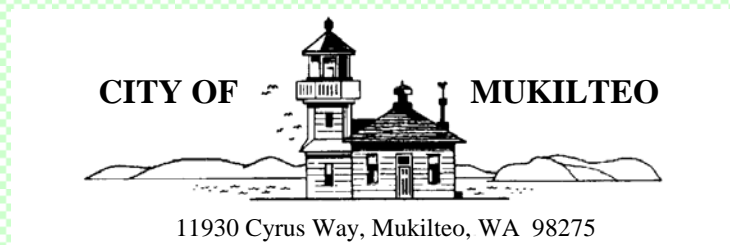


# City of Mukilteo



## Budget Policy

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**September 27, 2010**

## GENERAL BUDGET POLICY

These general Budget Policies are the basis on which staff develops budget recommendations and establishes funding priorities within the limited revenues the City has available to provide municipal services.

### 1) Operating Budgets<sup>1</sup> – Overall

- a) The budget should be a performance<sup>2</sup>, financing and spending plan agreed to by the City Council and Mayor. It should contain information and data regarding expected revenues, expected expenditures and expected performance.
- b) The Finance Director shall prepare and present the annual budget preparation calendar to Council, Mayor and staff by the end of March each year.
- c) Annually, the Mayor will prepare and refine written policies and goals to guide the preparation of performance, financing and spending plans for the City budget. Adopted budgets will comply with the adopted budget policies and City Council priorities.
- d) As a comprehensive business plan, the budget should provide the following critical elements recommended by the Government Finance Officers Association; public policies, and Long-Range Financial Plan.
- e) The City's annual budget presentation should display the City's service/delivery performance plan in a Council Constituent-friendly format. Therefore, the City will use a program budgeting format to convey the policies for and purposes of the City operations. The City will also prepare the line item format materials for those who wish to review that information.
- f) Decision making for capital improvements will be coordinated with the operating budget to make effective use of the City's limited resources for operating and maintaining facilities.
- g) Mayor has primary responsibility for: a) formulating budget proposals in line with City Council priority directions; and b) implementing those proposals once they are approved.

### 2) Fiscal Integrity

- a) Ongoing operating expenditure budgets will not exceed the amount of ongoing revenue budgets to finance these costs. New program request costs will have to identify either a new ongoing source of revenue or identify offsetting/ongoing expenditures to be eliminated.
- b) In years when City Council approves operating budgets with ongoing costs exceeding ongoing revenues, the City's "Gap Closing" Policy must be invoked.
- c) Any available carryover balance will only be used to offset one-time or non-recurring costs. Cash balances in excess of the amount required to maintain strategic reserves will be used to fund one-time or non-recurring costs.<sup>3</sup>
- d) The City will maintain the fiscal integrity of its operating and capital improvement budgets which provide services and maintain certain public facilities, streets and utilities. It is the City's intent to maximize the level of public goods and services while minimizing the level of debt.
- e) Mitigation fees shall be used only for the project or purpose for which they are intended.

- f) The City will maintain a balanced budget which is defined as planned funds available equal planned expenditures and ending fund balance.

- 3) Revenues
  - a) Generally revenues estimates shall not assume growth rates in excess of inflation<sup>4</sup> and scheduled rate increases. Actual revenues that are over estimates will be recognized through budgetary adjustments only after it takes place. This minimizes the likelihood of either a reduction in force or service level in the event revenues would be less than anticipated.
  - b) Investment income earned shall be budgeted on the allocation methodology, i.e., the projected average monthly balance of each participating fund.
- 4) Internal Services Charges
  - a) Depreciation of equipment, furnishings and computer software will be included in the service charges paid by departments to the Equipment Replacement Fund. This will permit the accumulation of cash to cost effectively replace these assets and smooth out budgetary impacts.
- 5) Reporting
  - a) A revenue/expenditure report will be produced monthly so that it can be directly compared to the actual results of the fiscal year to date. (See monthly Fund Progress Report posted on City website.)
  - b) Each quarter, staff will produce a “Quarterly Financial Report” comparing current year to past year actual revenue and expenditure and present the data to City Council.
  - c) Semi-annually, staff will provide revenue and expenditure projections for the next five years (General Fund Projection Model.) Projections will include estimated operating costs for future capital improvements that are included in the capital budget (See the Capital Facilities Plan). This data will be presented to the City Council in a form to facilitate annual budget decisions, based on a multi-year strategic planning perspective.
- 6) Citizen Involvement
  - a) Citizen involvement during the budget process shall be encouraged through public hearings, worksessions, website and surveys.
  - b) Involvement shall also be facilitated through Council appointed boards, commissions and committees that serve in an advisory capacity to the Council and staff.
- 7) Fees
  - a) Fees shall be to cover 100% of the costs of service delivery, unless such amount prevents an individual from obtaining essential services. Fees or service charges should not be established to generate money in excess of the cost of providing service.
  - b) Fees may be less than 100% if other factors, e.g., market forces, competitive position, etc., need to be recognized.
- 8) Capital Budget – Fiscal Policies
  - a) Capital project proposals should include as complete, reliable and attainable cost estimates as possible. Project cost estimates for the Capital Budget should be based upon a thorough analysis of the project and are expected to be as reliable as the level of detail known about the project. (Project cost estimates included in the City’s Capital Facilities Six Year Plan should be as reliable as possible, recognizing that Year 1 or Year 2 project cost estimates will be more reliable than cost estimates in the later years.)
  - b) Proposals should include a comprehensive resource plan. This plan should include the amount and type of resources required, a timeline and financing strategies to be employed. The plan should indicate resources necessary to complete any given phase of

the project, e.g., design, rights-of-way acquisition, construction, project management, sales taxes, contingency, etc.

- c) Capital project proposals should include a discussion on level of service (LOS). At a minimum, the discussion should include current LOS level associated with the proposal and level of LOS after completion of proposal. Proposals with low level LOS will receive higher priority than those with higher levels of LOS. Capital project proposals that either have a current LOS level of 100% or higher or will have an LOS level of 100% or higher after completion of the proposal must include a discussion on impacts to other services that have an LOS level below 100%.
- d) All proposals for capital projects will be presented to the City Council within the framework of a Capital Budget. Consideration will be given to the commitment of capital funds outside the presentation of the annual capital budget review process for emergency capital projects, time sensitive projects, projects funded through grants or other non-city funding sources and for projects that present and answer the following questions for Council consideration:
  - 1) Impacts to other projects
  - 2) Funding sources
- e) Capital project proposals shall include all reasonably attainable cost estimates for operating and maintenance costs necessary for the life cycle of the asset.
- f) Major changes in project cost must be presented to the City Council for review and approval. Major changes are defined per City's Procurement Policies & Procedures<sup>5</sup> as amounts greater than \$30,000 for single craft or trade and greater than \$50,000 for two or more crafts or trades.
- g) At the time of project award, each project shall have reasonable contingencies also budgeted:
  - i) The amount set aside for contingencies shall correspond with industry standards and shall not exceed ten percent (10%), or a percentage of contract as otherwise determined by the City Council.
  - ii) Project contingencies may, unless otherwise determined by the City Council, be used only to compensate for unforeseen circumstances requiring additional funds to complete the project within the original project scope and identified needs.
  - iii) For budgeting purposes, project contingencies are a reasonable estimating tool. At the time of contract award, the project cost will be replaced with an appropriation that includes the contingency as developed above.
- h) Staff shall seek ways of ensuring administrative costs of implementing the Capital Budget are kept at appropriate levels.
- i) The Capital Budget shall contain only those projects that can be reasonably expected to be accomplished during the budget period. The detail sheet for each project shall contain a project schedule with milestones indicated.
- j) Capital projects that are not expensed during the budget period will be re-budgeted or carried over to the next fiscal period except as reported to the City Council for its approval. Multi-year projects with unexpended funds will be carried over to the next fiscal period.
- k) If a proposed capital project will have a direct negative effect on other publicly owned facilities and/or property, or reduce property taxes revenues (for property purchases

within the City), mitigation of the negative impact will become part of the proposed capital project costs.

- l) A capital project will not be budgeted unless there is a reasonable expectation that funding is available.

9) Debt Policies

- a) Debt will not be used for operating costs.
- b) Whenever possible, the City shall identify alternative sources of funding and availability to minimize the use of debt financing.
- c) Whenever possible, the City shall use special assessment, revenue or other self-supporting debt instead of general obligation debt.
- d) Tax Anticipation Notes will be issued only when the City's ability to implement approved programs and projects is seriously hampered by temporary cash flow shortages.
- e) Long-term general obligation debt will be issued when necessary to acquire land and/or fixed assets, based upon the City's ability to pay. Long-term general obligation debt will be limited to those capital projects that cannot be financed from existing revenues and only when there is an existing or near-term need for the acquisition or project. The acquisition or project should also be integrated with the City's Long-range Financial Plan and the Capital Facilities Plan.
- f) The maturity date for any debt issued for acquisition or project will not exceed the estimated useful life of the financed acquisition or project.
- g) Current revenues or ending fund balance shall be set aside to pay for the subsequent two year's debt service payments. This is intended to immunize the City's bondholders from any short-term volatility in revenues.
- h) The City shall establish affordability guidelines in order to preserve credit quality. One such guideline, which may be suspended for emergency purposes or unusual circumstances, is as follows: Debt service as a percent of the City's operating budget should not exceed ten percent (10%).

<sup>1</sup>Operating Budgets Include: General Fund, Street Fund, Recreation and Cultural Services Fund, Emergency Medical Services Fund & Facilities Maintenance Fund.

<sup>2</sup>The City currently does not have a formal performance plan, even though the Budget Policy mentions that the City's Annual Budget should include one. The development of a "Performance Plan" will be a priority for completion during 2011.

<sup>3</sup>Carryover balances can only be calculated in years when revenues exceed expenditures & actual revenues exceed budgeted revenues.

<sup>4</sup>Consumer Price Index, Urban – Seattle average of June to June will be used as growth rate of inflation.

<sup>5</sup>Procurement Policies & Procedures can be found on the City's website:  
<http://www.ci.mukilteo.wa.us/files/doc-procurement-policy-finance.pdf>