

FISCAL POLICY

CITY OF REDMOND, WASHINGTON

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 Redmond city government is maintained in sound fiscal condition.
- d. To consider and provide for the needs of future generations in the Redmond community.

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 budget will be developed every two years using a "budgeting by priorities" process.
- b. The goals of the budgeting by priorities process are:
 - Align the budget with 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 major operating funds shall be projected for the current biennium and the ensuing four years.
- 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 maintain 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.
- h. All general government current operating expenditures will be paid from current revenues.

Reports on revenues and expenditures will be prepared on a timely basis monthly and reviewed quarterly by the City Council.

The city will avoid budgetary and accounting procedures which balance the current budget at the expense of future budgets.

The City of Redmond defines a balanced budget as current biennium revenues (including fund balances) are equal to or greater than current biennium budgeted expenditures.

The City further defines a structurally balanced budget as current on-going revenues (without including fund balances) as equal to or greater than current on-going expenses.

The City will not use one-time revenues for operations.

- i. All supplemental appropriations for programs (appropriations requested after the original budget is adopted) will be considered as a result of changes since the adoption of the biennial budget including the availability of new revenues (such as unanticipated grants).

All supplemental appropriations will conform to the “budgeting by priorities” process.

- j. Budget Calendar
 - In order to facilitate and implement the budget process, the Mayor will propose a biennial budget calendar at the first regular Council meeting in April in every even year.
 - The calendar will be comprehensive in nature and generally provide for a process that resembles the Best Practices for municipal budgets as published by the Government Finance Officers Association.

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. To pursue this policy goal the City Council will consider revenue changes in the context of its review of the City’s Long Range Financial Strategy.

- 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 best practices as defined by the Government Finance Officers Association. Economic assumptions will be based on reliable and relevant sources such as the Washington State Office of Forecast Council.
- d. The City will project revenues for the next six years and will update this projection biennially. This projection will be consistent with policy 2d above and the overall “price of government” as described in the Long Range Financial Strategy.

The Finance Department will biennially review and make available to the Finance, Administration and Communications Committee an analysis of each potential major revenue source before going to the full Council for review.

The City will refrain from making budgetary decisions (specifically allocating resources to be expended) outside of a budget process as described by this policy (inclusive of the biennial budget as well as a formal budget amendment).

- e. 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.
- f. In each odd numbered 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 recreational services, at a level to support the direct and indirect costs of the activity in accordance with cost recovery policies adopted by Council.
- g. The City will set fees and user charges for each enterprise fund at a level that fully supports the total direct and indirect cost of the activity including the cost of annual depreciation of capital assets. For rate modeling purposes the City will utilize three financial tests: Net Income Test, Cash Flow Test, and Coverage Test, to evaluate revenue sufficiency. The results of these tests will be used in the rate setting process to ensure that the enterprise funds generate the appropriate level of revenue to satisfy all operating costs, cash obligations, and debt coverage requirement of 1.2 times 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).
- d. The City will forecast its General Fund expenditures biennially for the next six years. The drivers and assumptions used in the forecast will be described.
- e. A cost allocation plan will be maintained and updated as a part of each City budget. The cost allocation plan will be the basis for distribution of general government costs to other funds or capital projects (also known as indirect costs).

5. Capital Investment Budget Policies

- a. The City will make capital improvements in accordance with an adopted capital investment program. Capital funds may be used on:
 - 1. Non-recurring capital expenditures (such as capital projects).
 - a. Qualifying non-recurring capital projects should be at least \$50,000 (or part of a system with a value of more than \$50,000); and
 - b. towards an asset with a useful life of at least five years; or
 - c. directly for related costs (such as studies, plans, monitoring of capital asset performance, etc.); or
 - d. planning efforts that result in specific capital improvements identified in the City's Capital Investment Strategy and approved by the Capital Investment Program Governance Committee.
- b. The capital investment program 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 investment program 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 and update it every biennium. 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.
- e. All staff (FTEs) related to capital project implementation will charge directly to capital projects if the projects are a part of the Capital Investment Strategy and approved by the City's Capital Investment Program Governance Committee.

- f. The City will determine the least costly financing method for all new projects.
- g. The City will transfer, annually, at least five percent (5%) of General Fund revenues (excluding development and significant one-time revenues), available one-time money and the pavement management contribution to the capital investment program as part of the City's biennial budget.
- h. The City will develop and maintain a "Capital Investment Strategy" (also known as the "Vision Blueprint") that facilitates the planning for meeting the facility and other capital needs of the community consistent with the City's vision, comprehensive plan and functional area plans (in that order).
- i. Discretionary capital investment revenues collected from the five percent (5%) or more General Fund transfer and real estate excise tax will be utilized for capital improvements that support the vision of the city consistent with the City's Capital Investment Strategy.
- j. Real Estate Excise Tax will be used for one-time capital project funding, not for general maintenance of the City's infrastructure as allowed by law.
- k. A contribution (\$1.1 million) from sales tax on construction, adjusted annually for inflation, will be transferred into the capital investment program.
- l. Applications to receive grant funding will only be submitted if the project receiving the funding is a part of the City's Capital Investment Strategy and/or approve by the Capital Investment Program Governance Committee.
- m. The City will utilize the Business Fee and Tax Advisory Committee to advise the City on expenditures from the transportation surcharge portion of the Business Tax as outlined in City Council Resolution Number 1375.

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 and will bear interest based upon prevailing rates.

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 currently outstanding debt is also an acceptable use of bond proceeds provided that the net present value (NPV) of savings is at least 4%.
- d. The City will determine whether self-supporting bonds (such as special assessment 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 proactive communications with the investment community about its financial condition. The City will follow a policy of full disclosure on financial reports 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.
 3. Before general obligation bond propositions are placed before the voters, the capital project under consideration should have been included in the Capital Improvement Program. The source of funds should describe the intended use of bond financing.
- 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. 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. 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 2.5% limit, the Redmond City Council may approve bond issues and/or lease purchases up to 1.5% of the city's total assessed value. In addition, state law provides for an additional 2.5% of assessed valuation for parks and open space purposes with a vote of the public.
2. Lease purchase financing may be used when the cost of borrowing or other factors make it in the City's best interest.

j. Long Term Interfund Loans

1. The City may issue interfund loans rather than outside debt instruments as a means of financing capital improvements. 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 anticipated operations. All interfund borrowing will be subject to prior approval by the City Council and will bear interest based upon prevailing rates.
2. The decision to use interfund loans rather than outside debt will be based on which is deemed to be the most cost effective approach to meet city capital needs. Such assessment will be reviewed by the City's Financial Advisor who shall provide an objective analysis and recommendation to the City Council.

8. Reserve Fund Policies

- a. The City will maintain a General Operating Reserve of at least 8.5% of the total General Fund budgeted revenue, excluding the beginning fund balance, development review revenue, and any significant one-time revenue.

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.
- b. Biennium surpluses in the General Fund will be used to fund one-time operations and capital expenditures, dedicated to the Capital Improvement Program or placed in an

economic contingency account if there are surplus balances remaining after all current expenditure obligations and reserve requirements are met.

- 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 biennial budget.
- d. The City will also maintain 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 City shall maintain 4% of total General Fund budgeted revenue, excluding the beginning fund balance, development review revenue, and any significant one-time revenue as a target for the Economic Contingency.

This contingency shall serve as a hedge against underperforming revenue estimates with council's approval prior to its use. 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.

- e. The City will maintain operating reserves in the following funds: 12% (55 days) for the Water/Wastewater Operations and Maintenance Funds, not including Metro Wastewater Treatment expenses, 5% for the Stormwater Management Fund and 12% for the Solid Waste/Recycling Fund. This operating reserve shall be created and maintained to provide sufficient cash flow to meet daily financial needs and will be based upon total operating expenses. The reserve requirement for the Water/Wastewater Operations and Maintenance Funds can be met by the fund balance of the rate stabilization fund. For budgeting purposes, operating expenses will be calculated upon the funds' total expense budgets excluding ending fund balances, capital purchases, and the current year's portion of principal paid on outstanding debt.
- f. In order to maintain the significant investments in utility capital assets there shall be a transfer from the utility operations funds to the utility capital project or reserve funds to be expended on future utility capital projects. The transfer will be calculated on the current year's depreciation expense, less the annual principal payments on outstanding debt.
- g. The City will establish a revenue stabilization fund for the Water and Wastewater utilities. The required fund balance shall be set at 15% of the total of water and wastewater revenues collected through monthly rates excluding the portion of monthly revenues for King County wastewater treatment. The balance of this fund can be utilized to meet the reserve requirement for the Water/Wastewater Operations and Maintenance Funds. Monies may be withdrawn from the revenue stabilization funds to supplement operating revenues in years of revenue shortfalls caused by reduced sales due to weather

or restrictions on water use. The revenue stabilization funds will be replenished within four years of a withdrawal.

- h. Bond reserves shall be created and maintained by the Water/Wastewater and Stormwater Utilities in accordance with the provisions set forth in the bond covenants. These shall be in addition to the reserves described above.
- i. The City shall additionally maintain the following Equipment Replacement Reserve Funds:
 - 1. Fleet Maintenance Reserve;
 - 2. Fire Equipment Reserve; and
 - 3. Capital Equipment Reserve for general asset replacement.

The Equipment Reserve Funds will be maintained at a level sufficient to meet scheduled equipment replacement so as to sustain an acceptable level of municipal services and prevent a physical deterioration of City assets. An assessment of the sufficiency of this reserve will be made during each budget cycle.

- j. The City shall also maintain Reserve Funds as follows:
 - 1. All statutorily required reserve funds to guarantee debt service; and
 - 2. A vacation accrual reserve.
 - 3. A reserve to stabilize contributions to state retirement systems due to temporary fluctuations in state rates, as necessary.

No reserve shall be established for sick leave. One-fourth of accrued sick leave is payable only upon qualifying retirement and is not considered material.

9. Investment Policies

The Finance & Information Services Director will biennially submit any recommended amendments to the City's investment policy to the City Council for review.

10. Special Revenue Policies

- a. The City will establish and maintain Special Revenue Funds in accordance with Generally Accepted Accounting Principles 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.

1. The City will comply with GASB Statement 54 which defines the appropriate use of Special Revenue Funds for reporting purposes. The City Council may determine to separate the General Fund into supporting “sub-funds” for budgeting and management purposes. These “sub-funds” will be combined for financial reporting purposes to comply with GASB Statement 54.
- 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 budgets and accounts for revenues and expenditures on a modified accrual basis in its day to day operations.
- b. The accounting system will maintain records on a basis consistent with accepted standards for local government accounting and the State of Washington Budgeting, Accounting, and Reporting Systems.
- c. Regular monthly and 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.redmond.gov).
- d. The annual financial report shall conform to Generally Accepted Accounting Principles and be in the form of a Comprehensive Annual Financial Report as described by the GFOA. This report will contain all required information necessary to comply with secondary market disclosures for outstanding bonds (see policy 7f above).
- e. A fixed asset system will be maintained to identify all City assets, their location, condition, and disposition.
- f. The City will ensure that City records are audited annually 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 city’s web site.