be at least 5.0 percent.

Capital Maintenance and Replacement Policies

Purpose:

Capital assets comprise major government facilities, infrastructure, equipment and networks enabling the delivery of public sector services. The quality and continued utilization of these capital assets are essential to the health, safety, economic development and quality of life of those utilizing such assets.

Budgetary pressures may impede investment in the maintenance and replacement of capital assets. Yet deferring essential reinvestment reduces vital public services, endangers public safety, and ensures functional obsolescence. The financial result is increased cost as the physical condition of these assets decline. The City's financial and capital improvement plans must address the continuing investment necessary to properly maintain its capital assets.

Policies:

1. The City shall develop and maintain a complete inventory of all capital assets. This inventory should contain essential information including engineering description, location, physical dimensions and conditions, 'as-build' documents, warranties, maintenance history, book value and replacement cost.
2. The City shall establish a condition/functional performance standard (measurement) for each capital asset and periodically evaluate the physical condition of all existing capital assets in light of these standards. This current condition assessment shall become the basis for a multi-year capital planning and annual budget funding allocation for capital asset maintenance and replacement.
3. Utility service fees shall include a component for repair and replacement.
4. The City shall allocate sufficient funds in its multi-year capital plan and annual operating budget for routine maintenance, repair and replacement of capital assets in order to extend the useful life of these assets and promote a high level of performance from same.

Tax-Exempt Bond Post-Issuance Compliance Policies

Purpose:

The purpose of these post-issuance compliance policies and procedures for tax-exempt bonds issued by the City of Lacey is to ensure that the City of Lacey will be in compliance with requirements of the Internal Revenue Code of 1986 ("IRC"), as amended, that must be satisfied with respect to tax-exempt bonds and other obligations ("bonds") after the bonds are issued so that interest on the bonds will be and remain tax-exempt.

Policies:

1. The Finance Director shall be the person primarily responsible for ensuring that the City successfully carries out the post-issuance compliance requirements. The Finance Director shall be assisted by other City staff, City officials, and outside agents when appropriate.
2. All documentation and calculations required to satisfy arbitrage, yield restriction, and rebate requirements will be retained and performed.
3. Following the completion of the project(s) financed with the bond issue proceeds expenditure records will be reviewed to determine whether the proceeds have been allocated to the intended project. The use of the remaining unspent proceeds may be used in accordance with the limitations set forth in the authorizing proceedings or for the redemption or defeasance of outstanding securities of the issue.
4. Private business use of land, buildings, facilities, and equipment financed with proceeds of tax-exempt bonds is restricted to 10% of the bond issue. Of the 10% private business use limitation no more than 5% of the proceeds of the tax-exempt bond issue may be used for any unrelated private business use.
5. Review of the due diligence measures will take place at regular intervals.
6. Written records (including those in electronic form) will be maintained with respect to each bond issue for as long as those bonds remain outstanding, plus three years.
7. Under the provisions of SEC Rule 15c2-12 ongoing disclosure is required, which may include the annual filing of operating and financial information and filing of notices that are considered material events.
8. Training and education on federal tax requirements applicable to tax-exempt bonds should be provided by the City.

Financial Goals & Policies

The City of Bremerton is accountable to its citizens for the efficient use of public dollars. Resources entrusted to the City should be used in a manner that provides services, public facilities, and infrastructure necessary to meet the needs of the community – both for today and for the future. The following financial goals and policies establish a framework of financial health and stability that is required to meet those expectations.

The goals expressed here define what constitutes a “good outcome” for the city in regards to financial planning and decisions. Goals indicate the objectives - while the policies describe actual boundaries (or measurable) that are deemed necessary to achieve those goals.

Goals for Financial Sustainability –

- Diversified annual resources that are sufficient to provide for the regular and ongoing operations associated with core city services – plus enough additional margins to cover debt service requirements and normal (average) ongoing capital expenditures.
- Debt financing should be used to smooth the effects of unusual or significant amounts of capital expenditures and/or to finance facilities that are dedicated to the benefit of limited users (for example – Local Improvement District “LID”).

Policy -

- The budget and financial plans of the City shall balance recurring operating expenses, debt service, and average ongoing capital requirements to recurring operating revenue. Average ongoing capital requirements are defined to include payments necessary to the various Internal Service funds (i.e. ER&R, and Information Technology) and average recurring capital expenditures.
- Before the City undertakes capital expenditures or accepts grant funds, the ongoing costs and commitments should be described fully including identification of the revenue sources expected to provide for such ongoing costs- so that proper consideration may be given to the longer term financial sustainability of the project or commitment.
- Where possible, grants or contributions of capital will be identified for proposed City expenditures.
- Deficit financing and borrowing will not be used to support on-going City services and operations. Expenses will be reduced to conform to the long-term revenue forecast. Interfund loans are permissible to cover temporary gaps in cash flow, but only when supported by a clear expectation and schedule for repayment over a short duration of time (3 years or less) and with interest assessed based on the current

Financial Goals & Policies

Washington State Local Government Investment Pool rate.

- Cash balances in excess of the amount required to maintain strategic reserves may be used to fund one-time or non-recurring costs. Preference should be given to uses that reduce ongoing expenses (for example - early retirement of debt).
- Replacement Reserves based on expected replacement cost will be collected and placed in the Equipment Rental and Reserve Fund (ER&R) for equipment (other than computer equipment) or vehicles (other than fire engines) with a value of \$20,000 or more if it is expected to be a continued need beyond its estimated initial useful life. The cost of computer equipment replacement will be included in the annual payments made to the Information Technology Fund (IT) for each computer by its using department. These payments are based on an expected five-year replacement schedule. In addition to ER&R and IT, other internal service funds may be established to appropriately account for and collect expenses for specific costs with the approval of the Director of Financial Services and the City Council. An amount equal to the annual fractional estimated cost of replacement based on the expected useful life of an asset will be included in the service charges paid by City departments to the various Internal Service funds (i.e. Equipment Rental & Reserve fund and Information Technology). Replacement cost will be reevaluated periodically throughout the life of the asset and replacement reserve charges adjusted accordingly. Assets with an initial value

less than \$20,000 may be included in the Equipment Rental and Reserve Fund upon request by the using department with the approval of the Director of Public Works and Utilities and the Director of Financial Services.

- Long-term borrowing will be confined to significant capital improvements (or similar projects) which have an extended life and when it is not practicable to be financed from current revenues. All other available and appropriate sources of financing should be exhausted before long term borrowing is pursued.
- Bonds cannot be issued for a longer maturity schedule than a conservative estimate of the weighted average useful lives of the assets to be financed. The City will keep the average maturity of general obligation bonds at or below twenty years.
- Where possible, the City will use special assessment revenue, or other self-supporting bonds instead of general obligation bonds.
- The City Utility Systems shall strive to maintain a minimum debt service coverage (annual gross revenues less annual operating and maintenance expenses divided by annual debt service) of the combined Utilities (Water, Wastewater, Stormwater) of at least 1.5x.

Goals for Financial Flexibility –

- Sufficient operating reserves (working capital) to manage monthly and daily cash flow variability.
- Adequate liquidity to provide for limited

Financial Goals & Policies

interruptions in revenues (natural disasters, unexpected loss of revenue source, etc).

- Contingency and reserve funds should be available for use in the event of emergency and/or unforeseen events.

- ◇ meet regulatory requirements
- ◇ provide core city services
- ◇ contribute to the achievement of stated goals and policies
- ◇ or undertaken in anticipation of an emerging requirement.

Policy –

- The City will maintain reserves required by law, ordinance, and/or bond covenants.
- The City will strive to maintain ending cash and investment balances in the General Fund of no less than 8.5% of total planned annual operating expenses.
- The City will strive to maintain ending cash and investment balances of no less than 12% of total planned annual operating expenses for the Gold Mountain Golf Complex, Water Utility, Wastewater Utility, and Stormwater Utility.
- The City will strive to maintain a balance of at least \$1,000,000 in the Contingency Reserve fund as a provision for unforeseen or catastrophic events and emergencies.

Goals for Stewardship of Public Funds –

- Maintain public trust and confidence by utilizing resources in the most efficient manner possible.
- Expenditures should be necessary to either:

Policy –

- Budget managers will provide sufficient documentation to support requested budget appropriations and in a manner that clearly demonstrates that the expenditure is necessary to either meet regulatory requirements, provide core city services, or contributes to the achievement of stated goals or policies of the City.
- A comprehensive multi-year (minimum of six years) plan for City capital improvements will be prepared and updated annually. The Capital Improvement Plan will be consistent with and support the City's Comprehensive Plan. The Comprehensive Plan service level goals should be included in the Capital Improvement Plan.

Goals for Accountability –

- Reports demonstrating the status of financial activity and results should be prepared on a timely basis and in compliance with BARS and GAAP accounting requirements.
- Reports showing the status of financial policy compliance should be provided periodically.

Financial Goals & Policies

-
- Ensure the legal use of public assets through an effective system of internal controls. To ensure all local, state, and federal rules are followed.

Policy -

- An annual audit will be performed by the State Auditor's Office and include the issuance of a financial opinion. A Comprehensive Annual Financial Report shall be prepared in accordance with generally accepted accounting principles (GAAP) and shall be distributed to the City Council, Mayor, Director of Financial Services, Department Directors, City Audit Committee, and any other interested party.
- Quarterly a budget status report will be prepared and distributed to the City Council, Mayor, and Department Directors providing an overview of financial activities for the City with comparison to the approved budget. Information on the status of compliance with financial policies will be provided in this report.
- Regular monthly financial statements will be prepared on a timely basis and posted for review on the City's internet and intranet site.
- The City will maintain a budgetary control system to ensure compliance with the approved budget.
 - The City will maintain adequate internal controls to safeguard public assets. The Director of Financial Services will work cooperatively with the City's Internal Auditor and the Audit Committee to iden-

tify and address material deficiencies in internal controls.

- The City shall manage and invest its residual cash through the City Treasurer on a continuous basis in accordance with the City's investment policies and within the guidelines established by the Washington State Statutes based upon the following order of priorities: 1) safety, 2) liquidity, and 3) yield.

Financial Goals & Policies

BUDGET POLICIES**I. OPERATING BUDGET****A. OVERALL**

1. The budget should be a performance, financing and spending plan agreed to by the Mayor, City Council, and Department Directors. It should contain information and data regarding expected revenues, expected expenditures and expected performance.
2. The City will prepare and annually refine written policies and goals to guide the preparation of performance, financing and spending plans for the City budget. Adopted budgets will comply with the adopted budget policies and Council priorities.
3. As a comprehensive business plan, the budget should provide the following critical elements recommended by the Government Finance Officers Association: public policies, financial plan, operations guide, and communications device.
4. The City's budget presentation should display the City's service delivery/performance plan in a Council/constituent-friendly format. Therefore, the City will use a program budgeting format to convey the policies for and purposes of City operations. The City will also prepare the line-item format materials for those who wish to review that information.
5. Decision making for capital improvements will be coordinated with the operating budget to make effective use of the City's limited resources for operating and maintaining facilities.
6. Under the Mayor's direction, Department Directors have primary responsibility for: a) formulating budget proposals in line with Mayor and City Council priority direction, and b) implementing those proposals once they are approved.

B. FISCAL INTEGRITY

1. The City will maintain the fiscal integrity of its operating, debt service, and capital improvement budgets which provide services and maintain certain public facilities, streets and utilities. It is the City's intent to maximize the level of public goods and services while minimizing the level of debt.
2. The City will adopt a balanced budget for all funds. Balanced budget for operating funds means ongoing operating program costs do not exceed the amount of ongoing revenues to finance those costs. The ongoing revenue will be identified along with new program costs including impact from new capital projects. Any available carryover balance will only be used to offset one-time or non-recurring costs. Balanced budget for non-operating funds means total resources equal to or exceed total uses.
3. Cash balances in excess of the amount required to maintain strategic reserves will be used to fund one-time or non-recurring costs.
4. Mitigation fees shall be used only for the project or purpose for which they were intended.

C. CONTINGENT ACCOUNTS

1. The City shall establish an appropriated Contingency Reserve in order to accommodate unexpected operational changes, legislative impacts, or other economic events affecting the City's operations which could not have been reasonably anticipated at the time the budget was prepared. Funding shall be targeted at three (3) percent of the City's General Fund operating expenditures.
2. The City shall establish an ending fund balance target of seven (7) percent of the City's General Fund operating expenditures. The purpose of the ending fund balance is to provide financial stability, cash flow for operations and the assurance that the City will be able to respond to revenue shortfalls with fiscal strength.
3. The City shall establish a Strategic Reserve in the Risk Management Fund which shall neither be appropriated nor spent without Council authorization. The purpose of the fund is to provide some fiscal means for the City to respond to potential adversities such as public emergencies, natural disasters or similarly major, unanticipated projects. Funding shall be targeted at not less than five (5) percent of the City's General Fund operating expenditures.
4. The City shall prefund each subsequent year's debt service (see II.B.7 below).
5. The City shall continue to set aside funding from the Strategic Reserve for the eventual implementation of a self-insurance program (see details in 5. below).
6. The City shall continue to set aside funding from the Strategic Reserve for a self-insurance reserve in the City's Risk Management Fund. As the City's mix and level of liabilities increase, it should have a foundation to implement a cost effective program to mitigate the expense of commercial insurance. The intent is to accumulate investment earnings from the Strategic Reserve and the self-insurance reserve until the self-insurance program is ready to be fully implemented. After that point the required amount will be transferred to appropriately fund the self-insurance reserve. Similar transfers will occur annually after that initial set-up.
7. The City shall fund certain asset replacement reserves through depreciation charges paid to the Internal Service Funds (see 7. below).
8. Replacement reserves based on estimated replacement value will be established for any equipment, furnishings, and computer software when the need will continue beyond the estimated initial useful life, regardless of whether the equipment is acquired via lease, gift, grant or purchase. An equal annual amount will be included in the service charges paid by City departments to the various Internal Service funds (Information Systems, Mail & Duplication, Fleet and Equipment and Building) during the expected life of the asset. The furnishings reserve may be used for building rehabilitation and will be replenished in accordance with 9 below. This will permit the accumulation of cash to cost-effectively replace these assets and smooth out future budgetary impacts.
9. The strategic reserve and self-insurance reserve should be replenished as soon as possible and always within three years from the time the reserve is used or falls below the target. Sources to replenish these reserves shall be from undesignated fund balances, deferring non-life safety capital, and operating revenues in this order.
10. Furnishing Replacement Reserve (if used for building rehabilitation projects): An amount equal to twice the annual depreciation of the project cost will be charged to each department until cost is fully recovered.

11. The City shall maintain a \$100,000 reserve for Snow and Ice Removal. This reserve is established for use in the event a major storm occurs and additional funds, above the annual operating allocation, are needed.

D. REVENUES

1. Revenue estimates shall not assume any growth rate in excess of inflation. Real growth that occurs will be recognized through budgetary adjustments only after it takes place. This practice imposes short term constraint on the level of public goods or services. However, in the event that revenues are less than expected, it minimizes the likelihood of severe cutback actions which may be profoundly disruptive to the goal of providing a consistent level of quality services.
2. Investment income earned through the City's investment pool shall be budgeted based upon the allocation methodology, i.e. the projected average monthly balance of each participating fund.

E. CONTRACTUAL SERVICES

1. The City will continue to thoroughly investigate the feasibility of contracting certain public services in accordance with Council Resolution No. 92-103.

F. MINIMIZATION OF ADMINISTRATIVE COSTS

1. An appropriate balance will be maintained between resources allocated for direct services to the public and resources allocated to assure sound management, internal controls, and legal compliance.

G. RETIREMENT

1. The budget shall provide for adequate funding of the City's retirement system.

H. MONTHLY REPORT

1. The budget will be produced so that it can be directly compared to the actual results of the fiscal year and presented in a timely monthly report.
2. All budget amendments, both revenues and expenditures, will be noted in the monthly report.

I. MULTI-YEAR ESTIMATES

1. With each budget, the City will update expenditure and revenue projections for the next six years. Projections will include estimated operating costs for capital improvements that are included in the capital budget.
2. This budget data will be presented to elected officials in a form that will facilitate budget decisions, based on a multi-year perspective.

J. CITIZEN INVOLVEMENT

1. Citizen involvement shall be encouraged in the budget decision making process through public hearings and study sessions.
2. Involvement shall also be facilitated through City boards, task forces and commissions, which shall serve in advisory capacities to the Mayor and City Council.

K. FEES

1. Fees shall be phased toward covering 100% of the cost of service delivery, unless such amount prevents an individual from obtaining an essential service. Fees or service charges should not be established to generate money in excess of the cost of providing service.
2. Fees may be less than 100% if other factors (e.g. market forces, competitive position, etc.) need to be recognized.

L. NONPROFIT ORGANIZATIONS

1. Future funding decisions regarding nonprofit organizations will be based on guidelines, policies and priorities determined by the City Council and availability of financing based on General Fund spending priorities.

II. CAPITAL BUDGET

A. FISCAL POLICIES

1. Capital project proposals should include as complete, reliable, and attainable cost estimates as possible. Project cost estimates for the Capital Budget should be based upon a thorough analysis of the project and are expected to be as reliable as the level of detail known about the project. Project cost estimates for the Ten-Year City Capital Improvement Plan will vary in reliability depending on whether they are to be undertaken in the first, fifth or tenth year of the Plan.
2. Capital proposals should include a comprehensive resource plan. This plan should include the amount and type of resources required, and the funding and financing strategies to be employed. The specific fund and timing should be outlined. The plan should indicate resources needed to complete any given phase of a project in addition to the total project.
3. All proposals for the expenditure of capital funds shall be formulated and presented to Council within the framework of a general capital budget and, except in exceptional circumstances of an emergency nature, no consideration will be given to the commitment of any capital funds, including reserve funds, in isolation from a general review of all capital budget requirements.
4. Changes in project estimates for the comprehensive resource plan should be fully reported to the City Council for review and approval.
5. Project proposals should indicate the project's impact on the operating budget, including, but not limited to, long-term maintenance costs necessary to support the improvement.
6. At the time of contract award, each project shall include reasonable provision for contingencies:
 - a. The amount set aside for contingencies shall correspond with industry standards and shall not exceed ten (10) percent, or a percentage as otherwise determined by the City Council of the total contract amount.
 - b. Project contingencies may, unless otherwise determined by the City Council, be used only to compensate for unforeseen circumstances requiring additional funds to complete the project within the original project scope and identified needs.

- c. For budgeting purposes, project contingencies are a reasonable estimating tool. At the time of the contract award, the project's budgeted appropriation, including contingency, will be replaced with a new appropriation equal to the approved project contract contingency developed in the manner described above.
7. The City Administration shall seek ways of ensuring that administrative costs of carrying out the Capital Improvement Plan are kept at appropriate levels.
8. The Annual Capital Budget shall include only those projects which can reasonably be accomplished in the time frame indicated. The detail sheet for each budgeted capital project should include a projected schedule.
9. Capital projects which are not encumbered or completed during the fiscal year will be rebudgeted or carried over to the next fiscal year except as reported to and subsequently approved by the City Council. All re-budgeted capital projects should be so noted in the Adopted Capital Budget. Similarly, multi-year projects with unencumbered or unexpended funds will be carried over to the subsequent year(s).
10. If a proposed project will cause a direct negative impact on other publicly-owned facilities, improvements to the other facilities will be required as part of the new project and become a part of the new project's comprehensive costs.
11. Capital projects will not be budgeted unless there are reasonable expectations that revenues will be available to pay for them.

B. DEBT POLICIES

1. Short-term lines of credit, tax or Revenue Anticipation Notes may be used only when the City's ability to implement approved programs and projects is seriously hampered by temporary cash flow shortages. In general, these Notes will be avoided. No other form of debt will be used to finance ongoing operational costs.
2. Whenever possible, the City shall identify alternative sources of funding and shall examine the availability of those sources in order to minimize the level of debt.
3. Whenever possible, the City shall use special assessment, revenue, or other self-supporting bonds instead of general obligation debt.
4. Long term general obligation debt will be incurred when necessary to acquire land or fixed assets, based upon the ability of the City to pay. This debt shall be limited to those capital improvements that cannot be financed from existing revenues and when there is an existing or near-term need for the project. The project should also be integrated with the City's long term financial plan and City Improvement Plan.
5. The maturity date for any debt will not exceed the reasonable expected useful life of the project so financed.
6. Fifty percent (50%) of the principal of any long term indebtedness should be retired over 10 years.
7. Current year revenues shall be set aside to pay for the subsequent year's debt service payments. This is intended to immunize the City's bondholders from any short term volatility in revenues.

8. The City shall encourage and maintain good relations with financial and bond rating agencies, and will follow a policy of full and open disclosure on every financial report and bond prospectus.
9. The City shall establish affordability guidelines in order to preserve credit quality. One such guideline, which may be suspended for emergency purposes, or because of unusual circumstances, is as follows:
10. Debt service to be repaid with operating revenues should not exceed 8% of the respective operating budget.

C. CAPITAL IMPROVEMENT PLAN (CIP) POLICIES

1. Citizen participation in the Capital Improvement Program is a priority for the City. Among the activities which shall be conducted to address this need are the following:
 - a. The Capital Improvement Plan shall be provided to the City Council in a timely manner to allow time for the Council members to review the proposal with constituents before it is considered for adoption.
 - b. Council study sessions on the Capital Improvement Plan shall be open to the public and advertised sufficiently in advance of the meetings to allow for the attendance of interested citizens.
 - c. Prior to the adoption of the Capital Improvement Plan, the City Council shall hold noticed public hearings to provide opportunities for citizens to express their opinions on the proposed plan.
 - d. The City Planning Commission shall review the proposed City Improvement Plan and provide its comments on the Plan's contents before the Council considers the Plan for adoption.
2. All projects included in the Capital Improvement Plan shall be consistent with the City's Comprehensive Plan. The goals and policies for services, facilities, and transportation should be followed in the development of the City Improvement Plan. The Comprehensive Plan service level goals should be called out in the City Improvement Plan.
3. Capital projects shall be financed to the greatest extent possible through user fees and benefit districts when direct benefit to users results from construction of the project. Refer to Debt Policies for further detail.
4. Projects that involve intergovernmental cooperation in planning and funding should be established by an agreement that sets forth the basic responsibilities of the parties involved.
5. The Council will annually review and establish criteria against which capital proposals should be measured. Included among the factors which will be considered for priority-ranking are the following:
 - a. Projects which have a positive impact on the operating budget (reduced expenditures, increased revenues);
 - b. Projects which are programmed in the Ten-Year Operating Budget Forecast;

- c. Projects which can be completed or significantly advanced during the Ten-Year Capital Improvement Plan;
- d. Projects which can be realistically accomplished during the year they are scheduled;
- e. Projects which implement previous Council-adopted reports and strategies.

A complete list of criteria follows.

CRITERIA FOR DETERMINING PROJECT INCLUSION/PRIORITY
(In Priority Order)

1. Projects which are required by statute or by an existing agreement with another agency.
2. Projects which are essential to public health or safety.
3. Projects which are urgently needed by some other criteria than public health or safety, e.g. environmental or public service.
4. Projects which have exhibited a high degree of public support.
5. Projects which are grant funded and would have minimal or no operating cost impact on the General Fund.
6. Projects which, if not acted upon now, would result in the irrevocable loss of an opportunity, or other major alternative actions would have to be initiated.
7. Projects which would preserve an existing capital facility, avoiding significantly greater expenses in the future (e.g. continuation of a ten-year cycle street maintenance program).
8. Projects which would result in significant savings in General Fund operating costs.
9. Projects which would fulfill a City commitment (evidenced by previous inclusion in the annual CIP and community support) to provide minimal facilities in areas which are deficient according to adopted standards.
10. Projects which would provide significant benefits to the local economy and tax base.
11. Purchase of land for future projects at favorable prices prior to adjacent development.
12. Purchase of land for future City projects (landbanking).
13. Projects which would provide new facilities which have minimal or no operating costs or which have operating costs but have been designated as exceptions to the operating cost policy by previous City Council actions.
14. Projects which would be constructed in conjunction with another agency with the other agency providing for the operating costs.
15. Projects which would generate sufficient revenue to be essentially self-supporting in their operation.
16. Projects which would make an existing facility more efficient or increase its use with minimal or no operating cost increase.
17. Projects which would fulfill City commitment (evidenced by previous inclusion in the annual CIP and community support) to provide greater than minimal facilities.
18. Projects which are grant funded but would require increased operating costs in the General Fund.
19. Projects which are not grant funded and would require increased operating costs in the General Fund, and have not been designated as exceptions to the operating cost policy by previous City Council actions.

Draft Financial Policies

City Council

August 25, 2014



Council Packet Information

- Staff Memo
- Proposed Financial Policies
- Other Cities Financial Policies

Purpose

- Promote the fiscal health of the City of Lakewood, as well as cost effective and efficient delivery of services to our citizens.
- Review annually and reaffirm by the City Council at least once every two years.

Benefits

- Assist the City Council, City Manager and leadership in the financial management of the City;
- Save time and energy when discussing financial matters;
- Increase public confidence and credibility with investors and bond rating agencies;
- Provide continuity over time as elected officials, the City Manager and leadership change; and
- Provide a means for dealing with fiscal emergencies.

Draft Policies & Next Steps

- Captures basic elements of other cities policies
- City Council may choose to add, delete, and/or make modifications
- Other dates scheduled for City Council review and approval
 - September 2, 2014 Regular City Council Meeting for Review
 - September 15, 2014 Regular City Council Meeting for Adoption

Financial Policy - Operating Budget

Objective:

To ensure the appropriate levels of City services at reasonable costs.

Financial Policy - Operating Budget

Biennial Budget Document:

- Performance, financing and spending plan agreed to by the City Council, City Manager and Department Directors.
- Contain information and data on revenues, expenditures and expected performance.
- Developed using a performance based, results oriented approach that incorporates line items, zero-based, programs, and priorities of governments.
- Contain critical elements – public policies, financial plan, operations guide, and communications device.
- Presentation should display delivery/performance plan in a City Council/constituent-friendly format.
 - Detailed line item budgets available for review

Financial Policy - Operating Budget

Goals to Guide Preparation:

- Prepare and annually refine written policies and goals to guide the preparation of performance, financing and spending plans for the City budget.
- Adopted budgets will comply with the adopted budget policies and City Council priorities.

Financial Policy – Operating Budget

Long Range Forecast:

- Plan versus Forecast
- 6-year projection
- Internal planning tool
- Update at least annually

Financial Policy – Operating Budget

Capital Projects:

- Decisions for capital improvements coordinated with operating budget to make effective use of the City's limited resources for operating and maintaining facilities.

Financial Policy – Operating Budget

Balanced Budget:

- Adopt a balanced budget for all funds.
- Balanced budget means ongoing operating program costs do not exceed the amount of ongoing revenues to finance these costs.
- Ongoing revenue will be identified along with new program costs including impact from new capital projects.
- Any available carryover balance will be used to offset one-time or non-recurring costs.
- Balanced budget for non-operating funds means total resources equal to or exceed total uses.

Financial Policy – Operating Budget

Excess Cash Balances:

- Excess amounts required to maintain General and Street Operations & Maintenance reserves may be used to fund one-time or non-recurring costs.

Financial Policy – Operating Budget

Department Director Responsibility:

- Participate in the responsibility of meeting policy goals and ensuring long-term financial health.
- Under the City Manager’s direction, Department Directors have primary responsibility for: formulating budget proposals in line with City Council priority and direction; and implementing those proposals once they are approved.

Financial Policy – Operating Budget

Budgetary Controls:

- Legal budgetary control is established at the fund level, i.e., expenditures for a fund may not exceed the total appropriation amount.
- Any unexpended appropriation balances for annually budgeted funds lapse at the end of the year.
- Appropriations for other special purpose funds that are non-operating in nature are adopted on a "project-length" basis and, therefore, are carried forward from year to year without re-appropriation until authorized amounts are fully expended or the designated purpose of the fund has been accomplished.

Financial Policy – Operating Budget

Quarterly Financial Report:

- The budget will be produced so that it can be directly compared to the actual results of the fiscal year and presented in a timely quarterly report.
- All budget amendments, both revenues and expenditures, will be noted in the quarterly financial report.

Financial Policy - Fund Balance

Objective:

- To provide adequate capital for cash flow and contingency purposes.
- Timeline to achieve targeted reserves is no later than December 31, 2016.

Financial Policy - Fund Balance

General Fund:

The General Fund ending fund balance reserves shall be 12% of the combined General and Street Operations & Maintenance Funds operating revenues.

Financial Policy - Fund Balance

General Fund:

- *2% General Fund Contingency Reserves:* The purpose of this reserve is to accommodate unexpected operational changes, legislative impacts, or other economic events affecting the City's operations which could not have been reasonably anticipated at the time the original budget was prepared. The City Council will determine how the Contingency Reserves are spent.
-
- *5% General Fund Ending Fund Balance Reserves:* The purpose of this reserve is to provide financial stability, cash flow for operations and the assurance that the City will be able to respond to revenue shortfalls with fiscal strength.
-
- *5% Strategic Reserves:* The purpose of this reserve is to provide some fiscal means for the City to respond to potential adversities such as public emergencies, natural disasters or similarly major, unanticipated events.

Financial Policy – Fund Balance

Surface Water Management Enterprise Fund:

- Maintain a minimum cash balance in its enterprise funds equal to 17% of operating expenses (equivalent to two months of operating expenses).
- Maintain to ensure adequate maintenance reserves and cash flow.
- Balances in excess of 17% may be utilized for capital projects.

Financial Policy – Fund Balance

Internal Service Funds:

- Maintain internal service funds to account for activity of Fleet & Equipment, Property Management, Information Technology, Risk Management.
- Replacement reserves established for fleet & equipment.
- Ending fund balance in Fleet & Equipment Fund is accumulated replacement reserves
- Establish replacement reserves for information technology related equipment and property management related to facilities no later than year 2020.

Financial Policy – Fund Balance

Other Funds:

- The appropriate balance shall be the amount needed to maintain positive cash balances throughout the year.

Financial Policy – Fund Balance

Use of Fund Balance:

- Fund balance is the cumulative years' excess or deficit of all revenues and expense.
- Available fund balances shall not be used for ongoing operating expenditures, unless a determination has been made that available balances are in excess of required guidelines and plans have been established to address any future operating budget shortfalls.
- Emphasis shall be place on one-time uses that achieve future operating cost reductions and/or service level efficiencies.

Financial Policy – Fund Balance

Replenishing General Fund Balance:

- 2% General Fund Contingency Reserves – replenish within one year.
- 5% General Fund Ending Fund Balance Reserves – replenish within one year.
- 5% Strategic Reserves - replenished within 2 years.

- The sources for replenishment shall be via expenditure control, expenditure savings, one-time revenues and/or excess revenues.

Financial Policy – Revenue

Objective:

- To ensure that funding is derived from fair, equitable, defensible, and adequate resource base, while minimizing tax burdens.

Financial Policy – Revenue

Revenue Estimates:

- Estimate conservatively so as not to introduce regular shortfalls in individual revenue accounts.
- Revenue estimates shall not assume excess growth rates.
 - Real growth will be recognized through budget adjustments only after it takes place.
 - This practice imposes short term constraint on the level of public goods or services.
 - However, minimizes the likelihood of severe cutback actions which may impact consistent level of quality services.

Financial Policy – Revenue

Revenue Diversification:

- Maintain a stable and diverse revenue system to shelter programs and services from short-term fluctuations in any single source of revenue.
- Services that have a city-wide benefit shall be financed by revenue sources generated from a broad source such as property tax, utility tax and sales tax.
- Services where the customer determines the use shall be financed by a combination of broad-based revenues as well as user fees and charges.

Financial Policy – Revenue

Fees:

- Phased toward covering 100% of the cost of service delivery, unless such amount prevents an individual from obtaining an essential service.
- Fees or service charges should not be established to generate money in excess of the cost of providing service.
- Fees may be less than 100% if other factors (e.g. market forces, competitive position, etc.) need to be recognized.

Financial Policy – Revenue

User Charges:

- User charges for enterprise services such as the Surface Water management Fund shall be set at rates sufficient to finance all direct and indirect operating, capital, reserve/working capital, and debt service.
- Overhead expenses and general government services provided to the enterprise activities shall be included as indirect costs.
- Rates set to maintain a positive cash position throughout the year and provide for sufficient reserves as determined by the fund balance policy.

Financial Policy – Revenue

Use of One-Time/Unpredictable Revenues:

- Do not utilize one-time revenues for recurring operating expenditures. One-time revenues include, but are not limited to: proceeds from the sale of land or surplus equipment, legal settlements, or revenue windfalls.

Financial Policy – Revenue

Investment Income:

- Allocate earnings based on allocation methodology, i.e. projected average monthly balance of each participating fund.

Financial Policy – Revenue

Grants:

- Grant applications to fund new services/programs will be reviewed by the City as they become available, with due consideration being given to whether locally generated revenues will be required to support these programs when outside funding is no longer available.

Financial Policy – Expenditures

Objective:

- To prioritize services, establish appropriate levels of service, and administer the resources to ensure that fiscal stability is attained and that services are delivered in an effective and efficient manner.

Financial Policy – Expenditures

- **Operating Funding Basis.** Operating expenditures shall be budgeted and controlled to not exceed operating revenues.
- **Operating Deficits.** Immediate corrective action should be taken if at any time during a fiscal year expenditures are projected to be greater than projected revenues at year-end. Corrective actions could include, but are not limited to expenditure reductions, fee increases, or new revenues.
- **Capital Asset.** Useful life of at least two years following the date of acquisition with a historical or market value at time of acquisition equal to or greater than \$5,000.

Financial Policy – Debt Management

Objective:

- To articulate the guiding principles for City debt issuance and management before consideration of specific actions.
- Sets forth certain equally important objectives for the City and establishes overall parameters for responsibly issuing and administering the City's debt.
 - Minimize debt service and issuance costs
 - Maintain access to cost-effective borrowing
 - Achieve and maintain highest practical credit rating
 - Full and timely repayment of debt
 - Maintain full and complete financial disclosure and reporting
 - Ensure compliance with state and federal laws and regulations

Financial Policy – Debt Management

- **Debt Capacity.** A long-term debt capacity will be completed on an annual basis as a means for ensuring that the City does not exceed the debt limits within the limits of applicable laws and regulations.
-
- **Bond Rating.** The City will seek to maintain, and if possible, improve its current bond rating(s) in order to minimize borrowing cost and preserve access to credit.
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- **Minimize Debt.** Whenever possible, the City shall identify alternative sources of funding and shall examine the availability of those sources in order to minimize the level of debt.

Financial Policy – Debt Management

New Issues and Refinancing:

- Must be analyzed for compatibility within the City's overall financial planning. The review shall include, but not limited to: cash flow analysis; potential for unexpected revenue changes; and the maintenance of the City's bond ratings.
- Annual debt service shall not produce an inordinate impact upon future operations.

Financial Policy – Debt Management

Long-term Debt:

- May be used to finance the acquisition or improvement of land, infrastructure, facilities, or equipment for which it is appropriate to spread costs over more than one budget year.
- May be used to fund capitalized interest, cost of issuance, required reserves, any other financing-related costs that may be legally capitalized.
- Shall not be used to fund City operating cost.

Financial Policy – Debt Management

Short-term Debt:

- Considered as an interim source of funding in anticipation of long-term debt.
- May be issued for any purpose for which long-term debt may be issued, including capitalized interest and other financing-related costs.
- May be used to address legitimate short-term cash flow requirements during a given fiscal year to fund operating costs of the City to provide necessary public services.
- Do not engage in short-term borrowing solely for the purpose of generating investment returns.

Financial Policy – Debt Management

Refunding:

- Periodic reviews of outstanding debt will be undertaken to identify refunding opportunities.
- Refunding will be considered (within federal tax law constraints) when there is a net economic benefit of the refunding.
- Noneconomic refundings may be undertaken to achieve City objectives relating to changes in covenants, call provisions, operational flexibility, tax status, issuer, or the debt service profile, etc.
- When contemplating a refunding, the City shall have a minimum of 3.0% economic savings, as expressed on a net present value basis, as a benchmark to proceed with a refunding.
- The City may purchase its bonds in the open market for the purpose of retiring the obligation when the purchase is cost effective.

Financial Policy – Debt Management

- **Financing Period.** The City shall structure its debt issues so that the maturity of the debt service does not exceed the economic or useful life of the capital project to be financed.
- **Method of Sale.** The City may use either a competitive bidding or negotiated process in the sale of debt due to market timing requirements, or a unique pledge of debt or debt structure.
- **Bond Counsel.** The City will use the services of a legally certified and credible bond counsel in the preparation of all bond representations.
- **Underwriter(s).** An underwriter(s) will be used for all debt issued in a negotiated or private placement sale method. The underwriter(s) is responsible for purchasing negotiated or private placement debt and reselling the debt to investors.
- **Fiscal Agent.** A fiscal agent will be used to provide accurate and timely securities processing and timely payment to bondholders.
- **Debt Administration.** The ACM/ Finance & Admin. Services shall maintain written procedures outlining required actions to ensure compliance with local, state, and federal regulations. Such procedures shall include: continuing disclosure, arbitrage rebate, and other requirements.

Financial Policy – Capital Improvement

Objective:

- To forecast and match projected revenues and capital needs.
- Long range capital planning is an important management tool that strengthens the linkages between infrastructure needs and the financial capacity of the City.

Financial Policy – Capital Improvement

Capital Proposals:

- Should include as complete, reliable, and attainable cost estimates as possible.
- Should be based upon a thorough analysis of the project and are expected to be as reliable as the level of detail known about the project.
- Project cost estimates for the 6-Year City Capital Improvement Plan will vary in reliability depending on whether they are to be undertaken in the first, second or 3rd biennium years of the plan.

Financial Policy – Capital Improvement

- **Resource Plan.** Comprehensive resource plan; include the amount and type of resources required, and the funding and financing strategies to be employed; outline the specific fund and timing; indicate resources needed to complete any given phase of a project in addition to the total project.
- **Expenditure Plan.** Formulated and present to the City Council within the framework of a general capital budget and, except in exceptional circumstances of an emergency nature, no consideration will be given to the commitment of any capital funds, including reserve funds, in isolation from a general review of all capital budget requirements.
- **Changes in Project Estimates.** Report to the City Council for review and approval.

Financial Policy – Capital Improvement

- **M&O Impact.** Indicate the project's impact on the operating budget, including, but not limited to, long-term maintenance costs necessary to support the improvement.
- **Biennial Budget.** Include only those projects which can reasonably be accomplished in the time frame indicated. The detail sheet for each budgeted capital project should include a projected schedule.
- **Carry Over.** Carry over project balances.

Financial Policy – Capital Improvement

- **M&O Impact.** Indicate the project's impact on the operating budget, including, but not limited to, long-term maintenance costs necessary to support the improvement.
- **Biennial Budget.** Include only those projects which can reasonably be accomplished in the time frame indicated. The detail sheet for each budgeted capital project should include a projected schedule.
- **Carry Over.** Carry over project balances.
- **Revenue Expectation.** Will not be budgeted unless there are reasonable expectations that revenues will be available to pay for them.
- **Negative Impact from Project.** If a proposed project will cause a direct negative impact on other publicly-owned facilities, improvements to the other facilities will be required as part of the new project and become a part of the new project's comprehensive costs.
-

Financial Policy – Capital Improvement Plan

Objective:

- To forecast and match projected revenues & capital needs over a 6 years.
- Important management tool that strengthens the linkages between infrastructure needs and the financial capacity of the City.
- The City's Capital Improvement Plan includes transportation, parks, storm water and sewer improvement projects.

Financial Policy – Capital Improvement Plan

Citizen Participation and City Council Review is a priority for the City.

- **Timing.** The 6-Year Capital Improvement Plan shall be provided to the City Council in a timely manner to allow time for the City Council members to review the proposal with constituents before it is considered for adoption.
- **Public Meeting Notice.** The City Council study sessions on the Capital Improvement Plan shall be open to the public and advertised sufficiently in advance of the meetings to allow for the attendance of interested citizens.
- **Public Hearing.** Prior to the adoption of the Capital Improvement Plan, the City Council shall hold noticed public hearings to provide opportunities for citizens to express their opinions on the proposed plan.
- **Committee, Boards and Commission Review.** The appropriate committee, board and/or commission shall review the proposed Capital Improvement Plan and provide its comments on the Plan's contents before the City Council considers the Plan for adoption.
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Financial Policy – Capital Improvement Plan

Capital Improvement Plan in Relation to the Comprehensive Plan:

- All projects included in the Capital Improvement Plan shall be consistent with the City's Comprehensive Plan.
- The goals and policies for services, facilities, and transportation should be followed in the development of the City Improvement Plan.
- The Comprehensive Plan service level goals should be called out in the Capital Improvement Plan.

Financial Policy – Capital Improvement Plan

Financing. Capital projects shall be financed to the greatest extent possible through user fees and benefit districts when direct benefit to users results from construction of the project. Refer to Debt Management policy for further detail.

Intergovernmental Cooperation. Projects that involve intergovernmental cooperation in planning and funding should be established by an agreement that sets forth the basic responsibilities of the parties involved.

Financial Policy – Capital Improvement Plan

Project Criteria Factors. Annually review and establish criteria against which capital proposals should be measured.

Factors considered are projects which:

- Have a positive impact on the operating budget (reduced expenditures, increased revenues);
- Programmed in the 6-Year Operating Budget Forecast;
- Can be completed or significantly advanced during the 6-Year CIP;
- Can be realistically accomplished during the year they are scheduled;
- Implement previous City Council-adopted reports and strategies.

Financial Policy – Capital Improvement Plan

Criteria for Determining Project Inclusion/Priority:

- 1) Required by statute or by an existing agreement with another agency.
- 2) Essential to public health or safety.
- 3) Urgently needed by some other criteria than public health or safety, e.g. environmental or public service.
- 4) Exhibited a high degree of public support.
- 5) Grant funded and would have minimal or no operating cost impact on the General Fund.
- 6) If not acted upon now, would result in the irrevocable loss of an opportunity, or other major alternative actions would have to be initiated.
- 7) Preserve an existing capital facility, avoiding significantly greater expenses in the future (e.g. continuation of a ten-year cycle street maintenance program).
- 8) Result in significant savings in General Fund operating costs.

Financial Policy – Capital Improvement Plan

Criteria for Determining Project Inclusion/Priority:

- 9) Fulfill a City commitment (evidenced by previous inclusion in the annual CIP and community support) to provide minimal facilities in areas which are deficient according to adopted standards.
- 10) Provide significant benefits to the local economy and tax base.
- 11) Purchase of land for future projects at favorable prices prior to adjacent development.
- 12) Purchase of land for future City projects (landbanking).
- 13) Provide new facilities which have minimal or no operating costs or which have operating costs but have been designated as exceptions to the operating cost policy by previous City Council actions.
- 14) Constructed in conjunction with another agency with the other agency providing for the operating costs.

Financial Policy – Capital Improvement Plan

Criteria for Determining Project Inclusion/Priority:

- 15) Generate sufficient revenue to be essentially self-supporting in their operation.
- 16) Make an existing facility more efficient or increase its use with minimal or no operating cost increase.
- 17) Fulfill City commitment (evidenced by previous inclusion in the annual CIP and community support) to provide greater than minimal facilities.
- 18) Grant funded but would require increased operating costs in the General Fund.
- 19) Not grant funded and would require increased operating costs in the General Fund, and have not been designated as exceptions to the operating cost policy by previous City Council actions.

Financial Policy – Cash Management & Investment

Objective:

- To help balance the day-to-day need for revenues while achieving the highest rate of interest that is reasonable and within the City's acceptable level of investment risk.

Financial Policy – Cash Management & Investment

- Funds will be invested in only those investments permitted by Federal and State law as it relates to public funds.
- All of the City's funds will be invested with the following objectives (listed in order of priority):
 - Safety
 - Liquidity
 - Yield.

Financial Policy – Cash Management & Investment

Safety:

- Investments will be undertaken in a manner that seeks to ensure the preservation of capital in the portfolio.
- Specifically, the City will:
 - (a) seek to avoid realizing any loss through the sale or disposal of an investment; and
 - (b) seek to mitigate the risk of unrealized losses due to a decline in value of investments held in the portfolio.

Financial Policy – Cash Management & Investment

Liquidity:

- The investment portfolio will remain sufficiently liquid to meet all cash requirements that may be reasonably anticipated.
- This will be accomplished by structuring the portfolio in the following manner:
 - (a) the City will purchase investments scheduled to mature in accordance with its anticipated cash needs, in order to minimize the need to sell investments prior to maturity;
 - (b) a portion of City funds will be maintained in cash equivalents, including money market fund, investment pools and overnight securities, which may be easily liquidated without a loss of principal should an unexpected need for cash arise; and
 - (c) the portfolio will consist largely of investments with active secondary markets.

Financial Policy – Cash Management & Investment

Yield:

- The City's investments will be designed with the objective of maximizing a fair rate of return consistent with the safety and liquidity noted above.

Financial Policy – Financial Reporting

Reporting Frequency. Departments will be provided monthly budget and actual reports and comprehensive quarterly reports will be presented to the City Council.

Reporting Improvements. The City will strive to continue to make improvements in its financial reporting scheme so that information is available to the City Council, City Manager, departments and public is the best available for sound financial decisions.

Comprehensive Annual Financial Report (CAFR). The City will produce the CAFR within 150 days and submit to the GFOA's award program for Excellence in Financial Reporting.

Transparency. All financial reports will be posted to the City's website in a timely manner.

End of Presentation

Questions?