

RESOLUTION NO. 945

CITY OF LACEY

A RESOLUTION APPROVING AND ADOPTING THE FISCAL POLICIES OF THE CITY.

WHEREAS, 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, and

WHEREAS, the City has established and maintained wise fiscal policies which have enabled City officials to protect the public interest and ensure the public trust, and


WHEREAS, the fiscal policies which have been followed by the City Council and management of the City of Lacey and are intended to be followed in the future, have been set forth in that certain document entitled City of Lacey Fiscal Policies,

NOW, THEREFORE, BE IS RESOLVED BY THE CITY COUNCIL OF THE CITY OF LACEY, that those certain policies set forth in the document entitled City of Lacey Fiscal Policies, attached hereto and made a part hereof as though fully set forth at length are hereby approved and adopted as the fiscal policies to be followed by the City Council and management of the City of Lacey.

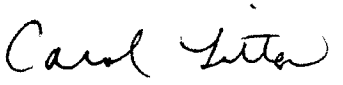
PASSED BY THE CITY COUNCIL OF THE CITY OF LACEY, WASHINGTON,

This 14<sup>th</sup> day of May, 2009.

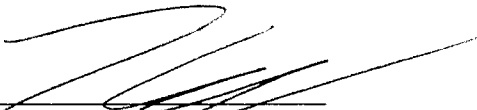
CITY COUNCIL

By   
Mayor

Attest:

  
City Clerk

Approved as to form:

  
City Attorney

Resolution No. 945

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# 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. It will be the policy of the City to maintain an operating reserve at a level of eleven and one half percent (11.5%) of the total General Fund budgeted revenue.
  - 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.
2. All expenditures drawn from reserve accounts will require Council approval unless previously authorized by adoption and/or amendment of the annual budget.

## 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, should be limited to one-time expenditures, grants, and capital items/projects that must be carried forward from one budget year to another.
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, 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.
  - 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...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. Legality;
  - b. Safety;
  - c. Liquidity; and,
  - d. 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 bidding 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 National Recognized Municipal Information Repository Securities (NRMIRS) no later than July 31<sup>st</sup> of the following year of the report.
  - b. The report shall include all secondary market disclosure required by the Securities Exchange Commission (SEC).
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 bear interest 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 financial advisor 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. Unless otherwise justified, the City will use competitive bidding to sell general obligation (UTGO & LTGO) debt with the lowest net interest cost determining the successful bidder.
  17. Negotiated bond sales should be limited to local improvement district financings requiring extended underwriting attention and where special circumstances make a competitive sale impracticable.

## 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.