Financial Management Policies & Initial Long Term Financial Plan
2011-12 Biennium

RESOLUTION NO. 2011-06
Financial Management Policies

- Application/Use of Financial Management Policies
- General Financial Policies and City Programs and Services
- Reserve Fund Policies
  - Reserve Funds
  - Development Funds
- General Budgeting Policies
- General Reporting Policies
- General Revenue Policies
  - General Revenues
  - Fees
  - Utility Rates
- Expenditure Policies
- Debt Management Policies
- Balancing the Operating Budget
- Financial Management/Strategic Forecasting Policies
  - Long Term Forecasting Policies
  - Budgeting, Planning and Forecasting
- Capital Asset Acquisition, Maintenance, Replacement and Retirement
Financial Management Policies

Why?

- The safekeeping, proper use and management of City resources are very serious responsibilities. These tasks shall be conducted within the City of Lynnwood in such a way that the City shall be fully accountable to the public for its fiscal activities. A spirit of openness and transparency shall be the context of the City’s financial management program policies.

- The public consists of citizens, investors, business partners, the Washington State Auditor’s Office, financial institutions, and bond rating agencies such as Standard and Poor's and Moody’s.
Application and Use of Financial Management Policies

- It is the intent of the City Council to utilize and reference these policies in decisions and other actions with financial ramifications for the City. Also, these policies shall be put into effect by adherence to the Long Term Financial Plan. The policies should be referenced in the following manner:
  - Mid-Year Financial Review
  - The Preliminary Budget (conformance assessment)
  - Budget message
  - Budget Amendments (as appropriate)

General Financial Policies and City Programs and Services

- Maintain fiscal integrity of City operating, debt service, and capital improvement budgets, while providing a level of public goods and services that are within the City's fiscal capacity.
Reserve Fund Policies

- Adequate reserve levels are a necessary component of the City’s overall financial management strategy.

- Key factor in external agencies measurement of the City’s financial strength.

- Available reserves include: 1) reserve funds (not expected to be expended) and 2) development funds (intended to be invested for the betterment of the community).
1) **Reserve Funds**

- Consist of:
  - General Fund Unencumbered Balance (includes Cash Flow Balance and Capital Balance, all one time monies)
  - Revenue Stabilization Fund #198

- The City’s General Fund target for its unencumbered fund balance is $4,000,000, or the amount of net receivables posted in the annual financial report, which ever is greater.

- **Achieving/maintaining this balance is the highest priority over developing/maintaining other general fund reserves.**
1) Reserve Funds (continued)

- Revenue Stabilization Fund goal is $9,000,000.
- In the interim, the goal is $5,000,000 by 2016.
- End of the biennium general fund unencumbered ending balance in excess of $4,000,000 shall be transferred to the Revenue Stabilization Fund until the target is achieved.
- The City will review the unrestricted General Fund balance and Revenue Stabilization Fund balance each July.
- To the extent that the City’s audited financial statements identify a General Fund balance in excess of the target, the excess shall be allocated pursuant to these policies.
2) Development Funds

- Program Development Fund as defined in LMC 3.51.

- Capital Development Fund #333 to provide funding for the six year Capital Facilities Plan, less proprietary fund projects as defined by LMC 3.50 (economic infrastructure policy).

- Once the policy targets for unencumbered reserves is achieved, the City shall set aside at least $1.1 million per year for capital revenue stream (infrastructure).

- Contributions to development funds will be made from available funds as identified in the “Mid-Year Financial Review.”
Financial Management Policies

- General Budgeting Policies
  - Financial Policies - used to frame major policy initiatives
  - The budget process shall be consistent with and integrated into the long term forecasting system and on-going financial reporting.

- General Reporting Policies
  - The Finance Department prepares on-going financial reports that monitor actual performance of expenditures and revenues.
  - Analysis of the overall financial status of the City and key funds and resources therein.
  - Analysis will discuss current, near term and long financial status.
  - Provided quarterly with monthly updates.
Financial Management Policies

- **General Revenue Policies**
  - **General Revenues**
    - A diversified and stable revenue system will be maintained to shelter public services from short-run fluctuations.
    - Forecasts for major revenues will present “conservative”, “optimistic” and “best estimates” forecasts and rationale for each.
  - **Fees**
    - Development related, regulatory, Recreation and Parks use fees, General fees, Enterprise Funds (Utilities and Golf Course) Fees
  - **Utility Rates**
    - Utility Fund Revenue and Rates
Expenditure Policies

- The City will only propose operating expenditures that can be supported from on-going operating revenues as projected in the City’s long range forecast.

Debt Management Policies

- The term of long-term debt issued will not exceed the life of the projects financed. Current operations will not be financed with long-term debt.
- The City of Lynnwood debt will not exceed an aggregated total of 7.5% of the assessed valuation of the taxable property within the City.
- General Debt 2.5% of assessed valuation, Utility Debt 2.5% of assessed valuation, Open Space and Park facilities 2.5% of assessed valuation
- Paragraph 1.D. 1, pg. 10
Balancing the Operating Budget
- **On-going** expenditures shall be provided for by anticipated on-going revenue.

Financial Management/Strategic Forecasting Policies
- Long Term Forecasting Policies
  - Six year expenditure and revenue projections
- Budgeting, Planning and Forecasting
  - All financial decisions shall be within the context of the long-range planning forecast and other related long-range plans

Capital Asset Acquisition, Maintenance, Replacement and Retirement –
- Annually develop a Capital Facilities Plan and subset Strategic Investment Plan
Basic parameters and related policies

- Resuming past trends in expenditure growth is not sustainable and cannot be supported even by the most optimistic revenue forecast.
- Therefore, the following 16 approaches and policies are established and need to be adhered to:

  **Planning Policy #1:** The City cannot return to historic budgeting trends in expenditure growth.

  **Planning Policy #2:** The City cannot plan to return to past levels of service with the substantial associated costs in any realistic future time frame given long-term forecasted revenues.
Planning Policy #3: The planning forecast would control program and service expenditures to below 3% per year.

Planning Policy #4: Without a rapid return and substantial economic growth, which is unlikely, maintaining the growth of expenditures will require reductions in levels of service to offset these factors. This scenario makes sustaining the limit very difficult.

Planning Policy #5: Each department should develop immediately, review, and maintain level of service reduction plans to be implemented as needed to keep the expenditure growth below 3%. (implemented June 2011).
Planning Policy #6: The planning revenue forecast shall be the “Medium” financial forecast with adjustments to reflect probable (not speculative) new economic development projects in the City.

Initial Financial Plan Assumptions:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>11-12 Budget Ending (over 4,000,000): budgeted revenues minus budgeted expenses.</td>
<td>$174,796</td>
</tr>
<tr>
<td>2010 Budget Ending Balance (Above $3,000,000)</td>
<td>$762,060</td>
</tr>
<tr>
<td>Excess sales tax if 5% inc per year current biennium</td>
<td>$741,087</td>
</tr>
<tr>
<td>Total Potential Additional Ending Fund Balance fo 2012</td>
<td>$1,677,943</td>
</tr>
</tbody>
</table>
Planning Policy #7: Any potential ending fund balance from the 2011-2012 biennium should be placed into the revenue stabilization fund.

Planning Policy #8: The 2011-12 budgeted $4,000,000 ending fund balance in the General Fund must be maintained.
Planning Policy #9: The following targets are set for transferring money into the Revenue Stabilization Fund:

<table>
<thead>
<tr>
<th>Year Ending</th>
<th>Targets</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>$1,000,000</td>
</tr>
<tr>
<td>2013</td>
<td>$2,000,000</td>
</tr>
<tr>
<td>2014</td>
<td>$3,000,000</td>
</tr>
<tr>
<td>2015</td>
<td>$4,000,000</td>
</tr>
<tr>
<td>2016</td>
<td>$5,000,000</td>
</tr>
</tbody>
</table>

Planning Policy #10: The Finance Department shall monitor progress toward achieving the Revenue Stabilization targets and determine if the City is constraining expenditure growth below the planning forecast of 3% per year.
Planning Policy #11: The Finance Department shall report to the City Council the status of the Revenue Stabilization Fund and the expenditure limit.

Planning Policy #12: If expenditures are exceeding the 3% limit, the City Council shall amend the City budget to reduce expenditures by applying reduction plans of various departments. Allowing additional expenditures would only be appropriate if:

- Revenue Stabilization target is met, and
- Appropriate plans exist to continue progress toward other reserve policies.
Planning Policy #13: If progress toward the target falls short the City Council shall amend the City budget to reduce expenditures by applying reduction plans of various Departments.

Planning Policy #14: If progress toward the target is higher than target, the City Council may consider transferring revenues to other purposes consistent with the Financial Policies.
Planning Policy #15: The City should initiate a complete long-term financial planning process consistent with GFOA best practices as summarized in the attached summary of GFOA Guidance.

Planning Policy #16: A priority element of such planning shall be the level of service reduction plans by each City department.