



Financial Policies Financial Planning Policy

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I. PURPOSE

The purpose of the Financial Planning Policy is to present the City of Sequim's approach to assessing the future financial impacts of changes in economic conditions, City policies and the funding and operation of City services. Adherence to this policy will ensure that the City manages its finances in a prudent and thoughtful manner that maintains the City's long-term financial health.

II. POLICY

- A. Policy Scope. This policy shall apply to the City's General Fund and Street Operations Fund. These funds receive the City's general tax revenue and pay for basic City services such as Police, Street Maintenance, Park Maintenance, Planning and Administration. The City Manager may include other City funds in this policy as appropriate.
- B. Time Horizon. The City's financial planning will look at least six years into the future. The City may elect to extend its planning horizon further if conditions warrant.
- C. Long Range Financial Plan Content. The Long Range Financial Plan (LRFP) should include the following elements. Other elements may be included as needed.
1. Economic Condition. The LRFP should include a discussion of the recent trends in national, state and local economic indicators such as employment totals, unemployment rate, taxable retail sales, construction related sales, lodging related sales, home sales and prices, building permits, business licenses, population and inflation.
 2. City Service Delivery Context. The LRFP should include a presentation of any important legislative or statutory changes, City annexations, service level or service changes and any new or revised agreements for regional service delivery.
 3. Revenue. The revenue section of the LRFP should include a presentation of the trends, key assumptions and projections for the City's major revenues. The areas covered by the LRFP's revenue section should include historical data and projections for the following areas:
 - i) Property Taxes
 - (1) New construction and building permit valuation trends and projections.
 - (2) Trends in assessed values by property type (if available).
 - (3) Projected levy rate and levy capacity.



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- (4) Projected change in the implicit price deflator and related increase in the City's levy amount.
 - (5) Collection rate trends and projections.
 - ii) Sales Taxes
 - (1) Trend in City sales tax revenue by industry sector.
 - (2) Trends and projections for new commercial development and related impacts.
 - (3) Projections for the City's sales tax and the City's share of the county criminal justice sales tax.
 - iii) Utility Taxes
 - (1) Projected utility charges by utility type.
 - (2) Projected residential and commercial utility tax base by major utility.
 - (3) Projected utility tax rates by major utility.
 - iv) Other Revenue
 - (1) Internal service charges.
 - (2) State shared revenue per capita estimates using Municipal Research Services Center data.
 - (3) Building and Planning fee revenues including any fee changes.
 - (4) Intergovernmental revenue including any major grants or service agreements.
 - (5) Other fines, fees and miscellaneous revenue.
4. Expenditures. The expenditure section of the LRFPP should include a presentation of the trends, key assumptions and projections for the City's expenditures. The areas covered by the LRFPP's expenditure section should include historical data and projections for the following areas:
 - i) Staffing levels and organizational changes.
 - ii) Personnel cost changes to include:
 - (1) Wages: cost of living adjustments, step increases, promotions and market adjustments
 - (2) Wage related benefits such as unemployment, worker's compensation and social security.
 - (3) Employer paid insurance benefits.
 - (4) Employer costs for employee pensions.
 - iii) Workload and service level standards.
 - iv) Growth assumptions for other expenditures.
 - v) Impacts of any proposed changes to interlocal service agreements and other major contracts.
 - vi) Proposed capital investments including impact of the City's proposed Capital Improvement Plan and Equipment Acquisition and Replacement Plan.



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- vii) Other significant expenses.
 - 5. Fund Balance. The Fund Balance section of the LRFP should include a presentation of the historical trends and projections in total revenues, total expenses, net revenues and ending fund balance. The topics presented should include:
 - i) Projected revenues, expenses and net revenues by year.
 - ii) Projected ending fund balance by year.
 - iii) Projected ending fund balance compared to the Fund Balance and Reserve Level policy targets.
 - iv) Scenarios. The LRFP should include the results from scenarios that use different assumptions to identify the impact on revenues, expenses, net revenues and ending fund balance.
 - 6. Debt. The LRFP should include any projected debt service payments and the relationship of debt service to overall expenses and revenues.
 - 7. Key Indicators. The LRFP should present trends and projections in key financial indicators, such as:
 - i) Revenues and expenses per capita including nominal and inflation adjusted data.
 - ii) Staffing levels per 1,000 population: total and by major department.
 - iii) Administrative expenses as a share of total expenses.
 - iv) Projected annual growth rates of revenues and expenses.
 - v) Annual personnel cost growth rates compared to benchmarks.
 - vi) Ending fund balance compared to policy targets and benchmarks.
 - 8. Comparisons. The LRFP should include comparisons to other cities and benchmarks, recognizing that the data for comparable cities may reflect differences in service delivery, financial structure and financial policies. Comparative information should include:
 - i) Comparative revenues and expenses by major type to include:
 - (1) Total revenues and expenses per capita.
 - (2) Taxes per capita by tax source.
 - (3) Expenses per capita for major departments/services.
 - ii) Staffing levels per 1,000 population: total and by major department.
 - iii) Administrative expenses as a share of total expenses.
 - iv) Benefits costs as a percentage of wages and salaries.
 - v) Comparative tax rates and major fee levels.
- D. Financial Planning Process
- 1. Plan Development. The Administrative Services Director shall develop the LRFP with the input from the City's management team.
 - 2. Plan Review.
 - i) The Administrative Services Director shall review an initial draft of the LRFP with the City's management team.



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- ii) The Administrative Services Director shall review a final draft of the LRFP with the City Council early in the budget process as outlined in the Budget Development Policy.
3. Plan Update.
 - i) The City will update its long term financial plan as a part of the City's budget process.
 - ii) The Administrative Services Director shall update the LRFP as needed to reflect policy changes and financial decisions included in the City's adopted budget.

III. PROCEDURE

- A. City Council
 1. Approve the Financial Planning policy and any proposed revisions.
 2. Review the Long Range Financial Plan and provide feedback on the plan's assumptions and projections.
- B. City Manager
 1. Propose revisions to the Financial Planning policy to City Council.
 2. Ensure the City is in compliance with the Financial Planning policy.
- C. Administrative Services Director
 1. Prepare the Long Range Financial Plan.
 2. Present the Long Range Financial Plan to the City's management team and to the City Council.
 3. Revise the Long Range Financial Plan as needed based on policy changes and financial decisions included in the City's adopted budget.

IV. REFERENCES

- A. Sequim Financial Policies
 1. Budget Development Policy, November 2010
 2. Debt Management Policy, November 2010 Draft
 3. Capital Improvement Policy, November 2010 Draft
 4. Equipment Acquisition and Replacement Policy, November 2010 Draft
 5. Fund Balance and Reserve Level Policy, November 2010
- B. Sequim Municipal Code
 1. Chapter 3.04: Sales or Use Tax
 2. Chapter 3.24: Current Expense and Indebtedness Funds
 3. Chapter 3.30: Contingency Fund
 4. Chapter 3.36: Capital Projects Fund
- C. Revised Code of Washington



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- D. Washington State Auditor's Office Budgeting, Accounting and Reporting System (BARS) Manual
 - 1. Volume 1, Part 2, Budgeting Chapter 1 – 3
 - 2. Volume 1, Part 3, Chapter 4, Sections A & B.
- E. Washington State Auditor's Office Small City Handbook
 - 1. Section E – Budgeting
- F. GFOA Best Practice Guides
 - 1. Financial Forecasting in the Budget Preparation Process, 1999.
 - 2. Adoption of Financial Policies, 2001.
 - 3. Establishment of Strategic Plans, 2005.
 - 4. Budgeting for Results and Outcomes, 2007.
 - 5. Performance Management: Using Performance Measurement for Decision Making, 2002 and 2007.
- G. Other
 - 1. Financing the Future Long-Term Financial Planning for Local Government; GFOA, 2007.
 - 2. <http://www.gfoa.org/lftp>. GFOA financial planning web site.
 - 3. <http://www.gfoa.org/services/nacslb/> GFOA Best Practices in Budgeting web site; See Element 9 –Develop and Evaluate Financial Options.