

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 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
- Contingency accounts will be maintained in the utility funds to ensure funds are available for unexpected emergencies:
 - The Water Utility Fund will maintain a contingency account of \$250,000
 - The Wastewater Utility Fund will maintain a contingency account of \$250,000

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 85% 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. The next rate study is scheduled for 2009
- Utility rates will be established using industry-standard methods, including revenue requirement analysis, cost of service analysis, and rate design analysis

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 Fund 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 Fund 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 Fund 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. The Fund will be maintained on an annual basis at a 97% confidence level
- For each utility, an operating reserve will be maintained in the amount equivalent to 15% of total annual operations and maintenance expenses. A contingency amount of \$250,000 will be maintained for the Water and Wastewater utilities

Budgeting:

- The City Council will adopt a balanced budget as required under State law. Further, ongoing operating program costs will not exceed the amount of ongoing revenue to finance those costs
- The budget process will be coordinated in a way that major policy issues are identified for City Council review and discussion several months prior to budget approval. This will allow adequate time for public input and analysis of options
- The Vision, Goals and Strategic Plan of the City Council, as well as the *Comprehensive Plan* will serve as the framework for the budget proposed by the City Manager
- One-time revenues will be used for one-time expenditures only
- The City Manager will present to the City Council quarterly financial reports identifying trends in revenues and expenditures for each of the City's operating funds

Multi-Year Forecast:

- Each year the City will update expenditure and revenue forecasts for the next six years. Projections will include estimated operating costs for future capital improvements that are included in the capital budget
- This forecast will be presented to the City Council in a form that will facilitate budget decisions and strategic planning, based on a multi-year strategic planning perspective