

Financial Policies



CITY FINANCIAL POLICIES

In addition to following all laws related to budgeting as outlined by RCW 35, the City has internal Financial Management Policies that are adopted by City Council and reviewed every two years during the budget development process. The Financial Management Policies are a compendium of all City policies that shape the Budget. The policies ensure that the City maintains a healthy financial foundation into the future. The goal of these policies is to promote:

- An extended financial planning horizon to increase awareness of future potential challenges and opportunities.
- Setting aside reserves for contingencies, replacement of capital equipment, and other similar needs.
- Maintaining the effective buying power of fees and charges and modifying cost recovery targets when appropriate to do so.
- Accountability for meeting standards for financial management and efficiency in providing services.
- Management of the city's physical assets to provide sustainable service levels into the future.
- Planning for the capital needs of the community and managing them for future use by citizens.
- Maintaining appropriate levels of debt while ensuring quality bond ratings.
- Investing public funds to provide maximum security with appropriate returns and timely liquidity.
- Communication to residents and customers on how the community goals are being addressed.

The policy statements are grouped by major category in alignment with the policy goals and are presented in the following order:

- Long Range Financial Planning and Resource Utilization
- Reserves
- Capital Planning and Asset Management
- Financial Asset and Liability Management

LONG-RANGE FINANCIAL PLANNING AND RESOURCE UTILIZATION

It is very important to the City to incorporate a long-term perspective and to monitor the performance of the programs competing to receive funding. Management will ensure compliance with the legally adopted budget. Purchases and expenditures will comply with legal requirements and policies and procedures as set forth by the City.

1. A **long-term forecast** of revenues and expenditures will be developed for all operating funds for the six-year period following the end of the current biennial budget.

2. The financial **impact** from budget decisions made during the development of the biennial budget will be reviewed in the context of the **six-year** forecast.

3. The operating budget will be based on the principle that **current operating expenditures**, including debt service, will be **funded with current revenues**. The budget will not use one-time (non-recurring) sources to fund on-going (recurring) uses, postpone expenditures or use internal borrowing to fund operations. The budget will incorporate the best available estimates of revenues and expenditures.

4. **Performance management** will be utilized in the budget prioritization process to ensure alignment with City Goals and Strategic Commitments. Performance data will be used to support budgetary decisions. Measures will be developed to reflect the city's efficiency and effectiveness. Status of key performance measures will be reported to Council.

5. **Service levels will be defined and measured** in a manner that is based on results (e.g. units of service delivered, service quality & customer satisfaction) rather than resources allocated to provide the service.

6. The City will endeavor to maintain a **diversified general revenue base** to diminish the effects of short-term fluctuations in any given revenue. The goal is to have a combination of revenues that grow in response to a good economy and those that remain stable during times of economic downturn. Examples of the former include sales taxes, utility taxes, and building permit fees. Examples of the latter include property taxes, court fine revenues, and the gambling tax.

7. **Revenue estimates** will be developed using reasonably conservative, but realistic assumptions. Deviation of actual revenues from forecast shall not be greater than 2.5 percent. Revenues will be monitored and reported quarterly, including trends and year-end estimates.

8. **User fees and utility rates** in all funds will be based on balancing the full cost of providing the service, the competitive market, public benefit, community affordability and other appropriate policy considerations. Beginning on January 1, 2013, fees and rates will be adjusted annually at least by the CPI-W for the Portland metro area using the index for the 12 month period ending in June of the prior year to reflect increases in the costs of providing services. Fees and rates will be reviewed every three to five years and further adjusted if necessary.

9. On a regular basis, the city will conduct **cost of service studies** to identify the full cost of providing services funded with fees. The calculation of full cost will include all reasonable and justifiable direct and indirect cost components.

10. Specific Council Policies related to **cost recovery targets** by specific program are listed below.

- Building Fee Cost Recovery Target: 90%
- Land Use Fee Cost Recovery Target (2010): 60%
- Development Review fees in Transportation Target 60%
- Recreation fees cost recovery Target (2011) 72%

(The target includes city administrative costs, including Parks and Rec. Administration, costs associated with the inclusion program and equipment repair and replacement costs as well as facilities and grounds maintenance costs related to buildings operated by the Parks and Recreation Department.)

11. **Full cost recovery** will be targeted in the Enterprise Fund operations:

- City Utility Operations (Water, Sewer, Storm Water, Solid Waste)
- Pearson Air Field
- Parking Fund (Current General Fund subsidy is to be eliminated by 2020)
- Tennis Center (General Fund will continue supporting indirect costs).

12. **Overhead costs** will be appropriately shared by all operating funds as determined by the City's indirect cost allocation plan. The amount charged by the City for services provided under an interlocal or similar agreement will include a factor to cover the City's overhead costs.

13. **Grants** that support city objectives and are consistent with high priority needs will be aggressively sought. Grants requiring a local match or a continuing city obligation to fund programs will be carefully considered prior to applying for the grant to ensure that ongoing resources will be available to meet the obligation. The city shall attempt to recover all allowable costs, direct and indirect, associated with the administration and implementation of the program funded through grants.

14. **Expenditures will be controlled** by an annual appropriated budget at the department/fund level. The City Council shall establish appropriations through the budget process. The City Council does not require a re-appropriation of carry-forward funds in the second year of the biennium. New appropriations require Council approval.

15. If a deficit is projected during the course of a fiscal year, the city will take steps to reduce expenditures, increase revenues or, if a deficit is caused by an emergency, consider using one of the existing General Fund reserves. The City Manager may institute a variety of measures to ensure spending remains below reduced revenues.

16. The City's **classification and compensation plan** will be maintained in a manner consistent with the labor market by reviewing classification specifications and benchmarks, so that change in the classification structure may coincide with the budget cycle. The City will compare employee compensation using a total compensation approach that includes the value of benefits. The City will target compensating employees at the market mean level, within the City's ability to pay. 17. Actual expenditures will be closely and frequently monitored. The comparison of budget to actual expenditures shall be reported to Council on a quarterly basis.

RESERVES

Reserves are an important indicator of the city's financial position and its ability to withstand adverse events. Maintaining reserves is a prudent management practice.

18. An **Emergency General Fund Reserve** will be maintained equal to 7% of actual external revenues in the preceding fiscal year in the General, Street and Fire Funds. The Emergency Reserve is for unexpected, large-scale events where damage in excess of \$1 million is incurred, and immediate, remedial action must be taken to protect the health and safety of residents (e.g. major flood, earthquake, etc.). In the event these "Emergency Reserve" funds are utilized, the City shall restore the reserve to the full 7% level within a reasonable amount of time as necessitated by the scale of emergency. A clear plan will be developed to refill the reserve and the first significant deposit will occur the following fiscal year after the event.

19. The City will maintain additional “**Working capital**” reserves, sufficient to fund on average 60-90 days of operations in each operating City fund. This reserve will address city’s cash flow requirements and allow the City to operate without funding its operations through short-term borrowing.

20. The City will maintain a “**Revenue Stabilization**” reserve with a goal of reaching 2.5% of the current year’s budget in the General fund. This reserve may be used to provide funding to temporarily offset unanticipated fluctuations in on-going revenues or unanticipated events, such as unexpected external mandates, reductions in state shared revenues, etc. The reserve funds will provide time for the City to restructure its operations in a deliberate manner to ensure continuance of critical city activities. If the reserve is spent down, it shall be restored within the following two years. This reserve could be utilized if there is an identified 3-6 month trend of reduced revenues.

21. Additional “**Designated Liability Funding**” reserve will be created when the City accepts funding leading to future liabilities. The reserve will be equal to the stated liability in the future. If a federal or state grant requires local resources to fund the initiative after the grant expiration, the cost of funding the initiative is considered to be a liability that will be funded from the “Designated Liability Funding” reserve.

22. The City’ will set aside a reserve to fund no less than fifty percent of the liability associated with accrued compensated absences in all City operating funds.

Council may take action to designate reserves for a specific purpose. An example is Council’s designation of reserves representing proceeds from the sale of the Columbia Arts Center.

23. Funds in excess of the reserves will be considered **Unassigned General Fund Balance** and could be utilized to fund high priority Council designated one-time in nature purposes, including but not limited to funding of accumulated currently unfunded deferred liabilities.

24. **Equipment replacement reserves** will be maintained in the equipment services Capital fund sufficient to replace covered vehicles and heavy equipment at the end of their useful lives with like equipment. Equipment rates will include a factor to accrue the estimated replacement cost over the life of the equipment. Reserve balances and rates will be reviewed bi-annually for sufficiency.

25. **Technology equipment replacement reserves** will be maintained in the technology equipment replacement fund sufficient to repair covered equipment and major software systems for replacement at the end of its useful life.

26. **A liability self-insurance reserve** will be maintained to cover potential liability for tort claims. The unrestricted fund balance subtracts from available cash all the known claims against the City and those claims that might have occurred, but not yet reported. The fund balance will be based on the most recent actuarial study of the self-insurance fund. The actuarial study of the fund is to be performed once every two years.

27. **A benefits self-insurance reserve** will be maintained to cover two months of costs associated with benefit insurance premiums. Additional reserve might be set, as needed, to smooth out annual Health Insurance Cost increases over time. Self-Insured Health Insurance reserves will be maintained at a level consistent with State of Washington requirements for self-insured benefit plans.

28. **Fire Pension** benefit obligations will be addressed by annual contributions to the fire pension fund in accordance with recommendations in the most recent actuarial study, as required by R.C.W.

41.16.050. (Note: This is a “closed” plan with no new participants. Current number of members who are retired and receiving pension payments from the city is 64 with no additional members on active duty. City obligations arise only for those firefighters hired prior to March 1, 1970. The State of Washington has assumed all obligations for those hired on or after that date.) In addition to the pension payments, the city is responsible for life-time medical benefits for a total of 71 retired and none on active duty. City contribution includes the projected annual pension payments for currently active and retired members eligible for retirement benefits and project annual medical benefit payments for those active and retired members eligible for medical and long-term coverage.

29. **Police Pension** benefit obligation will be funded on a pay-as-you-go basis by making contributions to the police pension fund in an amount sufficient to meet police pension benefit obligations. (Note: this is a “closed” plan with no new participants). Current number of members who are retired and receiving pension payments from the city is 28 with no additional members on active duty. City obligations arise only for those police officers hired prior to March 1, 1970. The State of Washington has assumed all obligations for those hired on or after that date.) In addition to the pension payments, the city is responsible for life-time medical benefits for a total of 48 retired and none on active duty.

30. **Facilities Asset Management and Replacement Reserve** shall be established in a separate fund to provide for major maintenance and building replacement of the major city facilities at the end of their useful life. **This policy currently applies to facilities of the First and Second Tiers as defined using contemporary asset management practices.**

CAPITAL PLANNING AND ASSET MANAGEMENT

Asset Management is a systematic process whereby the assets of the city (i.e. water system, sewer system, transportation system, property, buildings, etc.) are operated, maintained, replaced and upgraded cost-effectively. It includes operations and maintenance costs, as well as capital investments which can take the form of new construction, rehabilitation, or replacement.

31. Asset management best practice involves managing the performance, risk and expenditures on infrastructure assets in an optimal and sustainable manner throughout their lifecycle covering planning, design, construction, operation, maintenance, and disposal. The City shall integrate the principles and best practices of Asset Management such as those embodied in the International Infrastructure Management Manual in the management of its assets.

32. **Asset Inventory** will be maintained with maintenance, repair and deferred maintenance costs identified and updated on an annual basis.

33. **Maintenance** of city assets shall be addressed on a current need, rather than deferred into the future.

34. The **Pavement Management Program** will be funded by annual contributions to the street fund equal to \$10,736 (2014 rate) per mile of streets within the city limits. The per-mile contribution is increased annually by the percentage change in the index used by the Washington State Department of Transportation for construction cost estimating. The index is called the “FHWA composite index” for calendar years.

35. **A six-year City-Wide Capital Improvement Program** shall be developed annually and shall provide a prioritized list of reasonably funded projects and those in process of securing funding. Capital Improvement Plans for utility assets shall be updated no less frequently than every two years. The comprehensive plan will identify longer-term capital needs by program area.

36. Funding for capital projects, including major facilities maintenance projects, will be allocated in a manner that balances community needs with City priorities, the potential for attracting matching funds, and the ability to reduce or limit expenses in future years.

37. The City's objective is to incorporate a **"Pay-As-You-Go"** approach (using available cash and current resources) in the Capital Improvement program. Proceeds from the sale of City capital assets no longer utilized in operations will be deposited consistent with the initial ownership of the asset and invested in the highest priority City capital projects.

38. The Capital Budget will be adopted at the same time the City Operating Budget is adopted. The Capital budget will only include fully funded projects. The Capital Budget will only contain projects identified in the Capital Improvement Program.

39. **A capital repair appropriation** will be maintained for unanticipated major repairs of general operating facilities and for emergency replacement of general fund equipment. Additions to the capital repair contingency reserve will be made based on Council directions.

40. **Impacts on net annual operating and maintenance costs** will be identified as part of the funding considerations for new capital projects such as buildings, parks and street enhancements. This includes identifying potential reductions in maintenance costs if improvements are funded. The necessary funds to operate the capital facility will be identified at the time the capital budget is adopted.

41. The City will fund 100% **depreciation** of the current Utility assets on an annual basis. Goals by a specific utility are outlined below:

- Water – effective 2011
- Sewer – effective 2023
- Surface Water – effective 2017

42. **A System Development Reserve** will be maintained to fund growth related capital costs. All systems development charge revenue will be contributed to the fund.

FINANCIAL ASSET AND LIABILITY MANAGEMENT

INVESTMENT POLICIES

43. The City will invest public funds in a manner which will provide maximum security of principal with the highest investment return, while meeting the daily cash flow demands of the City. Detailed policies are found in Exhibit A – Investment Policies.
44. The City will conform to all state and local statutes governing the investment of public funds.
45. All investment security transactions will be conducted on a delivery-versus-payment (DVP) basis.
46. The City will only deposit money with financial institutions qualified by the Washington Public Deposit Protection Commission and in accordance with the provisions of RCW 39.58.
47. The City will issue Request for Proposals (RFPs) for banking services, safekeeping, trust services, and other contracts related to financial services.

DEBT MANAGEMENT POLICIES

48. The City will attempt to pay for capital projects on a “pay-as-you-go” basis. However, if debt is required, the City will follow debt policies as detailed in Exhibit B – Debt Management Policy.
 49. The City will issue debt in conformance with the requirements of its statutory general obligation debt limits. The non-voted debt limit is a sub-part of that limit.
 50. The City will reserve 10% of its non-voted debt capacity as a contingency against unforeseen emergencies requiring the issuance of debt.
 51. The City shall not exceed 85% of the non-voted legal debt limit, excluding the 10% reserved for emergency purposes.
 52. The City’s annual debt service payments will not exceed 10% of the total General Fund annual expenditure appropriation.
 53. Any Capital projects financed through the issuance of bonds shall be financed for a period not to exceed the expected useful life of the project.
 54. The City will adhere to all post-debt-issuance compliance policies as described in Exhibit B – Debt Management Policy.
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