



CITY OF POULSBO
Legislative Policy/Procedure

Title: Financial Management Policies	Page Number: 1 of 5
Department: Finance Department	Effective Date: January 1, 2008
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PURPOSE

Adequate reserve levels are a necessary component of the City's overall financial management strategy and a key factor in external agencies' measurement of the City's financial strength.

RESERVE FUND POLICIES

1. General Fund Reserve

- a. It will be the policy of the city to maintain a General Fund Reserve at a level of at least equal to twelve percent (12%) of the total General Fund budgeted operating revenue, excluding the beginning fund balance and identified one-time revenue. These 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 Mayor and City Council; and temporary short-term interfund loans. Annual contribution will be budgeted from General Fund resources as available to maintain the target reserve level.
- b. Two months operating cash shall be maintained within the General Fund..

2. Capital Reserve Funds

- a. The city shall maintain capital reserve funds to provide funding for the six years Capital Improvement Plan, less proprietary fund projects. The use of any funds within the Capital Improvement Funds shall be approved by the City Council.
- b. Contributions to the capital reserve funds will be made as per the budget recommendations set by the City Council.

3. All expenditures drawn from reserve accounts shall require prior Council super-majority approval unless previously specifically authorized by the City Council for expenditure in the budget.

4. Quarterly reports will be prepared to monitor reserve and cash fund balances. Items falling outside the policy will be highlighted.

Revenue Policies

1. To the extent possible, a diversified and stable revenue system will be maintained to shelter public services from short-run fluctuations in any one revenue source. Trends analyzing the dependence on distinct revenue sources shall be included in the budget documents for consideration by the City Council.

2. Revenue forecasts for major revenues (those which represent at least 10% of the General Fund) will develop a “conservative”, “optimistic” and “best estimate” forecast and the rationale. The forecasts presented shall be based on the best information available at the time and references to the sources of information used in the estimates will be made available.
3. Revenue forecasts will assess the full spectrum of resources that can be allocated for public services. The Council shall review potential sources of revenue as part of the budget process.
4. Short-term (anticipated less than one year) economic downturns and temporary gaps in cash flow: Expenditure reductions or restrictions may be imposed. Council may approve by a super majority a contribution from the Revenue Stabilization General Fund Reserves or interfund loans to address temporary downturns in City revenues. Interfund loans may be utilized to cover temporary gaps in cash flow.
5. Long-term (greater than one year) revenue downturns: Deficit financing and borrowing to support on-going operations is not the policy of the City as a response to long-term revenue shortfalls. Revenue forecasts will be revised. Expenses will be reduced to conform to the revised long-term revenue forecast or increased or new revenue sources will be considered
6. All potential grants shall be carefully examined for matching requirements. Some grants may not be accepted if local matching funds cannot be justified. Grants may also be rejected if programs must be continued with local resources after grant funds are exhausted.
7. The City shall develop and maintain a comprehensive list of various fees and charges. Fees may be set at levels sufficient to cover the entire cost of service delivery (such as in “Enterprise Funds”), or the service may be subsidized as Council deems appropriate. 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. Rate studies shall be conducted to ensure the rates will continue to support direct and indirect cost of operations, administration, plant maintenance, debt service, depreciation of capital assets, and moderate system extensions. Based on a market analysis, fees for similar services in other communities may also be considered. The criteria used to evaluate recommended target rates (equity, cost recovery policy, market demand, etc.) shall be included in the staff report during the review. Such reviews, at a minimum will be in unison with Comprehensive Plan Updates and incorporated into the budget process for possible action by the City Council.

The City will review contracts and leases which result in revenues to the City on a timely basis in order to provide for careful evaluation by the City Council.

Expenditure Policies

1. The City will only propose operating expenditures which can be supported from on-going operating revenues. Before the City undertakes any agreements that would create fixed on-going expenses, the cost implications of such agreements will be fully determined for current and future years with the aid of strategic financial planning models. Capital expenditures may be funded from one-time revenues, but the operating budget expenditure impacts of capital expenditures will be reviewed for compliance with this policy provision.
2. Department heads are responsible for managing their budgets within the total appropriation for their department.
3. The City will maintain expenditure categories according to state statute and administrative regulation.
4. The City will assess funds for services provided internally by other funds. The estimated direct and indirect costs of service will be budgeted and charged to the fund performing the service. Indirect fees are assessed by means of an Indirect Allocation plan as approved by City Council and a reviewed at least every 3 years. Interfund service fees charged to recover these costs will be recognized as revenue to the providing fund.
5. Emphasis is placed on improving individual and work group productivity rather than adding to the work force. The City will invest in technology and other efficiency tools to maximize productivity. The City will hire additional staff only after the need of such positions has been demonstrated and documented.
6. All compensation planning and collective bargaining will focus on the total cost of compensation which includes direct salary, health care benefits, pension contributions, and other benefits of non-salary nature which are a cost to the City.

Enterprise Fund Policies

1. Functional Plans will be developed and reviewed at a 5 year minimum to be consistent with the Comprehensive Plan and future operation and capital needs.
2. Rates will be built to support operations as well as build capital reserves for future capital needs.
3. Connection Fees collected will be used to support future capital expenditures.
4. Reserve balances will be maintained and detailed as below:
 - a. Operating Reserves will be maintained at a level of at least equal to twelve percent (12%) of the budgeted operating revenue, excluding the beginning fund balance and identified one-time revenue. These 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 Mayor and City Council;

- i. Two months of operating cash shall be maintained within the fund
- b. Necessary restricted debt reserve will be maintained to be in compliance with the debt covenant and requirement of lending agencies (frequently 1.25 coverage ratio on revenue bonds)
- c. Capital reserves will be maintained and grow to a level to support future capital needs for equipment, capital maintenance projects and capital improvements as presented in the City's Comprehensive Plan, Functional Plans and City's Improvement Plan (CIP)

Debt Management Policies

(Refer to the City's Debt Policy for the full narrative of the adopted policy.)

1. All professional service providers (underwriters, financial advisors, bond insurers, etc.) selected in connection with the City's debt issues will be selected in accordance with the City's procurement policies.
2. The term of long-term debt issued will not exceed the life of the projects financed. Current operations will not be financed with long-term debt.
3. The city shall strive to maintain current credit ratings in the future.
4. The City will comply with all statutory debt limitations imposed by the Revised Code of Washington (RCW). The City of Poulsbo's debt will not exceed an aggregated total of 7.5% of the assessed valuation of the taxable property within the City. Compliance with state law and this policy shall be documented each year in the city's Comprehensive Annual Financial Report.

The following individual percentage (as defined in state law) shall not be exceeded in any specific debt category:

General Debt	2.5% of assessed valuation
Utility Debt	2.5% of assessed valuation
Open Space and Park Facilities	2.5% of assessed valuation

5. No debt shall be issued for which the City is not confident a sufficient, specifically identified revenue source is available for repayment. The Finance Director shall prepare an analytical review for this purpose prior to the issuance of any debt.
6. Credit enhancements shall be considered with a cost/benefits analysis for each long term bond issued.
7. Reserve accounts shall be maintained as required by bond ordinances and where deemed advisable by the City Council. The City shall structure such debt service reserves so they do not violate IRS arbitrage regulations.

Financial Management/Strategic Forecasting Policies

1. All decisions shall be within the context of long-range plans (Capital Facilities Plan/City Improvement Plan). Staff shall provide a review of the implications of budgetary proposals on long-range plans.
2. The budget shall be developed consistent with state law and in a manner which encourages early involvement with the public and City Council. A calendar of events related to budget development shall be presented to the City Council prior to beginning of the budget process
3. The budget will integrate with the City Improvement Plan (CIP). The budget shall be consistent with the CIP and planning activities shall be based on the CIP.
4. Assumptions used in the CIP will be noted and defined.

Capital Asset Acquisition, Maintenance, Replacement and Retirement

1. The City shall develop a City Improvement Plan (CIP) as defined and required by RCW 36.70A.070 which is consistent with the City's Comprehensive Plan. The CIP is a 6-year plan and will be updated at a time established by the City Council, to be integrated into the budget process.
2. Such plan shall include all projects to maintain public capital facilities required to maintain service levels at standards established by the City Council. Projects to be included in the CIP will be in excess of \$15,000 and have a minimum 10 year useful life.
3. The proposed CIP may include for consideration such other projects as requested by the City Council or Mayor.
4. Funding for capital projects shall be classified as to source (general purpose, transportation or enterprise) within the plan. The extent to which funds exist for each project shall be described in the plan.
5. With the exception of "on-going projects", each project shall be described such that development phases are delineated as separate stages of the project. Examples include land acquisition, design and construction. "On-going projects" represent annual capital programs such as neighborhood streets, pavement restoration and pedestrian/bicycle improvements.
6. An estimate for the operating budget impact of each proposed project shall be identified and incorporated into the City Improvement Plan.
7. The City Improvement Plan shall be reviewed and incorporated into the budget document.

Investment Policy

(Refer to the City's Investment Policy for the full narrative of the adopted policy.)

The investment policies and procedures of the Finance Director for the City of Poulsbo are based upon Federal, State and Local law and prudent money management. The primary goals of these policies are:

1. To assure compliance with all Federal, State and local laws governing the investment of monies under the control of the Finance Director.
2. To protect the principal monies entrusted to this office.
3. To generate the maximum amount of investment income within the parameters of this Investment Policy and the guidelines for suitable investments.

All participants in the City's investment process shall act responsibly as custodians of the public trust. Investment officials shall recognize the investment portfolio is subject to public review and evaluation. The overall program shall be designed and managed with a degree of professionalism that is worthy of the public trust. The implementation of this policy is subject to the following guidelines.

REVISION CRITERIA

The Finance/Administration Committee will review Legislative Policies and recommend to Council any appropriate changes.