

**BUDGET POLICIES**

**I. OPERATING BUDGET**

**A. OVERALL**

1. The budget should be a performance, financing and spending plan agreed to by the Mayor, City Council, and Department Directors. It should contain information and data regarding expected revenues, expected expenditures and expected performance.
2. The City will prepare and annually 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 Council priorities.
3. As a comprehensive business plan, the budget should provide the following critical elements recommended by the Government Finance Officers Association: public policies, financial plan, operations guide, and communications device.
4. The City's 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 City operations. The City will also prepare the line-item format materials for those who wish to review that information.
5. 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.
6. Under the Mayor's direction, Department Directors have primary responsibility for: a) formulating budget proposals in line with Mayor and City Council priority direction, and b) implementing those proposals once they are approved.

**B. FISCAL INTEGRITY**

1. The City will maintain the fiscal integrity of its operating, debt service, 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.
2. The City will adopt a balanced budget for all funds. Balanced budget for operating funds means ongoing operating program costs do not exceed the amount of ongoing revenues to finance those costs. The ongoing revenue will be identified along with new program costs including impact from new capital projects. Any available carryover balance will only be used to offset one-time or non-recurring costs. Balanced budget for non-operating funds means total resources equal to or exceed total uses.
3. Cash balances in excess of the amount required to maintain reserve policy will be used to fund one-time or non-recurring costs.
4. Transportation impact fees shall be used only for the projects or purpose for which they were intended.

**C. CONTINGENT ACCOUNTS**

1. The City shall maintain a Contingency Reserve in order to accommodate unexpected operational changes, legislative impacts, or other economic events affecting the City's operations which could not have been reasonably anticipated at the time the budget was prepared. Funding shall be \$1 million.
2. The City shall maintain an operating cash flow reserve of \$9 million or 17 % of operating expenditures in the General Fund. The purpose of operating cash flow reserve is to maintain a minimum of two month's operating expenditure in reserve to manage the fluctuation in tax receipts, grant revenues, and general cash flow management.

3. The City shall maintain a Strategic Opportunity Reserve of \$2 million. It provides the liquidity to respond to economic opportunity that is not budgeted for that may provide a long term economic benefit to the City.
4. The City shall maintain a Parks Reserve of \$0.75 million for the equipment replacement, turf replacement, and other major upgrades to the City's Park System.
5. The City will maintain an emergency reserve fund for snow and ice removal of not less than \$0.5 million in Street Fund.
6. The City will maintain an emergency reserve fund of not less than \$0.1 million for unexpected natural disaster that affects our infrastructure, pending the receipt of available grants or other resources, to restore our road to its original condition in Arterial Street Fund.
7. The City will maintain a minimum cash flow reserve with the Utility Tax Fund in amount equal to \$2.5 million (\$1.0 million Proposition 1 and \$1.5 million Utility tax).
8. The City will maintain a one year revenue reserve in the Real Estate Excise Fund and may spend down ONLY upon the Council's approval.
9. The City will maintain a minimum cash flow reserve with the Hotel/Motel Lodging Tax Fund in amount equal to the prior year's complete revenues (\$0.2 million) in ending fund balance.
10. The City shall maintain a minimum of \$1.5 million in a reserve for the future general capital needs of the building such as major upgrade, roof replacement, and equipment replacement in Community Center Fund.
11. The City shall maintain a minimum of \$1.5 million in a reserve for cash flow management and a contingent reserve in Traffic Safety Fund to fund traffic equipment replacement, and to absolve an unplanned revenue decline.
12. The City shall maintain adequate reserve in Debt Service Fund in accordance with the bond ordinance or a minimum of one year debt service amount.
13. The City shall maintain a reserve for the future general capital needs for the city buildings or other capital projects in Capital Project Reserve Fund. The Finance Director may transfer excess revenue over expenditure in the General fund to this fund for future use of the City.
14. The City shall maintain a minimum of \$0.5 million in a reserve for the general capital needs of the building and equipment in Dumas Bay Centre Fund.
15. The City will maintain a reserve in an amount of not less than 16 weeks of budgeted expenses as recommended by our consultant in the Health Insurance Fund.
16. The City will maintain a reserve in an amount of not less than \$0.25 million or annual unemployment expenses in the Unemployment Insurance Fund.
17. The City will maintain a reserve in an amount of not less than one year's expenses from the prior year or \$1.2 million in Risk Management Fund.
18. The City shall maintain an operating reserve within the Surface Water Management Fund in amount not less than 17% of operating expenses from the prior year. Any excess may be transferred to the Capital Project Fund – SWM for future capital projects.
19. The City shall maintain Emergency/Contingent reserve for unexpected catastrophic events or system failures of not less than \$0.5 million in Capital Project Fund –SWM.

20. The City will maintain adequate reserves for capital replacement and shall be funded through department charges and other revenues sufficient to replace both hardware and software at the end of their useful life in Information System Fund.
21. The City will maintain an adequate reserve to replace copy and mailing equipment in the Mail and Duplication Fund.
22. The City will maintain an adequate reserve to replace a fleet of vehicles and other heavy equipment at their scheduled replacement time in Fleet and Equipment Fund.
23. The City will maintain a reserve of not less than \$2.0 million for equipment, roof, and other major upgrades to City Buildings other than Community Center, and Dumas Bay Centre.

**D. REVENUES**

1. Revenue estimates shall not assume any growth rate in excess of inflation. Real growth that occurs will be recognized through budgetary adjustments only after it takes place. This practice imposes short term constraint on the level of public goods or services. However, in the event that revenues are less than expected, it minimizes the likelihood of severe cutback actions which may be profoundly disruptive to the goal of providing a consistent level of quality services.
2. Investment income earned through the City's investment pool shall be budgeted based upon the allocation methodology, i.e. the projected average monthly balance of each participating fund.

**E. CONTRACTUAL SERVICES**

1. The City will continue to thoroughly investigate the feasibility of contracting certain public services in accordance with Council Resolution No. 92-103.

**F. MINIMIZATION OF ADMINISTRATIVE COSTS**

1. An appropriate balance will be maintained between resources allocated for direct services to the public and resources allocated to assure sound management, internal controls, and legal compliance.

**G. RETIREMENT**

1. The budget shall provide for adequate funding of the City's retirement system.

**H. MONTHLY REPORT**

1. The budget will be produced so that it can be directly compared to the actual results of the fiscal year and presented in a timely monthly report.
2. All budget amendments, both revenues and expenditures, will be noted in the monthly report.

**I. MULTI-YEAR ESTIMATES**

1. With each budget, the City will update expenditure and revenue projections for the next six years. Projections will include estimated operating costs for capital improvements that are included in the capital budget.
2. This budget data will be presented to elected officials in a form that will facilitate budget decisions, based on a multi-year perspective.

**J. CITIZEN INVOLVEMENT**

1. Citizen involvement shall be encouraged in the budget decision making process through public hearings and study sessions.

2. Involvement shall also be facilitated through City boards, task forces and commissions, which shall serve in advisory capacities to the Mayor and City Council.
- K. FEES
1. Fees shall be phased toward covering 100% of the cost of service delivery, unless such amount prevents an individual from obtaining an essential service. Fees or service charges should not be established to generate money in excess of the cost of providing service.
  2. Fees may be less than 100% if other factors (e.g. market forces, competitive position, etc.) need to be recognized.
- L. NONPROFIT ORGANIZATIONS
1. Future funding decisions regarding nonprofit organizations will be based on guidelines, policies and priorities determined by the City Council and availability of financing based on General Fund spending priorities.

**II. CAPITAL BUDGET**

A. FISCAL POLICIES

1. 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 for the Six-Year City Capital Improvement Plan will vary in reliability depending on whether they are to be undertaken in the first, fifth or sixth year of the Plan.
2. Capital proposals should include a comprehensive resource plan. This plan should include the amount and type of resources required, and the funding and financing strategies to be employed. The specific fund and timing should be outlined. The plan should indicate resources needed to complete any given phase of a project in addition to the total project.
3. All proposals for the expenditure of capital funds shall be formulated and presented to Council within the framework of a general capital budget and, except in exceptional circumstances of an emergency nature, no consideration will be given to the commitment of any capital funds, including reserve funds, in isolation from a general review of all capital budget requirements.
4. Changes in project estimates for the comprehensive resource plan should be fully reported to the City Council for review and approval.
5. Project proposals should indicate the project's impact on the operating budget, including, but not limited to, long-term maintenance costs necessary to support the improvement.
6. At the time of contract award, each project shall include reasonable provision for contingencies:
  - a. The amount set aside for contingencies shall correspond with industry standards and shall not exceed ten (10) percent, or a percentage as otherwise determined by the City Council of the total contract amount.
  - b. 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.
  - c. For budgeting purposes, project contingencies are a reasonable estimating tool. At the time of the contract award, the project's budgeted appropriation, including contingency, will be replaced with a new appropriation equal to the approved project contract contingency developed in the manner described above.

7. The City Administration shall seek ways of ensuring that administrative costs of carrying out the Capital Improvement Plan are kept at appropriate levels.
8. The Annual Capital Budget shall include only those projects which can reasonably be accomplished in the time frame indicated. The detail sheet for each budgeted capital project should include a projected schedule.
9. Capital projects which are not encumbered or completed during the fiscal year will be rebudgeted or carried over to the next fiscal year except as reported to and subsequently approved by the City Council. All re-budgeted capital projects should be so noted in the Adopted Capital Budget. Similarly, multi-year projects with unencumbered or unexpended funds will be carried over to the subsequent year(s).
10. If a proposed project will cause a direct negative impact on other publicly-owned facilities, improvements to the other facilities will be required as part of the new project and become a part of the new project's comprehensive costs.
11. Capital projects will not be budgeted unless there are reasonable expectations that revenues will be available to pay for them.

**B. DEBT POLICIES**

1. Short-term lines of credit, tax or Revenue Anticipation Notes may be used only when the City's ability to implement approved programs and projects is seriously hampered by temporary cash flow shortages. In general, these Notes will be avoided. No other form of debt will be used to finance ongoing operational costs.
2. Whenever possible, the City shall identify alternative sources of funding and shall examine the availability of those sources in order to minimize the level of debt.
3. Whenever possible, the City shall use special assessment, revenue, or other self-supporting bonds instead of general obligation debt.
4. Long term general obligation debt will be incurred when necessary to acquire land or fixed assets, based upon the ability of the City to pay. This debt shall be limited to those capital improvements that cannot be financed from existing revenues and when there is an existing or near-term need for the project. The project should also be integrated with the City's long term financial plan and City Improvement Plan.
5. The maturity date for any debt will not exceed the reasonable expected useful life of the project so financed.
6. Fifty percent (50%) of the principal of any long term indebtedness should be retired over 10 years.
7. Current year revenues shall be set aside to pay for the subsequent year's debt service payments. This is intended to immunize the City's bondholders from any short term volatility in revenues.
8. The City shall 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.
9. The City shall establish affordability guidelines in order to preserve credit quality. One such guideline, which may be suspended for emergency purposes, or because of unusual circumstances, is as follows:
10. Debt service to be repaid with operating revenues should not exceed 8% of the respective operating budget.

C. CAPITAL IMPROVEMENT PLAN (CIP) POLICIES

1. Citizen participation in the Capital Improvement Program is a priority for the City. Among the activities which shall be conducted to address this need are the following:
  - a. The Capital Improvement Plan shall be provided to the City Council in a timely manner to allow time for the Council members to review the proposal with constituents before it is considered for adoption.
  - b. Council study sessions on the Capital Improvement Plan shall be open to the public and advertised sufficiently in advance of the meetings to allow for the attendance of interested citizens.
  - c. Prior to the adoption of the Capital Improvement Plan, the City Council shall hold noticed public hearings to provide opportunities for citizens to express their opinions on the proposed plan.
  - d. The City Planning Commission shall review the proposed City Improvement Plan and provide its comments on the Plan's contents before the Council considers the Plan for adoption.
2. All projects included in the Capital Improvement Plan shall be consistent with the City's Comprehensive Plan. The goals and policies for services, facilities, and transportation should be followed in the development of the City Improvement Plan. The Comprehensive Plan service level goals should be called out in the City Improvement Plan.
3. Capital projects shall be financed to the greatest extent possible through user fees and benefit districts when direct benefit to users results from construction of the project. Refer to Debt Policies for further detail.
4. Projects that involve intergovernmental cooperation in planning and funding should be established by an agreement that sets forth the basic responsibilities of the parties involved.
5. The Council will annually review and establish criteria against which capital proposals should be measured. Included among the factors which will be considered for priority-ranking are the following:
  - a. Projects which have a positive impact on the operating budget (reduced expenditures, increased revenues);
  - b. Projects which are programmed in the Six-Year Operating Budget Forecast;
  - c. Projects which can be completed or significantly advanced during the Ten-Year Capital Improvement Plan;
  - d. Projects which can be realistically accomplished during the year they are scheduled;
  - e. Projects which implement previous Council-adopted reports and strategies.

A complete list of criteria follows.

CRITERIA FOR DETERMINING PROJECT INCLUSION/PRIORITY  
(In Priority Order)

1. Projects which are required by statute or by an existing agreement with another agency.
2. Projects which are essential to public health or safety.
3. Projects which are urgently needed by some other criteria than public health or safety, e.g. environmental or public service.
4. Projects which have exhibited a high degree of public support.
5. Projects which are grant funded and would have minimal or no operating cost impact on the General Fund.
6. Projects which, if not acted upon now, would result in the irrevocable loss of an opportunity, or other major alternative actions would have to be initiated.
7. Projects which would preserve an existing capital facility, avoiding significantly greater expenses in the future (e.g. continuation of a ten-year cycle street maintenance program).
8. Projects which would result in significant savings in General Fund operating costs.
9. Projects which would fulfill a City commitment (evidenced by previous inclusion in the annual CIP and community support) to provide minimal facilities in areas which are deficient according to adopted standards.
10. Projects which would provide significant benefits to the local economy and tax base.
11. Purchase of land for future projects at favorable prices prior to adjacent development.
12. Purchase of land for future City projects (land banking).
13. Projects which would provide new facilities which have minimal or no operating costs or which have operating costs but have been designated as exceptions to the operating cost policy by previous City Council actions.
14. Projects which would be constructed in conjunction with another agency with the other agency providing for the operating costs.
15. Projects which would generate sufficient revenue to be essentially self-supporting in their operation.
16. Projects which would make an existing facility more efficient or increase its use with minimal or no operating cost increase.
17. Projects which would fulfill City commitment (evidenced by previous inclusion in the annual CIP and community support) to provide greater than minimal facilities.
18. Projects which are grant funded but would require increased operating costs in the General Fund.
19. Projects which are not grant funded and would require increased operating costs in the General Fund, and have not been designated as exceptions to the operating cost policy by previous City Council actions.