

## **Financial Management Policies Adopted via Resolution 2003- 06**

The safe-keeping, proper use and management of the City resources is a very serious responsibility. This task 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 City Ethics Policy codified under LMC 2.94 also provides context.

### **Reserve Fund Policies**

Adequate reserve levels are a necessary component of the City's overall financial management strategy and key factor in external agencies' measurement of the City's financial strength.

- a. It will be the policy of the City to maintain a Revenue Stabilization Fund at a level of at least equal to eight percent (8%) of the total General Fund budgeted revenue, excluding the beginning fund balance and identified one-time revenues. These operating reserves are maintained to address temporary revenue shortfalls; payment of approved expenditures due to cash flow shortage; reserves for expenditures deemed necessary by the Mayor and City Council; and temporary short-term interfund loans. Annual contribution will be budgeted from General Fund resources as available to maintain the target reserve level.
  - 1) This shall be in addition to the maintenance of three months operating cash within the General Fund itself.
- b. Development Funds:
  - 1) The City shall maintain a Program Development Fund as defined in LMC 3.51 (Ordinance 2093, 1996). The use of any funds within the Program Development Fund shall be as defined by ordinance.
  - 2) The City will maintain a Capital Development Fund to provide funding for the six year Capital Facilities Plan, less proprietary fund projects as defined by LMC 3.50 (Ordinance 2093, 1996). The use of any funds within the Capital Development Fund shall be as defined by ordinance.
  - 3) Contributions to development funds will be made from available funds as identified in the "Mid-Year Financial Review" pursuant to Ordinance 2300, Section 6. The Finance Director shall make a recommendation to the Council with regard to transfers to reserve funds as a part of that report. The Council, by motion (and amending the budget by ordinance as necessary) shall authorize the transfers as the Council shall determine to be appropriate at that time.

- c. In accordance with RCW 41.16.050, the City shall maintain a Firemen's Pension Fund to record all monies received from taxes on fire insurance premiums received from the state, contributions made by firefighters (before the inception of LEOFF I) and interest earned on the investment of these funds. These funds are used to cover retirement benefits payable to members (or to their survivors) who retired prior to March 1, 1970 or who were active on that date.
- d. All expenditures drawn from reserve accounts shall require prior Council approval unless previously specifically authorized by the City Council for expenditure in the annual budget.

### **Revenue Policies**

- a. To the extent possible, a diversified and stable revenue system will be maintained to shelter public services from short-run fluctuations in any one revenue source. Trends analyzing the dependence on distinct revenue sources shall be included in the budget documents for consideration by the Council.
- b. Revenue forecasts for major revenues (those which represent at least 10% of the General Fund) will present "conservative", "optimistic" and "best estimates" forecasts and the rationale for each. The forecasts shall be based on the best information available at the time and references to the sources of information used in the estimates will be made available.
- c. Revenue forecasts will assess the full spectrum of resources that can be allocated for public services. Each year the Council shall review potential sources of revenue as part of the annual budget process.
- d. Short-term (anticipated less than one year) economic downturns and temporary gaps in cash flow: Expenditure reductions or restrictions may be imposed. Council may approve a contribution from the Revenue Stabilization Fund or interfund loans to address temporary downturns in City revenues. Interfund loans may be utilized to cover temporary gaps in cash flow.
- e. Long-term (greater than one year) revenue downturns: Deficit financing and borrowing to support on-going operations is not the policy of the City as a response to long-term revenue shortfalls. Revenue forecasts will be revised. Expenses will be reduced to conform to the revised long-term revenue forecast or revenue increases will be considered.
- f. All potential grants shall be carefully examined for matching requirements. Some grants may not be accepted if the local matching funds cannot be justified. Grants may also be rejected if programs must be continued with local resources after grant funds are exhausted.

- g. The City shall develop and maintain a comprehensive list of various fees and charges. Fees may be set at levels sufficient to cover the entire cost of service delivery (such as in “Enterprise Funds”), or the service may be subsidized as Council deems appropriate. The City will systematically review user fees and rates and consider adjustments as necessary to take into account the effects of additional service costs and inflation. Rate studies shall be conducted to ensure that the rates will continue to support direct and indirect costs of operations, administration, plant maintenance, debt service, depreciation of capital assets, and moderate system extensions. Based on a market analysis, fees for similar services in other communities may also be considered. The criteria used to evaluate recommended target rates (equity, cost recovery policy, market demand, etc) shall be included in the staff report during the review. Such review should be scheduled on a three year rotating basis and be incorporated into the budget process for possible action by the City Council. The three year rotation should be scheduled so that the City reviews one-third of its rates, fees and charges each year.
- h. The City will review contracts and leases which result in revenues to the City on a timely basis in order to provide for careful evaluation by the City Council.

### **Expenditure Policies**

- a. The City will only propose operating expenditures which can be supported from on-going operating revenues. Before the City undertakes any agreements that would create fixed on-going expenses, the cost implications of such agreements will be fully determined for current and future years with the aid of strategic financial planning models. Capital expenditures may be funded from one-time revenues, but the operating budget expenditure impacts of capital expenditures will be reviewed for compliance with this policy provision.
- b. Department Directors are responsible for managing their budgets within the total appropriation for their department.
- c. The City will maintain expenditure categories according to state statute and administrative regulation.
- d. The City will assess funds for services provided internally by other funds. The estimated direct and indirect costs of service will be budgeted and charged to the fund performing the service. Interfund service fees charged to recover these costs will be recognized as revenue to the providing fund. A review of the method for determining the amount of the interfund assessment will be reviewed at least every 3 years.
- e. Emphasis is placed on improving individual and work group productivity rather than adding to the work force. The City will invest in technology and other efficiency tools to maximize productivity. The City will hire additional staff only after the need of such positions has been demonstrated and documented.

- f. All compensation planning and collective bargaining will focus on the total cost of compensation which includes direct salary, health care benefits, pension contributions, training allowance, and other benefits of a non-salary nature which are a cost to the City.

### **Debt Management Policies**

The City shall adopt policies to guide the issuance and management of debt.

- a. The City may issue interfund loans consistent with LMC 3.90.
- b. All professional service providers (underwriters, financial advisors, bond insurer's, etc.) selected in connection with the City's debt issues will be selected in accordance with the City's procurement policies. In most cases this will require a request for proposal process.
- c. 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.
- d. The City shall maintain an open line of communication with the rating agencies (Moody's and Standard and Poors), informing them of major financial events in the City as they occur. The Comprehensive Annual Report (CAFR) shall be distributed to the rating agencies and The National Recognized Municipal Information Repository Securities (NRMIRS) no later than July 31st of the following year of the CAFR. The CAFR shall include all secondary market disclosure required by the Securities Exchange Commission (SEC).

The City shall strive to maintain current credit ratings in the future. The current credit ratings are: General Obligation - A1 with Moodys Investor's Service and AA- with Standard and Poors. Revenue Bonds are A with Moodys Investor's Service and A+ with Standard and Poors. City bond ratings are found each year in the notes to the financial statements in the Comprehensive Annual Financial Report.

- e. As part of the debt policy, the City will use debt ratios based on debt per assessed value, debt per capita, and debt per capita as a percentage of per capita income as guides. These ratios will assist in guiding amounts that the City will permit in debt issuance.
- f. Assessment bonds will be issued in place of general obligation bonds, where possible, to assure the greatest degree of public equity and flexibility for City finances.
- g. The City will comply with all statutory debt limitations imposed by the Revised Code of Washington (RCW). 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. Compliance with state law and this policy shall be documented each year in the City's Comprehensive Annual Financial Report.

The following individual percentages (as defined in state law) shall not be exceeded in any specific debt category:

General Debt	2.5% of assessed valuation
Utility Debt	2.5% of assessed valuation
Open Space and Park facilities	2.5% of assessed valuation

No debt shall be issued for which the City is not confident that a sufficient, specifically identified revenue source is available for repayment. The Finance

- h. Director shall prepare an analytical review for this purpose prior to the issuance of any debt.
- i. Credit enhancements shall be considered with a cost/benefit analysis for each long term bond issue.
- j. Reserve accounts shall be maintained as required by bond ordinances and where deemed advisable by the City Council. The City shall structure such debt service reserves so that they do not violate IRS arbitrage regulations.

### **Financial Management/Strategic Forecasting Policies**

- a. All decisions shall be within the context of long-range plans (Capital Facilities Plan / Strategic Financial Plan). Staff shall provide a review of the implications of budgetary proposals on long-range plans. Staff shall include a "fiscal note", in a format to be provided by the Finance Director and approved by the Council, with each action item on the council agenda. If no note is deemed necessary, the agenda cover sheet shall so state.
- b. The budget shall be developed consistent with state law and in a manner which encourages early involvement with the public and City Council as provided for in LMC 2.72. A calendar of events related to budget development shall be presented to the City Council accordingly.
- c. The budget will integrate into Capital Facilities Plan (CFP)/Strategic Financial Plan (SFP). The budget shall be consistent with the current year of the CFP and SFP. Budget planning activities shall be based on the next year of the SFP.
- d. Assumptions used in the CFP and SFP will be noted and defined.
- e. Basis of long-range planning will be results oriented. In accordance with Ordinance 2299 (adopted 2000) and Resolution 2000-03, the City shall illustrate the output from CFP and SFP expenditures.

**Capital Asset Acquisition, Maintenance, Replacement and Retirement**

- a. The City shall develop a Capital Facilities Plan (CFP) as defined and required by RCW 36.70A.070 which is consistent with the City Comprehensive Plan annually at a time established by the City Council.
- b. Such plan shall include all projects to maintain public capital facilities required to maintain service levels at standards established by the City Council.
- c. The proposed CFP may include for consideration such other projects as requested by the City Council, or Mayor.
- d. Funding for capital projects shall be classified as to source (general government, enterprise or other) within the plan. The extent to which funds exist for each project shall be described in the plan.
- e. The plan shall be for a period of six years.
- f. With the exception of “on-going projects”, each project shall be described such that development phases are delineated as separate stages of the project. Examples include land acquisition, design and construction. “On-going projects” represent annual capital programs such as street overlay, sidewalk expansion or traffic signal rebuild.
- g. An estimate for the operating budget impact of each proposed project shall be identified and incorporated into the City Strategic Financial Plan.
- h. The CFP shall be approved by ordinance annually.

The approving ordinance shall constitute a plan of action wherein no final approval to proceed with specific projects is made, but requires specific authorization and appropriation by the Council in a manner as the Council shall determine.

- i. The adopted CFP shall constitute the City’s long-range financial plan for capital expenditures and shall be consistent with the City Strategic Financial Plan.