

CITY OF SUMNER
COMPREHENSIVE FINANCIAL AND BUDGET POLICIES
May, 2008

The City of Sumner is accountable to its citizens for the use of public dollars. The following City of Sumner comprehensive financial and budget policies adopted by the City Council establish the framework for Sumner's overall fiscal planning and management to ensure that it fulfills this fiduciary responsibility. They set forth guidelines against which current budgetary performance can be measured and proposals for future programs can be evaluated. Sumner's publicly adopted financial and budget policies show the credit rating industry and prospective investors (bond buyers) the City's commitment to sound financial management and fiscal integrity. The financial and budget policies also improve the City's fiscal stability by helping City officials plan fiscal strategy with a consistent approach. The City is in compliance with the comprehensive financial and budget policies adopted with this budget.

OPERATING MANAGEMENT POLICIES

- Recurring operating expenses/expenditures will be funded using recurring operating revenues rather than one-time revenues.
- The budget process is intended to weigh all competing requests for City resources, within expected fiscal constraints. Requests for new, ongoing programs should be made in conjunction with the biennial budget process or a budget adjustment process.
- A biennial budget approach will be used to provide stability to the day to day operations while allowing budget corrections as unforeseen circumstances arise.
- A five-year forecast of General Fund revenue and expense forecasts will be prepared at the beginning of each budget process to determine whether the current mix and level of resources are likely to continue to be sufficient to cover current service levels and to provide for long-term strategic planning.
- All departments will participate in the responsibility of meeting policy goals and ensuring long-term financial health.
- Provide sufficient resources to the Contingency Funds so that they can be used to reasonably respond to critical unforeseen needs of the City without requiring the City to divert resources from other important services. Expenditures from the Contingency Fund require the approval of a super-majority of the City Council.
- Establish utility rates sufficient to provide net positive operating results and to meet or exceed any revenue bond coverage requirements.

RESERVE POLICIES

Cash reserves contribute to the financial stability and health of the City in a variety of ways. They can be used to fund unexpected one-time expenditures/expenses; they can be used to mitigate the effects of an economic downturn or other events that cause a reduction in revenues, and they help the City maintain favorable credit ratings.

General Fund Reserve Policies – As a minimum, the General Fund should have reserves sufficient to operate for at least one month or 8% of budgeted expenses. Recommended “best practices” are to maximum 15% or a two month reserve which shall be the “target” reserve but no use of ending fund balance below 8% shall be authorized without a vote of the majority plus one (“super majority”) of the City Council.

Utility Fund Reserve Policies – The Water and Sewer Utilities shall maintain a minimum of two months cash reserves (15% of budgeted expenses) each to provide for seasonal variability of revenues. The Storm Water Utility has a more consistent source of revenues and, therefore, shall maintain a minimum of one month cash reserves (8% of budgeted expenses).

Fleet Management Reserve Policies – Fleet Management Reserve will be maintained based upon lifecycle replacement plans to ensure adequate fund balance required for systematic replacement of fleet vehicles and operational contingencies. Operating departments will be charged for fleet operating costs per vehicle class and replacement costs spread over the useful life of the vehicles.

Other Funds Reserve Policies – Reserve balances of other funds shall be set through the budget process in an amount consistent with the purpose and nature of the fund.

CAPITAL MANAGEMENT

Estimating future needs well in advance helps the City develop practical strategies for meeting future demands. Preparing for the challenges of infrastructure replacement and/or enhancements demands a long-term view of replacement needs in an effort to:

- Ensure that the City’s infrastructure is improved to meet the community’s expectations and that there is no further growth in aggregate dollar amount of deferred maintenance
- Moderate changes in tax levies and user fees
- Manage debt levels
- Predict and carefully plan for future debt issuance
- Provide stable revenues
- Limit the use of special assessments to finance replacement costs

In general sharp changes in tax levies and user fees are unacceptable to citizens, business owner, and elected officials. In order to provide stability the City will:

- Develop a six year Capital Improvement Plan and update as needed, including anticipated funding sources. Capital improvement projects are defined as infrastructure or equipment purchases or construction which results in a capitalized assets costing more than \$5,000 and having a useful (depreciable life) of two or more years.
- Capital equipment replacement will be accomplished through the use of a “rental” rate structure. The rates will be revised annually to ensure that charges to operating departments are sufficient for operation and replacement of vehicles and other capital equipment (fleet, computers and phones).— Replacement costs will be based upon equipment lifecycles financial analysis.

DEBT POLICIES

- The City will seek to maintain and, if possible, improve our current bond rating in order to minimize borrowing costs and preserve access to credit.
- Long-term borrowing shall be confined to capital improvements or similar projects with an extended life when it is not practical to be financed from current revenues. The City shall not use long-term debt to finance current operations.

- Long-term debt will be structured in a manner so that the term of the debt does not exceed the expected useful life of the asset or improvement being funded.
- Utility debt will be secured solely by the revenues of the utility or by special assessments in the case of Utility Local Improvement District's (ULID's) and will not be secured by a general pledge of the City's revenues unless authorized by a vote of the majority plus one ("super majority") of the City Council.
- The City will annually prepare Schedules of Long-term Debt and Constitutional Limitation of Indebtedness in the form prescribed by the State Auditor to report its debt outstanding and its compliance with State debt limits.

INVESTMENT POLICIES

The policy on investments applies to the investment of all City funds, excluding pension funds. The investment program is intended to provide safe, maximum returns and adequate liquidity to meet cash flow requirements. The minimum requirement for liquidity for operating funds is eight percent (8%) of the annual operating budget.

The City may invest in any of the securities identified as eligible investments as defined by RCW 35A.40.050. In general, these include: Certificates of Deposit, United States Securities, Banker's Acceptances, Repurchase Agreements and Certificates, and Notes and Bonds of the State of Washington. Speculative investments are not allowed.

All investments shall be made through an informal bidding process. The policy shall be to assure no single institution or security is invested into, to such an extent that a delay of liquidation at maturity is likely to cause a current cash flow emergency.

UTILITY FUND RATE PROJECTION POLICIES

- Utility rate studies shall be conducted at least every five years to update assumptions and ensure the long-term solvency and viability of the City's utilities.
- Utility rate review shall be reviewed at least biennially and necessary adjustments made to reflect inflation, construction needs, and to avoid major increases.
- Rates should be adequate to ensure reliable, competitively priced services for our customers. Net revenues in excess of both legal requirements and minimum working cash balances should be used to minimize future rate increases by funding approved capital projects, retiring high cost debt, augmenting reserves established to reduce ratepayer risk

ACCOUNTING AND FINANCIAL REPORTING POLICIES

The City will utilize a "fund" accounting system wherein monies restricted for specific purposes are accounted for in separate "funds" in accordance with national accounting practices. Unrestricted monies will be accounted for in the General Fund. The City will maintain its accounting system on the cash basis of accounting as permitted by the State Auditor and will use the BARS chart of accounts as required by the State Auditor for the General Fund, as well as Special Revenue, Capital Project and Trust Funds. The City will maintain its accounting system on an accrual basis of accounting for its Utility and Internal Service Funds as permitted by the State Auditor.

The City will prepare periodic reports that show budget to actual activity. Also included in these periodic reports will be unusual or unplanned activities.

The City will prepare an annual financial report using the forms prescribed by the State Auditor and will be audited on a schedule determined by the State Auditor as prescribed by State law. The City may, from time-to-time, arrange for additional audits when considered beneficial to the City's operations. Additionally, the Finance Department will prepare quarterly financial reports showing the budget versus actual revenues and actual expenses and projecting year end results for the General Fund and each utility fund.