RESOLUTION NO. 07-2018

A RESOLUTION OF THE CITY OF LEAVENWORTH, WASHINGTON, AMENDING THE FINANCIAL POLICY

BE IT RESOLVED by the City Council of the City of Leavenworth, Washington as follows:

WHEREAS, the purpose of a Financial Policy is to outline the financial goals, policies and financial reporting requirements of the City, and

WHEREAS, the City Council Finance Committee conducted an annual review of the adopted financial policy guidelines and is proposing recommendations to the policy as set forth below.

NOW THEREFORE, THE CITY COUNCIL OF THE CITY OF LEAVENWORTH, WASHINGTON, DOES HEREBY RESOLVE AS FOLLOWS:

Section 1. The compilation of fiscal policies entitled "City of Leavenworth Financial Policy" attached hereto, and incorporated herein by this reference as set forth in full, is hereby amended as the official statement of financial policy for the City of Leavenworth and supersedes any revisions that have been theretofore made.

Section 2. Resolution 10-2016 is hereby repealed.

Passed by the City Council of the City of Leavenworth and approved by the Mayor this 8th day of May, 2018.

CITY OF LEAVENWORTH

By: _____
Cheryl K. Farivar, Mayor

Attest: _____
Chantell Steiner,
Finance Director/City Clerk

CITY OF LEAVENWORTH FINANCIAL POLICY

TABLE OF CONTENTS

1. GENERAL FINANCIAL GOALS 1

2. OPERATING BUDGET POLICIES 1

3. REVENUE POLICIES 2

4. EXPENDITURE POLICIES 3

5. CAPITAL INVESTMENT BUDGET POLICIES 3

6. SHORT-TERM DEBT POLICIES 4

7. LONG-TERM DEBT POLICIES 4

8. RESERVE FUND POLICIES 6

9. INVESTMENT POLICIES 8

10. SPECIAL REVENUE POLICIES 8

11. ACCOUNTING, AUDITING AND FINANCIAL REPORTING POLICIES 9

12. BUDGET CALENDAR 9

1. General Financial Goals

a. To provide a financial base sufficient to sustain municipal services to maintain the social well being and physical conditions of the City.

b. To be able to withstand local and regional economic trauma, to adjust to changes in the service requirements, and to respond to other changes as they affect the community.

c. To maintain an excellent credit rating in the financial community and assure taxpayers that Leavenworth city government is maintained in sound fiscal condition.

2. Operating Budget Policies

a. The base operating budget is the City's comprehensive two-year financial plan which provides for the desired level of city services as defined by the City's priorities. A biennial budget will be developed every two years and will be reviewed annually using a "budgeting by priorities" process.

b. The goals of the Budgeting by Priorities process are:

- Align the budget with Council / Citizen priorities
- Measure progress towards priorities
- Get the best value for each tax dollar
- Foster continuous learning in the City
- Build regional cooperation

c. "One-time" expenses require specific authority to be carried forward into subsequent budgets.

d. Revenues and expenditures for the General Fund and all operating funds shall be projected for the ensuing biennium.

e. Biennial operating budgets should provide for design, construction, maintenance and replacement of the City's capital, plant, and equipment consistent with the Capital Facilities Plan including the related cost for operating such new facilities.

f. The City will maintain all its assets at a level such that it protects the City's capital investment and minimizes future maintenance and replacement costs.

g. The City will develop an equipment replacement and maintenance needs analysis for the life cycle of the equipment and will update this projection every two years consistent with budget development.

1. The City currently maintains a schedule of replacement for the Equipment Rental and Revolving Loan Fund for Vehicles and Equipment.

2. The City currently maintains a schedule of replacement for all citywide computer systems.

3. The City will strive to maintain a schedule of replacement for city owned facilities and equipment for the 2019-2020 biennial budget.

h. All general government current operating expenditures will be paid from current revenues and cash carried over from the prior biennium. Reports on revenues and expenditures will be prepared monthly for the Finance Committee and City Council for review. The City will avoid budgetary and accounting procedures which balance the current budget at the expense of future budgets. The City of Leavenworth defines a balanced budget as current biennium revenues (including fund balances) are equal to or greater than current biennium budgeted expenditures (including ending fund balances). The City will attempt to utilize beginning balances and other one-time revenues only for one-time/non-recurring expenditures such as planned capital improvements or projects.

i. All supplemental appropriations for programs (appropriations requested after the original budget is adopted) will be considered as a result of the availability of new revenues (such as unanticipated grants) or fund balance if available and without affect to a fund's minimum reserve. All supplemental appropriations will conform to the "Budgeting by Priorities" process.

3. Revenue Policies

a. The City will strive to maintain as diversified and stable a revenue system as permitted by state law to shelter it from short-run fluctuations in any one revenue source. The revenue mix should combine elastic and inelastic revenue sources to minimize the effect of an economic downturn.

b. Because revenues, especially those of the General Fund, are sensitive to both local and regional economic activities, revenue estimates provided to the City Council shall be conservative.

c. The City will estimate its biennial revenues by an objective, analytical process using past historical figures, economic changes, and suggestions provided annually by the Municipal Research and Service Center Budget Suggestions pamphlet.

d. The City will establish all user charges at a level related to the cost of providing the service and within policy parameters established by the City Council.

e. Each year, the City will review user fees to adjust for the effects of inflation and other factors as appropriate. The City will set fees for user activities, such as development and recreational services, at a level to support the direct and indirect costs of the activity.

g. The City will set fees and user charges for each enterprise fund, such as Water, Wastewater, Garbage, Stormwater, and Parking at a level that fully supports the total direct and indirect cost of the activity including the cost of annual depreciation of capital assets. Additionally, for analysis and rate modeling purposes, the proposed rates shall also take into account debt service coverage commitments made by the City at a minimum of 100% of the annual debt service.

4. Expenditure Policies

a. The City budget will provide for a sustainable level of service as defined in the context of the Budgeting by Priorities process.

b. The City's operating budget will not use one-time revenues to support ongoing expenditures.

c. The City will maintain expenditure categories according to state statute and administrative regulation. Capital expenditures shall meet the requirements of generally accepted accounting principles (GAAP) which would include purchases that will be used for at least one year such as computers, vehicles, equipment, office furniture, real property, and improvements to city infrastructure. Typically these items would have a minimum cost of $5,000 but may be less in the case of such items as computers and equipment.

d. The City will structure service levels in the context of financial sustainability.

e. The City will forecast its General Fund expenditures biennially. The drivers and assumptions used in the forecast will be described when necessary. All other funds will use past historical figures and economic changes where appropriate.

5. Capital Investment Budget Policies

a. The City will make capital improvements in accordance with an adopted capital facilities plan and six-year transportation improvement plan.

b. The Capital Facilities Plan, the Six-Year Transportation Improvement Plan, and the base operating budget will be reviewed at the same time to ensure that the City's capital and operating needs are balanced with each other and that the Capital Facilities Plan and Six-Year Transportation Improvement Plan is aligned with the City's other long-range plans.

c. The City will develop a six-year plan for capital improvements including operations and maintenance costs that will be reviewed each year. Capital expenditures will be forecasted taking into account changes in population, changes in real estate development, or changes in relevant economic condition of the City and the region.

d. The City will identify the estimated costs and potential funding sources for each capital project proposal before it is submitted to Council for approval. The City will use intergovernmental assistance and other outside resources whenever possible.

1. Partnership funding with non-intergovernmental partners: The City may consider entering into agreements with various non-governmental agencies for a specific project development on a case by case basis through the use of a Developer Reimbursement and Collection Agreement as defined in the Leavenworth Municipal Code or other City Council approved agreement. In general, the City is not considered a partner for development of new construction; however, the City Council may consider a financial partnership that meets at a minimum the following criteria:

i. The project costs meet all financial criteria within this Financial Policy without jeopardizing the financial stability or credit rating of the City.
ii. The project has been accounted for in the City's various planning documents including but not limited to the Comprehensive Plan, 6-year Capital Facilities Plan, 6-year Transportation Improvement Plan, Water, Sewer, Stormwater, Park & Recreation, Regional Trails and/or Downtown Master Plans.
iii. The Developer provides the City with financial proof of ability to complete the construction of the project at 125% of the total estimated project costs prior to any City commitment. Financial proof could include secured bond funding notification from the bonding agency or a final line of credit from an FDIC banking institution.
iv. The City Council may choose to incorporate additional criteria on a case by case basis for projects requesting partnership funding.

e. The City will determine the least costly financing method for all new projects.

6. Short-Term Debt Policies

a. Short-term debt is defined as a period of three years or less.

b. The City may use short-term debt to cover temporary cash flow shortages, which may be caused by a delay in receipting tax revenues or issuing long-term debt. The City will not use short-term debt for current operations.

c. The City may issue interfund loans rather than outside debt instruments to meet short-term cash flow needs. Interfund loans will be permitted only if an analysis of the affected fund indicates excess funds are available and the use of these funds will not impact the fund's current operations. All interfund short-term borrowing will be subject to Council approval by resolution as approved for interfund loans.

7. Long-Term Debt Policies

a. Long Term debt is that debt which exceeds three years.

b. The City will utilize long-term borrowing for capital improvements that cannot reasonably be financed on a pay-as-you-go basis from anticipated cash flows.

c. Acceptable uses of bond proceeds are items which can be capitalized and depreciated. Refunding bond issues designed to restructure current outstanding debt is also an acceptable use of bond proceeds provided that the net present value (NPV) of savings is at least four percent (4%).

d. The City will determine whether self supporting bonds (such as special assessment or local improvement district bonds) are in the City's best interest when planning to incur debt to finance capital improvements.

e. The City will not use long-term debt for current operations.

f. The City will maintain good communications with bond rating agencies about its financial condition. The City will follow a policy of full disclosure on every financial report and bond prospectus including proactive compliance with disclosure to the secondary market.

g. General Obligation Bond Policy

1. Every project proposed for financing through general obligation debt shall be accompanied by a full analysis of the future operating and maintenance costs associated with the project.

2. Bonds cannot be issued for a longer maturity schedule than a conservative estimate of the useful life of the asset to be financed.

h. Limited Tax General Obligation Bond Policies

1. As a precondition to the issuance of limited tax general obligation bonds, alternative methods of financing should also be examined.

2. Before general obligation bond propositions are placed before the voters, the capital project under consideration should have been included in the Capital Facilities Plan. The source of funds should describe the intended use of bond financing.

3. Limited tax general obligation bonds should only be issued under certain conditions:

- A project requires monies not available from alternative sources;
- Matching fund monies are available which may be lost if not applied for in a timely manner; or
- Catastrophic conditions.

i. Financing of Lease Purchases

1. Lease purchase financing may be used when the cost of borrowing or other factors make it in the City's best interest.

j. Loan Financing

1. The City may apply for low interest loan financing through state and federal programs such as the Department of Commerce, Public Works Board, Department of Ecology, Department of Health and any other program created for low interest financing of capital investments.

2. Under Washington State law, the public may vote to approve bond issues for General Government Purposes in an amount not to exceed 2.5% of assessed valuation. Within the General Purposes limit of 2.5%, the City may approve bond issues and/or lease purchases up to 1.5% of the City's total assessed value without a vote of the people and the remaining 1% with a vote of the people. State law also provides for an additional 2.5% of assessed valuation for Utility Purposes and 2.5% of assessed valuation for Open Space, Park and Capital Facilities of which each

requires a vote of the people. The City Council recognizes that these limits, although allowable, may not be affordable for the debt service payments; therefore, the following additional policies on use are defined and may be amended from time to time by action of the City Council:

i. For General Purpose Limits the City Council is authorized to approve up to 1.35% of the 1.5% without a vote of the people. The remaining .15% is reserved for emergency uses only and must first be approved by resolution for use.

ii. For General Purpose Limits the City Council is authorized to approve up to the full 1% with a vote of the people as defined by State Law.

iii. For Utility Purpose Limits the City Council is authorized to approve up to 1% of the 2.5% with a vote of the people. The remaining 1.5% is reserved for emergency uses only and must first be approved by resolution for use.

iv. For Open Space, Park and Capital Facilities the City Council is authorized to approve up to 1% of the 2.5% with a vote of the people. The remaining 1.5% is reserved for emergency uses only and must first be approved by resolution for use.

8. Reserve Fund Policies

a. The City will maintain General Operating Reserves at a level equal to at least 35% of the total General Fund budgeted revenue, including the beginning fund balance, development review revenue, and any significant one-time revenue. This reserve would exclude any non revenues and interfund loans within the current year. This reserve shall be created and maintained to:

1. Provide sufficient cash flow to meet daily financial needs.

2. Sustain City services in the event of a catastrophic event such as a natural/manmade disaster (e.g. earthquake, windstorm, flood, terrorist attack) or a major downturn in the economy. In general, the City shall endeavor to support ongoing operations with ongoing revenues, but may use reserves on a one-time basis to support City services pending the development of a longer term financial solution. However, in no event shall reserves be used longer than one biennium to support City operations. If reserves are used, the City will begin to replenish these reserves at the end of the biennium if a surplus exists, but no later than the biennium following their use.

3. The City will strive to build the General Operating Reserves in future years to a minimum of 40% by 2020.

b. Biennium surpluses in the General Fund will be used to fund one-time operations, capital expenditures, dedication to a Capital Facilities planned expenditure or utilized to increase the general operating reserve minimum planned for future years:

1. There are surplus balances remaining after all current expenditure obligations and reserve requirements are met.

2. The City has made a determination that revenues for the ensuing biennium are sufficient to support budgeted General Fund operations.

c. A surplus is defined as the difference between the actual beginning fund balance and the budgeted beginning fund balance. It consists of under-expenditures and excess revenues over and above the amounts included in the following biennial budget.

d. The City may also maintain, at its discretion, an Economic Contingency to serve as a hedge against economic fluctuations, fund future one-time operational and capital needs or support City services on a one-time basis pending the development of a longer term financial solution. The source of funding for this reserve is the biennium surplus as outlined in sections 8b and 8c above. Restoration of this reserve is at the City's discretion.

e. The City will maintain an Economic Contingency reserve of $300,000 in the Lodging Tax Fund to serve as a hedge against economic fluctuations in the lodging industry, fund future one-time operational and capital needs or to address additional advertising needs due to a downturn in the economy. If reserves are used, the City will begin to replenish these reserves at the end of the biennium if a surplus exists, and fully restore those funds by no later than the biennium following their use.

f. The City will strive to maintain operating reserves by the year 2020 in the following enterprise funds; these operating reserves shall be created and maintained to provide sufficient cash flow to meet daily financial needs:

1. 25% of the Water Fund's total expenditures excluding ending fund balances, debt service principle and interest, capital expenditures, and one-time expenditures.

2. 35% of the Sewer Fund's total expenditures excluding debt service principle and interest, capital expenditures, and one-time expenditures.

3. 25% of the Garbage Fund's total expenditures excluding debt service principle and interest, capital expenditures, and one-time expenditures.

4. 25% of the Stormwater Fund's total expenditures excluding debt service principle and interest, capital expenditures, and one-time expenditures

5. 100% of one year of the Parking Fund's average debt service payment.

g. Bond reserve funds shall be created for the Water and Wastewater Funds and will be maintained at a minimum in accordance with the provisions set forth in the bond covenants. These shall be in addition to the reserves described above. If no bond covenants exist, the City will strive to maintain the bond reserve funds at a minimum of 4% of the total principle debt owing on the utility.

h. The City shall maintain an Equipment Rental and Revolving Fund reserve for fleet maintenance and equipment replacement. The Equipment Reserve Funds will be maintained at a level sufficient to meet yearly operations and scheduled equipment replacement so as to sustain an acceptable level of municipal services and prevent a physical deterioration of City assets.

i. The City shall also maintain Reserve Funds as follows:

1. All statutorily required reserve funds to guarantee debt service; and

2. The City shall strive to create a vacation/sick leave accrual reserve of 25% of the vacation/sick payout liability by 2020. All accrued vacation hours are paid in full upon separation. After five (5) years employment any unused sick leave shall be paid in full upon date of termination for any reason, except just cause, up to a maximum of thirty (30) days.

3. The City shall strive to create a 50% reserve by 2020 for the Leavenworth Civic Center Fund. 15% of the Fund's total expenditures excluding ending fund balances, debt service principle and interest, capital expenditures, and one-time expenditures will be used for operating reserves to provide sufficient cash flow purposes and the remaining 35% would be for capital related reserves.

4. The City and the Upper Valley Parks and Recreation Service Area (PRSA) shall strive to create a 25% reserve by 2020 for the Pool Fund. 10% of the Pool Fund's total expenditures excluding ending fund balances, debt service principle and interest, capital expenditures, and one-time expenditures will be used for operating reserves to provide sufficient cash flow purposes and the remaining 15% would be for capital related reserves.

5. The City maintains a Cemetery Endowment Fund that currently grows each year from 50% of all cemetery plot and niche sales from the General Fund. The purpose of this fund is to create a fund balance large enough to sustain support of annual maintenance once the Cemetery is full. The City will review this fund each biennium to determine the status of funding against investment opportunities to determine if the fund balance has reached a minimum amount for operational costs. At the time of this policy update, the fund balance is approximately $220,000.

9. Investment Policies

a. The investment of city funds is defined by Leavenworth Municipal Code Section 3.08 and is governed by the Investment Committee that is comprised of the City Council Finance Committee, Finance Director and City Administrator.

10. Special Revenue Policies

a. The City will establish and maintain Special Revenue Funds which will be used to account for the proceeds of specific revenue sources to finance specified activities which are required by statute, ordinance, resolution, or executive order.

b. Special Revenue Funds having biennial operating budgets will be reviewed by the City during the budget process.

11. Accounting, Auditing, and Financial Reporting Policies

a. The City will establish and maintain a high standard of internal controls and accounting practices. The City accounts for revenues and expenditures on a cash basis.

b. The accounting system will maintain records consistent with accepted standards for local government accounting which is based on another comprehensive basis of accounting (OCBOA) as prescribed by the State Auditor's Office and contained in the State of Washington Budgeting, Accounting, and Reporting Systems (BARS) Manual.

c. Annual financial reports will present a summary of financial activity by major types of funds. Such reports will be available via the City's website (www.cityofleavenworth.com).

d. A small and attractive asset system will be maintained to identify certain City assets and their location.

e. The City will ensure that City records are audited bi-annually (each year individually) and which will result in the issuance of a financial opinion. The results of such audit are to be available to the public via the State Auditor's website.

12. Budget Calendar

a. In order to facilitate and implement the budget process, the Finance Department will propose a biennial budget calendar no later than August in every even numbered year.

b. The calendar will be comprehensive in nature and generally provide for a process that includes participation by the City Council, department staff, interlocal agencies and the public.