

City of Mabton, Washington

**FINANCIAL POLICY**

Approved by Resolution No. 2014-03

Date: May 27, 2014

**Revised by Resolution No. 2015-08**

Date: October 13, 2015

**POLICY PURPOSE:**

The City of Mabton adopts this Financial Policy for the purpose of establishing consistent guidelines for municipal fiscal budget and planning. These policies incorporate City Council approved values and expectations which will serve as a guide for City Council members, staff, citizens and other parties conducting business with the City. The policies set forth guidelines for financial planning, budgeting, accounting, reporting and other management practices. It is the City's goal to assure prudent financial management and responsible stewardship of the City's financial and physical assets.

In order to assist in fund review and management, the City Clerk/Treasurer prepares multi-year projections for the water and sewer funds which are used for budget planning and to evaluate the viability/sustainability of each of the funds. Due to constraints in financial resources, multi-year financial planning is a goal that may not be immediately achieved in all city funds.

**A. FUND DEFINITIONS:**

General (Current Expense) Fund (001)

This fund is the primary operating fund of the City of Mabton. It accounts for all financial resources except those required or elected to be accounted for in another fund.

Special Revenue Funds (100-199)

These funds account for specific revenues that are restricted or committed to expenditures for specified purposes of the City of Mabton.

Debt Service Funds (200-299)

These funds account for the financial resources that are restricted, committed, or assigned to expenditures for principal, interest and related costs on general long term debt.

Capital Project Funds (300-399)

These funds account for financial resources which are restricted, committed or assigned for the acquisition or construction of capital facilities or other capital assets.

Permanent Funds (700-799)

These funds account for financial resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that support programs for the benefit of the government or its citizenry.

**PROPRIETARY FUND TYPES:**

Enterprise Funds (400-499)

These funds account for operations that provide goods or services to the general public and are supported primarily through user fees/charges.

Internal Service Funds (500-599)

These funds account for operations that provide goods or services to other departments or funds of the city on a cost-reimbursement basis.

Agency Funds (631-699)

These funds are used to account for assets that the city holds for others in an agency capacity.

**B. RESOURCE PLANNING AND ALLOCATION POLICIES:**

1. City Council and staff shall review revenues and expenditures of the various funds through the annual budget process to assure stability, continuity and fiscal integrity in the provision of all city services. The purpose of this annual planning process will be for citizens, staff, advisory committees and the City Council to review, evaluate and discuss current and future programs, service levels and capital improvement needs and requirements. The City shall consider relevant economic conditions, estimate revenues and reserves, changes in levels of service delivery, operating expenses, capital improvement requirements, and debt service for all funds.
2. City of Mabton establishes a goal to maintain and retain a minimum General Fund (001) operating reserve or an ending fund balance - between 10% to 15% of current fiscal year General Fund revenues. A Contingency Reserve Fund shall be established and maintained at 3% to 5% of General Fund revenues. The operating reserves are intended to offset or protect against fluctuations or changes in revenues or operating costs in order to stabilize services and the City's work force. The reserve funds assure protection for changes in revenues and economic conditions. The Contingency Reserve Fund is an emergency fund to be used to address unforeseen or emergent circumstances and allows City Council to address the situation without disrupting budgeted commitments.
3. If a fund's ending balance is sufficient, excess reserves or other one-time revenues, may be used for capital, equipment, or other one-time projects or services that improve the City's productivity and efficiency.
4. City of Mabton shall establish and maintain a Street Fund with a budgeted ending or reserve fund balance of 8% to 15% of annual revenues. If the Street Fund's ending or reserve balance is sufficient, excess reserves or other one-time revenues, may be used for capital, equipment, or other one-time projects or services that relate to transportation or allowable Street Fund expenditures.
5. The Operating and Capital Budgets will be incorporated into the forecast, planning and budget process. Operating and Capital Budgets shall be fund levels and reserves to provide for

municipal operating services, maintenance and replacement of fixed assets and acquisitions determined to be reasonable or necessary for provision of public services and facilities.

6. The City's annual budget will include information related to Capital Financial Planning for the water and sewer funds. The City Clerk/Treasurer shall present a Financial Plan to the Finance Committee for consideration and recommendation to the City Council. The plan shall be prepared on an annual basis and shall address current City goals and policies, and other long-range planning considerations related to capital improvement needs of the City. The City Council will review and update the Financial Plan each fiscal year.
7. The City budget will implement City Council adopted goals and policies, long-range plans, the level of service delivery choices for the community and revenue allocation policies of the City Council.
8. The City will use "prudent revenue and expenditure assumptions" in their budget planning documents and financial forecasts.
9. City adopts a general policy that ongoing expenditures (which exclude ending fund balances) should not exceed ongoing revenues (which exclude beginning fund balances). City Clerk/Treasurer and staff shall periodically review ongoing revenues and expenses to assure compliance with budget directives and assure sustainability of public services and facilities.
10. The City may supplement the Street Fund by allocating 10% to 15% of the annual property taxes and 10% to 15% of annual Utility Taxes. Any such allocated funds shall be applied to maintenance or improvement of streets and transportation facilities. This allocation will be reviewed each fiscal year by staff and if deemed necessary forwarded to the City Council for proposed adjustments.

**C. ACCOUNTING AND FINANCIAL PRACTICE POLICIES:**

1. The City will maintain an accounting and financial reporting system that complies with applicable professional standards and state accounting requirements.
2. Regardless of the budget appropriation, if a fund's revenues are less than projected, the City Clerk/Treasurer shall review the operating capital and ending fund balances and report (on a quarterly basis) with recommendations for possible adjustments to the City Council.
3. If a fund's ending balance meets established reserve levels, any excess reserves or other one-time revenues, may be applied by City Council for capital improvements, equipment, or other one-time projects or services that improve the City's productivity, efficiency and/or provision of public services.

#### **D. REVENUE AND COLLECTION POLICIES:**

1. The General Fund and its related reserve funds exist to provide services and benefits related to the general safety, health and welfare of the community. These services include: public safety, parks, recreation and general community planning and development, a proportionate share of overhead costs for administrative and legislative services. While some services are budgeted in the general fund such as development fees, these services provide specific private benefits to the users. These services are funded by user fees/charges to recover the City's costs.
2. Street funds are generated primarily through gas tax revenues and a portion of the city's property and utility taxes. The funds are applied to maintenance and capital improvements to the residential and arterial street system including a share of the administrative expenses of the City.
3. The City periodically compares the city's user fees/charges with other nearby cities so Mabton is recovering costs at a comparable rate to other cities. Fees may be adjusted periodically to ensure that rates/charges are current, equitable, competitive and at market rate.
4. In preparing financial information for the Budget, the receipt of a grant will be included in operating fund revenues only when it is probably the City will receive a grant award (***Probable means relatively likely but not certain***)

#### **E. CAPITAL FACILITIES PLANNING:**

1. The City will plan for capital improvements/facilities over a six (6) year period. The Capital Facilities Plan will directly relate to long-range plans of the City Council. When capital improvements are being planned, operating costs will be estimated and identified within the City's Financial Plan.
2. Although it may not always be possible to replace capital assets on a consistent schedule, a concerted effort will be made by department heads to maintain a current inventory of capital assets, maintain and repair assets on a periodic and regular basis, and plan for and budget for replacement costs. Equipment replacement requests may be made by department heads each year during the budget cycle.
3. A capital project is defined as a project of a nonrecurring nature with a cost of \$25,000 or more and estimated service life of three (3) years or more. Major renovations of existing facilities that cost more than \$25,000 may be submitted for consideration as a capital project. Maintenance of existing facilities, however, should not be included in capital requests. Requests for funding of annual maintenance projects should be included in the appropriate operating budget through the annual budget process or requested through a budget amendment.
4. The Adopted Capital Facilities Plan Element (and as amended) of the Mabton Comprehensive Plan provides guidance for the development of the City's Capital Improvement Program and is incorporated into the budget package each year.

5. All funding sources shall be identified in the sections of the Capital Facilities Plan. The Plan shall specifically identify and list the local funds, grant funds, borrowing and other financial resources that support or fund a program.

**F. DEBT AND INVESTMENT MANAGEMENT POLICIES:**

1. The City shall comply with debt issuance guidelines established by federal, state, and local agencies. Debt will be used prudently and in limited circumstances. The use of council manic debt authority will be reviewed and approved by City Council based on priority, need and fund viability and applicable regulations.
2. Debt may be used on a limited basis for specific short-term cash flow requirements after consideration of other available resources. Debt will not be used to fund long-term revenue shortages. For major capital projects with long-term useful lives (normally 20 years or more) and where costs exceed short-term cash flows, debt may be utilized after City Council determines that there is sufficient dedicated revenue to service the debt.
3. The City will comply with state law and following priorities for investment evaluation and determinations:
  - a. Preserve capital through prudent financial investments
  - b. Maintain sufficient liquidity so that funds are available when needed, and
  - c. Achieve the best available rate of return

**G. FINANCIAL MANAGEMENT AND ORGANIZATIONAL REVIEW POLICIES:**

1. Budget reviews shall be made on an annual basis with examination of all line-item costs for each department or program.
2. The City will periodically evaluate its administrative and direct service delivery systems for the purpose of evaluating system costs, benefits, sustainability and necessity. City may engage a qualified and/or competitively priced private or public contractor to assist or guide system review and/or assessment.
3. The compensation of employees will be competitive with that of comparable public sector employees in neighboring communities and the market area. The criteria for reviewing employee wages and benefits will also include internal comparability for similar jobs and the City's ability to pay. If relevant, private sector comparisons may be considered.
4. The City will, within available resources, maintain the productivity of staff through a supportive working environment, which includes appropriate equipment, supplies, materials, and professional staff development.
5. City contracts shall be reviewed and approved as follows:

- As a general rule, any contracts requiring additional budget authority shall be placed on the City Council agenda and included in Council meeting packets for consideration by the City Council
- All capital improvement projects in which there is a material change in scope would be presented to the City Council for discussion, consideration and decision (*for example: an extension of a sidewalk that was not part of the original project scope*).

#### **H. COST ALLOCATION PLAN:**

1. Cost Allocation. The City of Mabton shall comply will all laws and regulations in calculating and receiving full cost recovery for services rendered to other funds. Costs of shared resources must be allocated fairly. Cost allocation is a method to identify and allocated indirect costs. Direct costs are those costs directly associated with a specific project/cost objectives. Indirect costs are those costs incurred for a common or joint purpose benefitting more than one (1) cost objective but which are not readily assignable to a specific cost objective.
2. Guidelines and Authority. The following shall guide accounting and cost allocation:

The Washington State Auditor’s Office (SAO) prescribes the accounting and reporting procedures for local governments in the State of Washington. RCW 43.090.200. REC 43.09.210 provides, in part as follows:

Separate accounts shall be kept for each department, public improvement, undertaking, institution, and public service industry under the jurisdiction of every taxing body.

All service rendered by, or property transferred from, one department, public improvement, undertaking, institution, or public service industry to another, shall be paid for at its true and full value by the department, public improvement, undertaking, institution, or public service industry receiving the same, and no department, public improvement, undertaking, institution, or public service industry shall benefit in any financial manner whatever by an appropriation or fund made for the support of another.

The statue does not provide specific guidance on how “full value” is to be determined. RCW 35A.33.122/35A.34.205/35.33.123 states:

Administration, oversight, or supervision of utility – Reimbursement from utility budget authorized. Whenever any code city apports a percentage of the city manager’s, administrator’s, or supervisor’s time, or the time of other management or general government staff, for administration, oversight or supervision of a utility operated by the city, or to provide services to the utility, the utility budget may identify such services and budget for reimbursement of the city’s current expense fund for the value of such services.

- The Federal Office of Management and Budget (OMB) Circular A-87:

OMB Circular A-87 establishes cost principles for State, local and Indian Tribal Governments for determining costs for Federal Awards. Item 5 of the Circular states, that, *“The principles are for determining allowable costs only”*. In defining allowable costs, the Circular provides a definition of allowable costs at ATTACHMENT A, paragraph C.3.a., *“A cost is allowable to a particular cost objective in accordance with relative benefits received”*. The Circular further outlines costs that are allowable for charging the Federal Government and distinguishes those that are specifically excluded from recovery.

- Government Accounting Standards Board (GASB):

GASB is the independent organization that establishes and approves standards of accounting and financial reporting for U.S. state and local governments. While GASB is not a governmental agency and does not have enforcement authority, compliance with GASB is tested by the Washington State Auditor’s Office (SAO) annual audit of the City of Mabton.

### **3. City Allocation Plan:**

The City has identified a variety of ways to identify and determine an appropriate percentage of costs for allocation to various funds. These methods include but may not be limited to the following:

- Number of employees (FTE’s) in each fund
- Percentage of Budget including total operating expenses (dollar amounts) in each fund or total operating revenues (dollar amounts) in each fund
- Number of expenditure line items used in each fund
- The percentage of department time that is directly attributable to utilities

The following is the plan to allocate employee payroll costs to the various funds and/or departments that utilize those employees:

- Identify the total fund and department costs to be allocated

City Clerk/Treasurer shall meet with the Public Works Director and other Department Heads in order to review and adjust allocations applying the above methods and procedures. Based on such meeting and application of the identified methods of assessment, City Clerk/Treasurer shall determine the appropriate percentages or amount to use in allocating costs between and among various funds and/or departments.

- Allocate the costs to appropriate departments by percentage or amount ensuring appropriate costs are charged back to the appropriate funds and/or departments.
- Each Department Head is responsible for allocation of their department salaries.

## **I. BUDGET DEVELOPMENT:**

The City of Mabton utilizes spreadsheets to compile information related to the distribution of costs among its various funds during the budget update process to ensure costs are allocated correctly. The City Clerk/Treasurer is primarily responsible for determining the final percentages or amounts charged back to the City funds/departments based on the factors mentioned above.

### Cost Allocation Plan used:

Each fiscal year the Cost Allocation Plan that will be used for the following years, will be included and approved by the City Council as part of the overall budget package.