

1 **City of Lynnwood, Washington**

2 **Resolution No. 2005- 04**

3 **A RESOLUTION REVISING FINANCIAL POLICIES FOR THE CITY.**

4  
5 **Whereas** the Lynnwood City Council adopted Resolution 2000-03 defining  
6 recommended budget practices, including Secion 2.1 which recommend the development  
7 of a series of financial policies; and

8  
9 **Whereas** Resolution 2000-12 of the Lynnwood City Council adopted “Financial  
10 Policies” for the City; and

11  
12 **Whereas** it is intended that these policies would be reviewed and revised periodically;  
13 and

14  
15 **Whereas** the Lynnwood City Council has reviewed and deliberated on the recommended  
16 revisions to the financial policies and finds that it is in the best interest of the city to  
17 revise its financial policies;

18 **Now, Therefore, the City Council of the City of Lynnwood does resolve** that the  
19 “Financial Management Policies” dated April 14, 2000 and adopted by Resolution 2000-  
20 12 are hereby amended as indicated in “Attachment A” and further directs the Mayor to  
21 utilize such policies in preperation of city budgets. The city budget shall include  
22 reference to, and the extent to which the preliminary budget complies with, the policies  
23

24 **EFFECTIVE DATE.** This resolution shall take effect immediately upon passage  
25 thereof.

26 **ADOPTED** by the City Council of the City of Lynnwood, Washington, at its regular  
27 meeting head the 14th Date of April, 2005.

28 **SIGNED AND APPROVED** by the Mayor of the City of Lynnwood, Washington, this  
29 \_\_\_\_\_ day of \_\_\_\_\_, 2005.

30 \_\_\_\_\_  
31 Mike McKinnon, Mayor

32 Attested to by:

33 \_\_\_\_\_  
34 Michael E. Bailey, Finance Director

35 Approved as to Form:

36 \_\_\_\_\_  
37 Greg Rubstello, City Attorney  
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# City of Lynnwood Financial Policies

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**Financial Management Policies**  
**Adopted August 14, 2000 (Resolution 2000- 12)**  
**Last Revised April 11, 2005 (Resolution 2005-04)**

The safekeeping, proper use and management of the City resources are 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.

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<b>Application and Use of Financial Management Policies</b>	

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. This section outlines examples of when and how these policies will be specifically utilized.

- a. Review of Financial Management Policies:
  - 1) A Mid-Year Financial Review will be held each year in accordance with LMC 2.72.050.
  - 2) The Financial Management Policies shall be reviewed as part of the Mid-Year Financial Review. This review shall provide for any recommended changes to the policies by the Mayor or members of the Lynnwood City Council.
- b. Preliminary Budget to include reference to Financial Management Policies
  - 1) The City shall prepare a Preliminary Budget in accordance with LMC 2.72.110.
  - 2) The Preliminary Budget shall include an assessment of its conformance to the Financial Management Policies and an explanation if there are areas of non-conformance.
  - 3) The budget message shall include references as to how the Financial Management Policies were used to develop recommendations for balancing the budget.

## **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. The City's available reserves are made up of an amount which is not expected to be expended (reserve funds) and an amount that is intended to be invested for the betterment of the community (development funds).

## City of Lynnwood Financial Policies

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### Reserve Funds

1) It is the policy of the City to maintain general reserves in an amount totaling 20% of revenues (20% of the annual revenues or 10% of biennial budget revenue).

i) The reserve fund amounts shall be made up of two components; the Revenue Stabilization Fund and the General Fund Unencumbered Fund Balance.

ii) Revenue Stabilization Fund

(1) It will be the policy of the City to maintain a Revenue Stabilization Fund at a level of at least \$2,000,000 in accordance with LMC 3.53.

iii) General Fund Unencumbered Fund Balance:

The City's General Fund shall maintain an unencumbered fund balance of at least \$4,000,000 (with a goal of \$5,000,000) in order to provide for adequate operating cash.

(a) The City will review the unrestricted General Fund balance amount each July pursuant to Reserve Fund Policy b.3 below. 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 by the City Council.

### Development Funds:

2) The City shall maintain a Program Development Fund as defined in LMC 3.51. The use of any funds within the Program Development Fund shall be as defined by the Lynnwood Municipal Code.

3) 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. The use of any funds within the Capital Development Fund shall be as defined by the Lynnwood Municipal Code.

4) Contributions to development funds will be made from available funds as identified in the "Mid-Year Financial Review" pursuant to LMC 2.72.050, or during the budget process. 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.

b. 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 benefits payable to members (or to their survivors) who retired prior to March 1, 1970 or who were active on that date.

c. 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.

### General 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

## City of Lynnwood Financial Policies

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- 1 Revenue Stabilization Fund or interfund loans to address temporary downturns in City revenues.  
2 Interfund loans may be utilized to cover temporary gaps in cash flow.
- 3 e. Long-term (greater than one year) revenue downturns: Deficit financing and borrowing to support on-  
4 going operations is not the policy of the City as a response to long-term revenue shortfalls. Revenue  
5 forecasts will be revised. Expenses will be reduced to conform to the revised long-term revenue  
6 forecast or revenue increases will be considered.
- 7 f. All potential grants shall be carefully examined for matching requirements. Some grants may not be  
8 accepted if the local matching funds cannot be justified. Grants may also be rejected if programs must  
9 be continued with local resources after grant funds are exhausted.

### 10 **Fees**

- 11 g. The City shall develop and maintain a comprehensive list of all fees and charges.
- 12 1)The fees and charges should be thoroughly reviewed utilizing a rate analysis approach in connection  
13 with each biennial budget.
- 14 2)Fees shall be reviewed by general type as described below:
- 15 i) Development related fees (land use, building and property, fire marshal's office and  
16 engineering fees) shall be governed by separate ordinance; adjusted for inflation and  
17 periodically subjected to a comprehensive rate analysis.
- 18 ii) Regulatory Fees (such as those related to Title 5 of the LMC) shall be governed by ordinance  
19 and reviewed with each biennial budget process and when appropriate as the regulatory  
20 conditions change.
- 21 iii) Recreation and parks use fees shall be set within a range by the Director of Parks, Recreation  
22 and Cultural Arts as provided for by ordinance. A review of the fee ranges shall be conducted  
23 with the biennial budget.
- 24 iv) General fees (such as rental rates, copy charges, and other miscellaneous fees) shall be  
25 reviewed each biennial budget.

### 26 **Utility Rates**

- 27 v) Utility Fund Revenue and Rates
- 28 (1) The City will conduct an annual review of revenues in the city utilities as part of the Mid-  
29 Year Financial Review under LMC 2.72.050
- 30 (2) The revenues of the utilities should provide adequate resources to provide for the proper  
31 operation of the related programs, servicing of related debt at prescribed levels,  
32 maintenance of the capital plant, and adequate reserves.
- 33 (3) Utility rates shall be set utilizing the following guidelines:

## City of Lynnwood Financial Policies

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- 1 (a) The rate structure should encourage consumers to conserve natural resources while  
2 providing a stable and predictable revenue base for the proper management of the  
3 utility.
- 4 (b) The rates shall strive to be equitable among the classes (general types) of ratepayers.
- 5 (c) The revenue target of the utility rates should maintain a minimum of 1.5 times the  
6 debt service payments for the utility in each ensuing year.
- 7 (d) Rates should be set using an assumption of 95% of the average water consumption  
8 for the five previous years.
- 9 (e) A complete rate analysis shall be included with the proposed preliminary biennial  
10 budget.

### 11 **Expenditure Policies**

- 12 a. The City will only propose operating expenditures that can be supported from on-going operating  
13 revenues. Before the City undertakes any agreements that would create fixed on-going expenses, the  
14 cost implications of such agreements will be fully determined for current and future years with the aid  
15 of strategic financial planning models. Capital expenditures may be funded from one-time revenues,  
16 but the operating budget expenditure impacts of capital expenditures will be reviewed for compliance  
17 with this policy provision.
- 18 b. Department heads are responsible for managing their budgets within the total appropriation for their  
19 department.
- 20 c. The City will maintain expenditure categories according to state statute and administrative regulation.
- 21 d. The City will assess funds for services provided internally by other funds. The estimated direct and  
22 indirect costs of service will be budgeted and charged to the fund performing the service. Interfund  
23 service fees charged to recover these costs will be recognized as revenue to the providing fund. A  
24 review of the method for determining the amount of the interfund assessment will be reviewed at least  
25 every 3 years.
- 26 e. Emphasis is placed on improving individual and work group productivity rather than adding to the  
27 work force. The City will invest in technology and other efficiency tools to maximize productivity.  
28 The City will hire additional staff only after the need of such positions has been demonstrated and  
29 documented.
- 30 f. All compensation planning and collective bargaining will focus on the total cost of compensation which  
31 includes direct salary, health care benefits, pension contributions, training allowance, and other benefits  
32 of a non-salary nature which are a cost to the City.

### 34 **Debt Management Policies**

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

- 36 a. The City may issue interfund loans consistent with LMC 3.90.

## City of Lynnwood Financial Policies

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- 1 b. All professional service providers (underwriters, financial advisors, bond insurer's, etc.) selected in  
2 connection with the City's debt issues will be selected in accordance with the City's procurement  
3 policies. In most cases this will require a request for proposal process.
- 4 c. The term of long-term debt issued will not exceed the life of the projects financed. Current operations  
5 will not be financed with long-term debt.
- 6 d. The City shall maintain an open line of communication with the rating agencies (Moody's and Standard  
7 and Poors), informing them of major financial events in the City as they occur. The Comprehensive  
8 Annual Report (CAFR) shall be distributed to the rating agencies and The National Recognized  
9 Municipal Information Repository Securities (NRMIRS) no later than July 31st of the following year of  
10 the CAFR. The CAFR shall include all secondary market disclosure required by the SEC.
- 11 i) The City shall strive to maintain current credit ratings in the future. The current credit ratings  
12 are: General Obligation - A1 with Moodys Investor's Service and AA- with Standard and  
13 Poors. Revenue Bonds are A with Moodys Investor's Service and A+ with Standard and  
14 Poors. City bond ratings are found each year in the notes to the financial statements in the  
15 Comprehensive Annual Financial Report.
- 16 e. As part of the debt policy, the City will use debt ratios based on debt per assessed value, debt per  
17 capita, and debt per capita as a percentage of per capita income as guides. These ratios will assist in  
18 guiding amounts that the City will permit in debt issuance.
- 19 f. Assessment bonds will be issued in place of general obligation bonds, where possible, to assure the  
20 greatest degree of public equity and flexibility for City finances.
- 21 g. The City will comply with all statutory debt limitations imposed by the Revised Code of Washington  
22 (RCW). The City of Lynnwood debt will not exceed an aggregated total of 7.5% of the assessed  
23 valuation of the taxable property within the City. Compliance with state law and this policy shall be  
24 documented each year in the city's Comprehensive Annual Financial Report.

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

27		
28	General Debt	2.5% of assessed valuation
29	Utility Debt	2.5% of assessed valuation
30	Open Space and Park facilities	2.5% of assessed valuation
31		

- 32 h. No debt shall be issued for which the City is not confident that a sufficient, specifically identified  
33 revenue source is available for repayment. The Finance Director shall prepare an analytical review for  
34 this purpose prior to the issuance of any debt.
- 35 i. Credit enhancements shall be considered with a cost/benefit analysis for each long term bond issue.
- 36 j. Reserve accounts shall be maintained as required by bond ordinances and where deemed advisable by  
37 the City Council. The city shall structure such debt service reserves so that they do not violate IRS  
38 arbitrage regulations.

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

#### 40 **Balancing the Operating Budget**

41 It is the policy of the City of Lynnwood to adopt structurally balanced budgets.

- 42 a. A structurally balanced budget shall mean:
- 43 1) On-going expenditures shall be provided for by anticipated on-going revenue.
- 44 i) On-going expenditures do not include
- 45 (1) "One-time" items such as capital outlay, projects or studies

## **City of Lynnwood Financial Policies**

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- 1                   (2) Allocations to other funds dependent on general revenues sufficient to balance dependent  
2                   budgets (ie: Street Fund, Solid Waste Fund).
- 3           ii) Anticipated on-going revenues may include:
- 4                   (1) Recurring revenue such as taxes, fees, etc.
- 5                   (2) A reasonable amount of resources remaining unspent from the previous year's budget  
6                   based on historical experience and an assessment of the current budget.
- 7                   (3) A portion of the unencumbered fund balance above the minimum levels established by  
8                   this policy.
- 9   b. The Mayor shall submit a balanced Preliminary Budget proposal as provided for in LMC 2.72.110.
- 10           1) The Mayor's budget proposal shall balance all city funds.
- 11           2) The transfers between funds shall be clearly illustrated.
- 12           3) The use any proposed new revenues from proposed new fees or taxes should be clearly illustrated.
- 13   c. The anticipated amounts of city reserves (as described in this policy) should be clearly illustrated for  
14           each fund.
- 15           1) The reserve estimates shall be provided for the beginning and the end of the Preliminary Budget  
16           period (beginning and ending fund balances).

### 17   **Long Range Planning**

- 18   a. All decisions shall be within the context of long-range plans (Capital Facilities Plan / Strategic  
19           Financial Plan). Staff shall provide a review of the implications of budgetary proposals on long-range  
20           plans. Staff shall include a "fiscal note", in a format to be provided by the Finance Director and  
21           approved by the Council, with each action item on the council agenda. If no note is deemed necessary,  
22           the agenda cover sheet shall so state.
- 23   b. The annual budget shall be developed consistent with state law and in a manner which encourages early  
24           involvement with the public and City Council as provided for in LMC 2.72.030. A calendar of events  
25           related to budget development shall be presented to the City Council in the 1st quarter of each year.
- 26   c. The annual budget will integrate into Capital Facilities Plan (CFP)/Strategic Financial Plan (SFP). The  
27           annual budget shall be consistent with the current year of the CFP and SFP. Budget planning activities  
28           shall be based on the next year of the SFP.
- 29   d. Assumptions used in the CFP and SFP will be noted and defined.
- 30   e. Basis of long-range planning will be results oriented. In accordance with LMC 2.72 and LMC 2.70 and  
31           Resolution 2000-03, the City shall strive to illustrate the output from CFP and SFP expenditures.

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

- 33   a. The City shall develop a Capital Facilities Plan (CFP) as defined and required by RCW 36.70A.070  
34           which is consistent with the City Comprehensive Plan annually at a time established by the City  
35           Council.
- 36   b. Such plan shall include all projects to maintain public capital facilities required to maintain service  
37           levels at standards established by the City Council.
- 38   c. The proposed CFP may include for consideration such other projects as requested by the City Council,  
39           or Mayor.

## City of Lynnwood Financial Policies

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- 1 d. Funding for capital projects shall be classified as to source (general government, enterprise or other)  
2 within the plan.
- 3 1)The extent to which funds exist for each project shall be described in the plan.
- 4 2)The plan shall integrate with the Proposed Preliminary Budget (LMC 2.72.110) in that funds  
5 required for the projects recommended for the ensuing budget period shall be identified in the  
6 Preliminary Budget.
- 7 3)The CFP shall include a recommended level of funding from general revenues in order to provide for  
8 “on-going” projects (as defined in the CFP).
- 9 e. The plan shall be for a period of six years.
- 10 f. With the exception of “on-going projects”, each project shall be described such that development  
11 phases are delineated as separate stages of the project. Examples include land acquisition, design and  
12 construction. “On-going projects” represent annual capital programs such as street overlay, sidewalk  
13 expansion or traffic signal rebuild.
- 14 g. An estimate for the operating budget impact of each proposed project shall be identified and  
15 incorporated into the City Strategic Financial Plan.
- 16 h. The CFP shall be approved by ordinance annually.  
17  
18 The approving ordinance shall constitute a plan of action wherein no final approval to proceed with  
19 specific projects is made, but requires specific authorization and appropriation by the Council in a  
20 manner as the Council shall determine.
- 21 i. The adopted CFP shall constitute the City’s long-range financial plan for capital expenditures and shall  
22 be consistent with the City Strategic Financial Plan.

### **Investment Policy**

23 Refer to Resolution No. 2000-04, adopted February 14, 2000.  
24  
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### **Purchasing Policy**

26 Refer to LMC 2.92, adopted August 12, 1996.  
27  
28

### **Equipment Replacement Reserve Fund Policy**

29 Refer to Resolution No. 2000-20, adopted December 11, 2000.  
30