

CITY OF MILLWOOD

RESOLUTION # 16-10

August 9, 2016

A RESOLUTION OF THE COUNCIL OF THE CITY OF MILLWOOD, WASHINGTON ADOPTING A FINANCIAL POLICY FOR THE CITY AND PROVIDING FOR OTHER MATTERS PROPERLY RELATING THERETO

WHEREAS, the City of Millwood, Washington (the "City") is a code city duly organized and existing under and by virtue of the Constitution and the laws of the state of Washington (the "State"); and

WHEREAS, the Council of the City (the "Council") may adopt and enforce resolutions of all kinds relating to and regulating its local or municipal affairs and appropriate to the good government of the City; and

WHEREAS, the City and the Council recognize the importance of sound financial planning and clear policies and guidelines for financial management; and

WHEREAS, financial policies have been developed to guide financial planning and management and to serve the Council's approved values and expectations for Council members, City staff, citizens and other interested parties who may do business with the City,

NOW, THEREFORE, BE IT RESOLVED that the City Council of the City of Millwood as follows:

Section 1. Approval of City Financial Policy: The Council hereby adopts the attached Financial Policy and authorizes the Mayor to sign it.

PASSED BY THE COUNCIL OF THE CITY OF MILLWOOD THIS 10th DAY OF August, 2016.


KEVIN FREEMAN, MAYOR

Attest:

THOMAS G. RICHARDSON,
CITY CLERK

CITY OF MILLWOOD

FINANCIAL POLICY

Approved by Resolution No. 2016-10

Date of Approval: August 9, 2016

POLICY PURPOSE

The City of Millwood, Washington (the “City”) adopts this Financial Policy for the purpose of establishing consistent guidelines for municipal fiscal budget and planning. These policies incorporate City Council (the “Council”) approved values and expectations which will serve as a guide for Council members, City elected and appointed officials, citizens and other interested 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 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, multiyear financial planning is a goal that may not be immediately achieved for in all City funds.

A. FUND DEFINITIONS

General (Current Expense) Fund (001)

This fund is the primary operating fund of the City. 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.

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 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 City Council to review, evaluate and discuss current and future programs, service levels and capital facility needs and requirements. The City shall consider relevant economic conditions, estimate revenues and reserves, changes in levels of service, operating expenses, capital requirements, and debt service for all funds.

2. The City establishes a goal to maintain and retain a minimum General Fund operating reserve or an ending fund balance of no less than three (3) months' operating expenses (based on the three months with the greatest expenses during the previous fiscal year). A Contingency Reserve Fund shall be established and maintained at 10% to 15% 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 provision and continuity of public services and allow time for City to adjust or address 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 other 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. The City shall establish and maintain a Street Fund with a budgeted ending or reserve fund balance of six (6) months operating expenses (base on the six months with the greatest expenses during the previous fiscal year). 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 Treasurer shall present a Financial Plan to the Finance Committee for consideration and recommendation to 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 Council will review and update the Financial Plan each year.

7. The City budget will implement City Council adopted goals and policies, long-range plans, the service choices for the community and revenue allocation policies of the 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). Treasurer and Finance Committee 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% of the annual property taxes. Any such allocated funds shall be applied to maintenance or improvement of streets and transportation facilities. This allocation will be reviewed each year by the Finance Committee and, if deemed necessary, forwarded to City Council for proposed adjustments.

C. ACCOUNTING

1. The City will maintain an accounting and financial reporting system that fully meets governmental accounting professional standards and State of Washington budgeting, accounting, and reporting requirements as established in the Budgeting Accounting and Reporting System (BARS) Manual.

2. Financial procedures shall be maintained to assure appropriate internal controls are in place to protect city assets. This includes recording all purchased fixed assets in the fixed asset inventory system at the time of purchase. This enables the City to have timely and accurate financial reporting of its assets.

3. The City will report the results of operations using the cash basis of accounting allowed by the State for reporting.

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 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 fees and charges with other nearby cities so the City is recovering costs at a comparable rate to other cities. Fees may be adjusted periodically to ensure that rates are current, equitable, competitive and deemed appropriate.

4. In preparing financial information for the Budget, the receipt of a grant will be included in operating fund revenues only when it is probable the City will receive a grant award. (*Probable means relatively likely but not certain.*)

E. CAPITAL FACILITIES PLANNING

Capital Investment Budget Policies

1. The City will make capital improvements in accordance with an adopted capital facilities plan adopted by the City Council.

2. The Capital Facilities Plan and the base operating budget will be reviewed at the same time to ensure that the City's capital and operating needs are balanced with each other and that the Capital Facilities Plan is aligned with the City's other long-range plans.

3. The City will develop a six-year plan for capital improvements including operations and maintenance costs that will be reviewed each year. Capital expenditures will be forecasted taking into account changes in population, changes in real estate development, or changes in relevant economic condition of the City and the region.

4. The City will identify the estimated costs and potential funding sources for each capital project proposal before it is submitted to Council for approval. The City will use intergovernmental assistance and other outside resources whenever possible.

a. Partnership funding with non-intergovernmental partners: The City may consider entering into agreements with various non-governmental agencies for a specific project development on a case by case basis through the use of a Developer Reimbursement and Collection Agreement as defined in the Millwood Municipal Code or other City Council approved agreement. In general the City is not considered a partner for development of new construction; however, the City Council may consider a financial partnership that meets at a minimum the following criteria:

(i) The project costs meet all financial criteria within this Financial Policy without jeopardizing the financial stability or credit rating of the City.

(ii) The project has been accounted for in the City's various planning documents including but not limited to the 6-year Capital Facilities Plan, 6-year Transportation Improvement Plan, Water, Sewer, Stormwater, Park & Recreation, Regional Trails and/or Downtown Master Plans.

(iii) The Developer provides the City with financial proof of ability to complete the construction of the project at 125% of the total estimated project costs prior to any City commitment. Financial proof could include secured bond funding notification from the bonding agency or a final line of credit from an FDIC banking institution.

(iv) The City Council may choose to incorporate additional criteria on a case by case basis for projects requesting partnership funding.

b. The City will determine the least costly financing method for all new projects.

5. A capital project is defined as a project of a nonrecurring nature with a cost of \$10,000 or more and estimated service life of three (3) years or more. Major renovations of existing facilities that cost more than \$10,000 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.

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. Short-Term Debt Policies

a. Short-term debt is defined as a period of three years or less.

b. The City may use short-term debt to cover temporary cash flow shortages, which may be caused by a delay in receipting tax revenues or issuing long-term debt. The City will not use short-term debt for current operations.

c. The City may issue interfund loans rather than outside debt instruments to meet short-term cash flow needs. Interfund loans will be permitted only if an analysis of the affected fund indicates excess funds are available and the use of these funds will not impact the fund's current operations. All interfund short-term borrowing will be subject to Council approval by resolution as approved for interfund loans.

3. Long-Term Debt Policies

a. Long Term debt is that debt which exceeds three (3) years.

b. The City will utilize long-term borrowing for capital improvements that cannot reasonably be financed on a pay-as-you-go basis from anticipated cash flows.

c. Acceptable uses of bond proceeds are items which can be capitalized and depreciated. Refunding bond issues designed to restructure current outstanding debt is also an acceptable use of bond proceeds provided that the net present value (NPV) of savings is at least four percent (4%).

d. The City will determine whether self-supporting bonds (such as special assessment or local improvement district bonds) are in the City's best interest when planning to incur debt to finance capital improvements.

e. The City will not use long-term debt for current operations.

f. The City will maintain good communications with bond rating agencies about its financial condition. The City will follow a policy of full disclosure on every financial report and bond prospectus including proactive compliance with disclosure to the secondary market.

g. General Obligation Bond Policy

(i) Every project proposed for financing through general obligation debt shall be accompanied by a full analysis of the future operating and maintenance costs associated with the project.

(ii) Bonds cannot be issued for a longer maturity schedule than a conservative estimate of the useful life of the asset to be financed.

h. Limited Tax General Obligation Bond Policies

(i) As a precondition to the issuance of limited tax general obligation bonds, alternative methods of financing should also be examined.

(ii) Before general obligation bond propositions are placed before the voters, the capital project under consideration should have been included in the Capital Facilities Plan. The source of funds should describe the intended use of bond financing.

(iii) Limited tax general obligation bonds should only be issued under certain conditions:

- A project requires monies not available from alternative sources;
- Matching fund monies are available which may be lost if not applied for in a timely manner; or
- Catastrophic conditions.

i. Financing of Lease Purchases

(i) Lease purchase financing may be used when the cost of borrowing or other factors make it in the City's best interest.

j. Loan Financing

(i) The City may apply for low interest loan financing through state and federal programs such as the Department of Commerce, Public Works Board, Department of Ecology, Department of Health and any other program created for low interest financing of capital investments.

(ii) Voted and nonvoted debt shall be issued in accordance with applicable Washington state law.

4. The City will comply with state law and the 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. As a general rule, any contracts requiring additional budget authority shall be placed on the Council agenda and included in Council packets for consideration by City Council.

2. All capital projects in which there is a material change in scope would be presented to 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. Labor (Salary and Benefits)

Cost of City labor and personnel shall be divided by fund based on prior year's actual labor percentages.

2. Expenses

a. If 100% of any expense is attributed to a fund, 100% of the expense will be charged to that fund.

b. Otherwise costs are allocated to the fund by the following methods.

(i) Supplies – Fund distribution is based on an internal audit of usage performed by the City Treasurer every three years.

(ii) Services – Fund distribution is based on prior year's applicable labor percentages.

(iii) Capital Expenditures – Fund distribution is based on prior year's applicable labor percentages.

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