

BUDGET POLICIES

This section of the budget sets forth the objectives of the budget as a policy document together with a description of the basis of the policy.

Policy Context of the Budget

The City budget process is part of an overall policy framework that guides the services and functions of the City. The budget serves a key role in that policy framework by allocating financial resources to the programs, which implement the City’s overall policies. The budget also establishes financial policies to influence the availability of future resources to carry out the City’s policies.

This budget is a balanced budget with legal budgetary control at the fund level; i.e., expenditures and other financing uses may not exceed budgeted appropriations at the fund level.

The City’s basic policy document is its Comprehensive Plan. This plan sets the basic vision for the development of the City and establishes policies and programs intended to achieve that vision. The plan is further articulated by a series of planning elements, which include capital improvement elements (such as utility plans), policy elements (such as housing plans, economic development programs, etc.) and regulatory measures. According to state law the Comprehensive Plan is amended annually to incorporate changes in policies or programs. In addition to the Comprehensive Plan the City has also developed an Emergency Operations Plan.

CITY POLICY FRAMEWORK

Comprehensive Plan Implementation Program

Completed Actions (As of December 2014)

- Six Year Capital Facilities Plan Update
- Comprehensive Plan Update
- Water, Sewer, Storm Drainage Comprehensive Plan Update

Scheduled Actions (2015-2016)

- Major Comprehensive Plan Update
- Six Year Capital Facilities Plan Update
- Comprehensive Transportation Plan Update including non-motorized plan
- Parks, Arts and Recreation Plan Update

Funding Program

- Biennial City Budget
- Community Development Consolidated Plan
- Capital Facilities Plan

Budget Policy Development

The budget process is linked to this policy framework by the development of Council goals. The Citywide goals guide departmental objectives funded by the budget, which govern the activities of various departments in the implementation of the policy. The Capital Facilities Plan, which is derived from the Comprehensive Plan, is funded in the budget process.

Budget policy development involves several distinct steps. This policy starts with an understanding of needs and issues, describes explicit policies governing the development and management of financial resources, identifies broad goals, sets objectives with which to apply available funding, and concludes with specific funding proposals. In assessing issues and needs, this policy builds on actions taken in previous budgets, thereby providing continuity with previous programs. This allows community needs to be addressed on a multi-year basis, rather than attempting to satisfy all needs in one year. Explicit budget policies are statements that describe how financial resources of the City are obtained (various taxes, fees, rates, etc.) together with how they are allocated, managed, and controlled. The Council goals are broad policy statements that outline the significant objectives of the City. Budget objectives are policy statements summarizing the actions that are to be implemented in the budget.

These budget policies result from an ongoing process of economic and financial analysis by the Finance Department. The periodic financial reports, which are routinely reviewed by the Mayor and City Council, monitor progress against this analysis. The development of the Comprehensive Annual Financial Report (CAFR) is also an important part of the analysis process. The financial management policies result from combining the above analysis with Generally Accepted Accounting Principles (GAAP).

General Financial Goals

1. To provide a financial base sufficient to sustain municipal services to maintain the social well-being and physical condition of the City;
2. To be able to withstand local and regional economic downturns, changes in service requirements and respond to other changes affecting the City and community;
3. To maintain an excellent credit rating in the financial community and to assure the taxpayers the City of Auburn is maintained in a sound fiscal condition.

Financial Management Policies

The following policies guide the manner in which the budget develops, allocates, manages and controls financial resources available to the City. These policies are goals that the City seeks to achieve in its decision-making. However, since fiscal conditions and circumstances continually shift and change in response to operating needs, it may not be practical or always desirable to continually achieve these policies. Therefore, these policies are intended to guide, not govern, financial decision making and may not be fully achieved within any given budget period.

Guiding Principles

Sustainability of public services, responsibility and transparency in the management of public resources, and equity of financial burden to taxpayers and city service users form the bases for the City's financial management policies. The financial policies that are presented below provide the framework for which these policies are achieved. By following these policies, the City will work to:

- Protect and preserve the public's investment in City assets
- Protect and preserve the City's credit rating
- Provide for predictability and stability in City resources
- Provide for transparency and accountability in City financial management
- Plan for and mitigate looming fiscal issues and challenges
- Comply with State, Federal and local legal and reporting requirements

Organization

The City's financial policies are organized around several key areas of financial operations. These include:

1. Accounting and financial reporting
2. Operating budget
3. Revenue management
4. Capital facilities plan management
5. Public utility management
6. Debt management
7. Equipment replacement
8. Cash/Investments management
9. Reserve management
10. Lines of authority

Section 1. Accounting and Financial/Budget Reporting Policies

General policies governing the City's approach to accounting and financial reporting form the basis for complying with Federal, State and local laws and regulations and provide the framework for managing the finances of the City.

1. Fund and Fund Reporting Structure

1.1. In accordance with the Governmental Accounting Standards Board (GASB), the financial structure of the City shall be divided into tax-supported governmental funds (including a General Fund to support the governmental services of the City) and self-supporting proprietary funds established for non-governmental purposes. Proprietary funds shall include a series of enterprise funds, which shall be managed as business enterprises, completely supported by revenues derived by that enterprise.

1.2. The accounts of the City and its operating budget shall be maintained in accordance with the State Budgeting, Accounting, and Reporting System (BARS) code.

2. Independent Evaluation

2.1. The State Auditor will annually perform a financial and compliance audit of the City's financial statements. Their opinions will be contained in the City's Comprehensive Annual Financial Report (CAFR), and the State Auditor's Report.

2.2. As an additional independent confirmation of the quality of the City's financial reporting, the City will annually seek to obtain the Government Finance Officers Association Certificate of Achievement for Excellence in Financial Reporting and the Distinguished Budget Presentation Award. The Budget and CAFR will be presented in a way designed to communicate with citizens about the financial affairs of the City.

3. Budget Reporting

3.1. Revenues and expenditures for each City fund shall be balanced for each year of the biennium. Any adjustments to budgeted levels shall also be balanced between revenues and expenditures.

3.2. The adopted budget and subsequent amendments to the adopted budget for all funds shall be subject to appropriation that is expressly granted by Council ordinance.

3.3. Quarterly financial status reports will be prepared for City Council review. These reports will assess actual against budgeted revenue and expenditure performance, investment portfolio performance, and retail sales tax performance.

Section 2. Operating Budget Policies

An operating budget forms the foundation by which the City manages its resources and spending plans. In order for departments to legally spend money, authority in the form of an appropriation ordinance must be approved by Council. The City's biennial operating budget is developed by the Mayor and reviewed and approved by the City Council at the conclusion of each even numbered year and takes effect January 1st of each odd-numbered year.

1. General Management

1.1. The City budget is developed on a biennial (two-year) cycle, coinciding with the calendar year and starts each odd-numbered year (for example, the 2015-2016 budget is effective from January 1, 2015 through December 31, 2016). While the City budget is adopted for a two year period, appropriation of resources is made on an annual cycle.

1.2. Periodic adjustments to the City's biennial budget are necessary to recognize the receipt of unanticipated revenues and/or to modify spending plans. Adjustments to the City's budget will be collated and presented to the City Council for review and approval periodically.

1.2.1. There will be generally three (3) adjustments to the budget annually.

1.2.1.1. The first adjustment occurs approximately within the first three months of each year and is intended to address unanticipated revenues, spending plan modifications, and carry forwards of unspent project/program budgets on capital projects still in process.

1.2.1.2. The second adjustment occurs approximately during the summer and is intended to recognize actual beginning fund balances as a result of completed financial statements for the previous year.

1.2.1.3. The final adjustment occurs approximately during the fourth quarter of each year and is intended to address adjustments to revenues and spending plans prior to the conclusion of the year.

1.2.1.4. Additional adjustments to the budget may be required and is determined by the Finance Department

1.3. The City should accept ongoing service obligations in new areas of programming only when an adequate on-going source of funding is available.

1.4. A forecast of revenues and expenditures will be prepared concurrent with the preparation of the City's biennial budget. The forecast will cover the six-year period, inclusive of the two years for the new biennial budget (for example, the 2015-2016 budget will include a six-year financial forecast covering the period 2015 through 2020).

2. Monitoring and Reporting

2.1. Reports on the status of revenue collections and expenditures against biennial budgeted levels are prepared and presented to the City Council quarterly. These reports will highlight significant trends that may affect the ability of the City to stay within budget and to promote discussion between the City's management team and the City Council as to strategies to remain within budgeted levels.

3. Use of One-Time Resources

3.1. One-time funds will not be used to support on-going obligations. One-time resources may only be used to support one-time expenses such as capital investments or to replenish reserves.

4. Regional Social Service Funding

4.1. The City's role in social service funding shall continue to be supplemental (addressing special or unique local needs) to the basic responsibilities of regional agencies.

4.2. The City shall continue to advocate that the responsibility for funding basic social service needs rest with regional (or broader) agencies that have access to a broader basis of funding and can more appropriately address needs on a regional basis.

Section 3. Revenue Management Policies

A comprehensive revenue management policy is required to ensure the sustainability of public services, to minimize exposure of the City to economic downturns, to provide for financial stability, and to ensure equity between the cost of public services and the users of those services.

1. General Management

- 1.1. Revenue estimates for budget purposes should be conservative yet realistic.
- 1.2. Revenue forecasts should be prepared for a six-year period so as to enable identification of trends, changes to laws and regulations that may affect revenue growth and collections, and structural issues, such as the forecasted pace of growth in on-going revenues to on-going expenditures.
- 1.3. Timely payment of taxes, fees and charges owed to the City is needed to ensure quality public services. The City should aggressively pursue all amounts due to the City.
- 1.4. Indirect administrative costs associated with the operation of funds should be identified and charged against the operation of those funds.

2. Revenue Diversification

- 2.1. The City will seek to maintain a diversified mix of revenue to provide for long-term stability and predictability.
- 2.2. The City will seek to avoid dependence on temporary or unstable revenues to fund mainstream municipal services.
- 2.3. The City should avoid dependence on Federal revenues to fund ongoing mainstream municipal services.

3. Fees and Charges

- 3.1. General Fund services should be supported by user fees to the extent appropriate for the character of the service and its user.
- 3.2. User fees and charges should be reviewed prior to the start of each biennial budgeting cycle to ensure adequate cost of service recovery.
- 3.3. Charges for services should be sufficient to recover the full cost of related services, including direct operating costs, and other costs such as capital and overhead costs.
- 3.4. Modifications to user fees require approval by Council.

4. Grants and Unpredictable Revenues

- 4.1. Grant funds or similar contractual revenue of a temporary nature will be budgeted only if they are committed at the time of the preliminary budget. Otherwise, separate appropriations will be made during the year as grants are awarded or contracts made.
- 4.2. Unpredictable revenues, such as those derived from the sale of surplus inventory, shall be treated as a one-time revenue and shall not be used to support ongoing expenses.

Section 4. Capital Facilities Plan Financial Management Policies

Comprehensive capital planning is an integral part of community vitality, maintaining and improving the quality of life of City residents, encouraging economic development, ensuring public safety, and enabling the ability of the City to continue to provide quality public services.

1. General Management

- 1.1. The City will develop a multi-year plan for capital improvements as required by the Growth Management Act of Washington State. The Capital Facilities Plan (CFP) will be updated annually and be financially constrained for the appropriated budget period.
- 1.2. For each capital project, the CFP shall include a description of the project, its need and anticipated benefit to the City, and the anticipated impact the project may have on the City's operating budget, such as additional operating and maintenance (O&M) costs and staffing.

- 1.3. For each capital project and for each year of the six-year planning period, the CFP shall include an estimate of the cost of construction, an estimate of the annual O&M impact, and anticipated sources of funding.
- 1.4. The CFP shall be prepared and submitted to the City Council as part the proposed biennial operating budget. The CFP shall be updated annually.
- 1.5. The burden for financing capital should be borne by the primary beneficiaries of the facility.
- 1.6. Long-term borrowing for capital facilities should be considered an appropriate method of financing large facilities that benefit more than one generation of users.

2. Cost of Private Development

- 2.1 Private development of residential, industrial, and commercial properties shall pay its fair share of capital improvements that are necessary to serve the development. The City shall utilize statutorily authorized tools such as system development charges, impact fees, mitigation fees, or benefit districts, or other user fees to capture the cost of serving such developments.

3. Monitoring and Reporting

- 3.1. Reports on the status of projects included in the CFP shall be prepared and presented to the City Council monthly. These reports will highlight the status of project construction, scheduling, spending and funding and discuss any significant issues or trends that may affect the ability of the City to stay within budget and to promote discussion between the City's management team and the City Council as to strategies to remain within budgeted levels.

Section 5. Public Utility Operating and Capital Financial Management

Comprehensive operating and capital planning for Water, Sewer, Storm Drainage, and Solid Waste services is required for maintaining public health/safety and quality of life as well as supporting economic development. Each utility is operated as an independent enterprise and as such is expected to be financially self-sufficient and without subsidy from the City's General Fund or other funds. Rate revenue must be sufficient to fully fund the direct and indirect operating, capital, debt service costs, and annual depreciation of each utility.

1. General Management

- 1.1. Utility financial operations and capital spending plans will be prepared coincident with the City's biennial budget. The utility capital spending plans will be prepared consistent with the City's Comprehensive Plan and in consultation with the City Council and the City's Planning Commission.
- 1.2. The Finance Department will prepare a six-year financial forecast evaluating the revenue requirements for each utility and determine the sufficiency of existing rates to finance forecasted operating and capital costs. The evaluation will include identifying any significant changes in services, customers, laws/regulations, and/or consumer behavior (such as water usage) that may affect utility expenses and revenues. Results of the six-year financial forecast will be reviewed with the City Council coincident with the Council's review of the six-year General Fund financial forecast.
- 1.3. Similar to the City's General Fund, one-time utility resources (such as grants and fund balance) should not be used to finance on-going utility expenses.
- 1.4. Enterprise funds shall be budgeted on a flexible basis, which allows activities to expand and contract in accordance with increased or decreased revenue earning activity.
- 1.5. The City will promote a local improvement district program for certain street, water, sewer, and storm drainage improvements. They will be funded with no protest covenants obtained from property owners whenever possible.

1.6. Enterprise fund working capital in excess of that needed for operations may be used for capital needs in order to conserve the debt capacity of those funds for major facility expansions to meet future needs.

1.7. Depreciation shall be accounted for, and should be used, as a measure of capital development needs in the utilities. As such, the first priority for the use of such funds should be in maintaining existing services. Costs incurred because of growth should be borne by new users, and extension of services to new users should be on the basis of an investment decision by which the capital expenses will be recouped through rate income from new users.

2. Utility Rate Management

2.1. The City should adjust utility and other enterprise fund rates in increments adequate to offset inflation and to maintain adequate working capital balance and equities. Modifications to the City's utility rates and/or rate structure will be reviewed and approved by the City Council. Utility rates should be approved for a rolling three to five year period (for example, utility rates evaluated in 2012 should include recommended rates for the period 2013 through 2017). Approval of utility rates sufficient to support forecasted utility expenses should occur prior to, or concurrent with, approval of the utility budget.

2.2. Utility rates will be sufficient to fully fund the forecasted direct and indirect operational costs and capital costs, including the cost of annual depreciation and to meet utility debt service coverage requirements, if any.

2.3. Utility rates should be periodically evaluated on a cost-of-service basis to ensure sufficiency and equity in the delivery of services to customer classes. Cost of service evaluations should occur once every 4 to 6 years or when significant changes in the mix or makeup of customers occur.

3. Utility Revenue Debt Management

3.1. The City will strive to maintain a ratio of 50% debt/50% equity (cash), achieved by debt-financing no more than 60% of each six-year utility capital facilities plan.

3.2. Gross utility rate revenue, net of operating expenses exclusive of depreciation, will be sufficient to provide a minimum of 1.25 times debt service coverage of all outstanding revenue bonds or the level of coverage called for in the revenue bond covenants, whichever is greater.

3.3. Revenue bond debt service coverage requirements can be met on a combined utility basis but will be conservatively tested on an individual utility bases. System development revenue, which can be included as part of the coverage test, should be excluded to further provide for conservative testing of coverage requirements.

3.4. In the event new revenue bonds are required to support the planned capital investments of the utility, approval of rates sufficient to pay the debt service including coverage requirements should occur prior to the issuance of such bonds.

4. Utility Reserve Management

4.1. Each utility fund should maintain adequate fund balances/working capital to meet cash flow requirements and unexpected contingencies. The City shall maintain minimum working capital balances in these funds for operations and maintenance expenses (depreciation not included).

4.1.1. Water, 25%, approximately 90 days;

4.1.2. Wastewater, Surface Water and Solid Waste utility funds, 16%, approximately 60 days; and

4.1.3. King County Wastewater Treatment, \$360,000, approximately 2%.

Section 6. Debt Management Policies

Strategic use of short- and long-term debt is an important element of the City's financial toolbox as its use can leverage existing resources and support temporary/short-term cash flow needs of the City and enable the accomplishment of large investments. However, as debt service payments can obligate City resources over a long period time, its use and impact on City cash flow, ratings by financial institutions, and compliance with statutory requirements should be carefully considered.

1. General Management

- 1.1. The City will not use short-term or long-term debt to support ongoing operations.
- 1.2. Prior to the decision to issue general obligation debt, which is an obligation against the general taxing authority of the City, the feasibility of alternative methods of financing using special assessments, fees/charges, and special revenue debt should first be determined.
- 1.3. The City will work to maintain strong ratings on its debt including maintaining open communications with bond rating agencies concerning its financial condition.
- 1.4. General Obligation (GO) Bond debt should be scheduled for repayment based on the entire outstanding debt not just the individual issue; in a manner which seeks to reduce fluctuation in the total tax rate.
- 1.5. The City will strive to improve its bond ratings by improving its financial stability.
- 1.6. The City shall employ competent financial advisors and bond attorneys for all large bond issues.

2. Debt Capacity

- 2.1. Annual debt service should not exceed fifteen percent (15%) of operating revenues.
- 2.2. Total direct debt should not exceed two percent (2%) of the City's assessed value.
- 2.3. No more than sixty percent (60%) of the City's capital program should be debt financed.

3. Short-Term Debt

- 3.1. Short-term debt is defined as a period of three years or less. The City shall use short-term debt to meet temporary cash flow needs that are caused by a delay in receipting of anticipated revenues or for issuing long-term debt.
- 3.2. Interfund loans may be issued to meet short-term cash flow needs. Interfund loans will only be used when the recipient fund's revenue stream is anticipated to be sufficient to repay the loan.
- 3.3. Interfund loans must be repaid within the period of one year or as stated in the ordinance or resolution, and will bear interest based upon prevailing rates.
- 3.4. All interfund loans require Council approval in the form of an ordinance or resolution.
- 3.5. The City will not use short-term debt for current operations.

4. Long-Term Debt

- 4.1. Long-term debt is defined as exceeding three years. Long-term debt will only be used when pay-as-you-go financing of capital projects is not feasible. Long-term debt service payments will not exceed the expected life of a project. Long-term debt will be used to finance City needs that can be capitalized and depreciated.
- 4.2. Long-term debt can be refunded if the net present value (NPV) of savings is at least four percent (4%).
- 4.3. Self-supporting bonds (such as special assessment improvement districts) may only be used to finance improvements associated with the subject improvement districts.

Section 7. Equipment Replacement

The City's physical assets, such as vehicles and buildings, represent a significant investment of resources. Timely maintenance and replacement of these assets at the end of their useful lives is necessary for reliability and quality of public services and ensures public and employee safety.

1. General Management

- 1.1. The City will maintain a comprehensive inventory of its physical assets including its useful life, original purchase date and cost, information on its general condition, and the estimated value of replacement.
- 1.2. The City will maintain a replacement schedule by physical asset indicating the replacement cost and its corresponding source of funding. The replacement schedule will be reviewed annually and budgeted as part of the City's biennial budgeting process.
- 1.3. The City will maintain its physical assets at a level adequate to protect the City's capital investment and minimize future maintenance and replacement costs and provide for the timely maintenance and orderly replacement of capital and equipment from current revenues or equipment reserve funds where possible.
- 1.4. Equipment reserve funds will be maintained at levels sufficient to meet scheduled equipment replacement and ensure public and employee safety and to prevent a deterioration in City assets.
- 1.5. Accounting and tracking of City assets are codified under Administrative Code Section 100-31.

Section 8. Cash / Investment Management

The City's Investment Policy is codified under Administrative Code #100-40. Consistent with this policy, the Finance Director will annually submit the investment policy to the City Council for review.

Section 9. Reserve Policies

Reserves and reserve management policies are an important and necessary part of any financial management plan. Reserves are established as a hedge against cash flow fluctuations that are expected to occur during the course of the year, to sustain the City during economic downturns, and to sustain City services in the event of unanticipated needs, catastrophic events or natural disasters. The following policies provide definitions for the appropriate level of reserves and how these resources should be replenished in the event they are used.

1. General Management

- 1.1. General government funds should maintain adequate fund balances or working capital to meet unexpected contingencies.
- 1.2. The City will maintain a Cumulative Reserve Fund in an amount of at least 5% of General Government operating expenditures, with a target of 10%. Expenditures utilizing the Cumulative Reserve Fund are used for stabilization of general operations during counter-cyclical times to protect the City from unforeseen contingencies and to maintain one year payments of general obligation debt service, and general governmental capital projects. Accumulation of reserves can be made from a variety of revenue sources and can include one-time revenues and year-end surpluses.
- 1.3. Minimum fund operating reserve balances will be maintained as follows:
 - 1.3.1. The General Fund shall maintain at least 8% of total budgeted operating expenditures, with a target of 12%.
 - 1.3.2. Each enterprise fund should maintain adequate fund balances or working capital to meet unexpected contingencies and cash flow needs. Each utility fund shall strive to ensure ongoing system integrity through reinvestment in the system. To mitigate impact to rates, the City will phase in system reinvestment over a 10-year period in equal 10% increments starting in 2012.

- 1.3.3. Other proprietary funds should maintain working capital balances of 10% to 20% of their budgeted operating, maintenance and capital expenditures.
- 1.3.4. Replacement reserves shall be established for equipment and computer software should the need continue beyond the estimated initial useful life, regardless of whether the equipment is acquired via lease, gift or purchase. Service charges paid by City departments to the appropriate Internal Service funds should include an amount to provide for replacements. Minimum reserves for these funds should be as follows:
- 1.3.4.1. Equipment Rental and Replacement:
Operating reserves of 30 days (excluding depreciation) and replacement reserves equal to three times depreciation.
- 1.3.4.2. Innovation and Technology:
Operating reserves of 30 days (excluding depreciation) and replacement reserves equal to three times depreciation.
- 1.3.4.3. Facilities:
Operating reserves of 30 days and repair and replacement reserves equal to 50% of one year of operations.
- 1.3.4.4. Reserve balances of other funds shall be set through the budget process in an amount consistent with the purpose and nature of the fund.
- 1.4. Evaluation of reserve levels will be made in conjunction with the City's budget.

2. Use and Replenishment

- 2.1. Use of reserves to address cash flow needs and for which funds will be replenished within one year can be authorized with Mayoral approval.
- 2.2. Use of reserves where replenishment exceeds one year will require review and approval by the City Council. This review will include the need for using reserves, the anticipated plan to replenish the reserve account, the anticipated rate and time period over which the fund will be replenished, and the source of funds. Regular reports to Council will be made as to the status of reserve replenishment.
- 2.3. The rate of replenishment will not exceed three years of use.

Section 10. Lines of Authority

This section delineates the roles and responsibilities of the Council, the Mayor and the Departments in the management of City resources.

1. General Management

- 1.1. The City Council has the authority to execute legislative policies and approve the City's budget at the fund level. The City Council has the authority to review the status of the City's financial performance and amend the budget at the fund level.
- 1.2. The City Council has the authority to review the City's quarterly financial reports and to provide policy guidance to the Mayor on issues.
- 1.3. The Mayor has the administrative authority to oversee development of the biennial budget, to propose amendments to the City Council, to approve operating and capital spending decisions within the parameters of the Council approved budget, and to enter into contractual agreements to execute the intent of the budget.
- 1.4. Each Department Director has the authority to expend City funds within their approved budget authority and in accordance with direction and procedures prescribed by the Mayor's Office and to recommend budget requests to the Mayor.