

BUDGET GUIDELINES

I. Purpose

A. The purpose of these budget guidelines is:

1. To inform the public as to the process involved in establishing the City's budget and maintaining the City's financial health;
2. To easily identify the processes that the City has established to maintain a financial base sufficient to sustain a consistent level of municipal services;
3. To increase the City's ability to withstand periodic local and regional economic fluctuations;
4. To outline the process by which the City is able to adjust to changes in the service requirements of the community, and;
5. To maintain a good credit rating in the financial community, which assures taxpayers that City government is well managed financially and in sound fiscal condition.

II. Operating Budget

A. General Guidelines

1. It is the City's intent to maximize the level of public services provided by the City while minimizing expenditures.
2. Ongoing operating program costs should not exceed the amount of ongoing revenue.
3. Cash balances resulting from ongoing revenues in excess of ongoing expenditures either should be, 1) held and carryforward as an unallocated ending fund balance to offset unanticipated fluctuations in future revenue, or 2) allocated towards one-time or non-recurring expenditures.
4. Citizen involvement should be encouraged in the budget decision-making process through public hearings and study sessions. Involvement also should be facilitated through City boards, task forces and commissions who serve in advisory capacities to the City Council and/or City Manager.

B. Revenues

1. Revenue estimates should not assume a growth rate in excess of inflation. Real growth that occurs should be recognized through budgetary adjustments only after it takes place.

2. Investment income earned through the City's investment pool shall be allocated to the General Fund.
3. The City should establish and maintain Special Revenue Funds to account for proceeds from specific sources to finance designated activities that are required by statute, ordinance, resolution, or executive order.
4. All fees for services should be reviewed by the City Manager at least every biennium, and adjusted by Council when necessary, to ensure that fees are equitable and cover the percentage of service costs deemed appropriate by the City.
5. Revenues of a limited or indefinite term should be clearly identified to ensure that no ongoing service/program is lost when such revenues are reduced or discontinued.
6. Grant applications to fund new service programs should be reviewed by the City with due consideration given to whether ongoing City revenues will be required to support these programs when outside funding is no longer available.

C. Expenditures

1. Before the City undertakes any endeavor that would create fixed ongoing expenditures, the cost implications of such endeavor should be evaluated for current and future years with the aid of the City's financial forecast.
2. Organizations that are not part of the City, but who receive funding from the City, should not have their appropriation carried forward from year. Their appropriation should be reviewed for reauthorization with each biennial budget, unless expressly authorized and directed by the City Council.

D. Contingent Accounts

1. As a part of the City biennial budget, the City Council should appropriate a Contingency Reserve to provide monies with which to meet any municipal expense, the necessity or extent of which could not have been foreseen easily at the time of adopting the budget, or from which to provide monies for emergencies as defined by law (RCW 35A.33.145). The goal for funding of the Contingency Reserve is to maintain a minimum available reserve of fifty thousand dollars (\$50,000). (Resolution 703, approved October 15, 2012)
2. The City shall establish a Strategic Reserve Fund, which shall neither be appropriated nor spent without Council authorization. The purpose of this Fund is to provide some fiscal means for the City to respond to potential adversities such as public emergencies, natural disasters, or similarly major, unanticipated events. (Ordinance 643, approved November 17, 2014.) The Strategic Reserve Fund should be replenished as soon as possible and within three subsequent

years from the time the Fund is used or falls below the target established by Council. Sources to replenish these reserves shall be from, a) undesignated fund balances, b) deferring non-life safety capital and c) operating revenues, in this order.

3. The City will maintain a list fixed asset that will identify depreciable assets and their anticipated replacement schedule. The City should establish a Replacement Reserves Fund for certain assets through depreciation charges paid into the Internal Service Funds.

E. Multi-year Forecast

1. The City will update at least annually expenditure and revenue forecasts for a period of not less than six years.
2. The City's financial forecast will be presented to elected officials in a form that will facilitate budget decisions and multi-year strategic planning.

F. Quarterly Report

1. The budget will be produced so that it can be directly compared to the actual results of the fiscal year and presented in a timely quarterly report.
2. All budget amendments - both revenues and expenditures - will be noted in the quarterly report.

III. Capital Budget

A. General Guidelines

1. The Capital Budget should include only those projects that can reasonably be accomplished in the time frame indicated.
2. All projects included in the Capital Improvement Plan should be consistent with the City's Comprehensive Plan. The Comprehensive Plan service level goals should be included within the Plan.
3. Capital projects should be financed to the greatest extent possible through user fees, grants and benefit districts when direct benefit to users results from construction of the project.
4. Funding for capital projects that have not been completed during the fiscal year may be carried forward to the next fiscal year, except as otherwise directed by the City Council.
5. Projects that involve intergovernmental cooperation in planning and funding should be established by an agreement that sets forth the basic responsibilities of the parties involved.

B. Capital Project Proposals

1. Capital project proposals should include cost estimates that are as complete, reliable, and attainable as possible.
2. All proposals for the expenditure of capital funds should be formulated and presented to Council within the framework of a general review of all capital budget requirements.
3. Capital project proposals should indicate the project's impact on the operating budget, including, but not limited to, long-term maintenance costs necessary to support the improvement.
4. Capital project proposals should include a projected schedule.
5. Prior to adoption, the City Council shall hold noticed public hearings on the Capital Improvement Plan, to provide opportunities for public review and comment on the proposed plan.

C. Project Evaluation

Council should review and establish criteria against which capital proposals should be measured. Included among the factors which should be considered for priority-ranking are the following:

1. Projects that have a positive impact on the operating budget (reduced expenditures, increased revenues);
2. Projects that are programmed in the Six-Year Capital Improvement Plan;
3. Projects that can be completed or significantly advanced during the Six-Year Capital Improvement Plan;
4. Projects that can be realistically accomplished during the year they are scheduled; and
5. Projects that implement previous Council-adopted reports and strategies.

DEBT MANAGEMENT GUIDELINES

I. Purpose

- A. The purpose of these debt management guidelines is:
1. To help the City Council and staff integrate the issuance of debt with other long-term financial planning and management objectives;
 2. To help the City Council and staff evaluate the impact of each debt issue on the City's overall financial position; and
 3. To provide guidance to the City Council and staff so as to not exceed acceptable levels of indebtedness.

II. Long-term Borrowing

- A. General obligation bonds. General obligation, or G.O. Bonds, are secured by the full faith and credit of the City. General obligation bonds issued by the City are secured by a pledge of the City's ad valorem taxing power. There are two basic types of general obligation bonds:
1. Limited tax general obligation bonds, also called LTGO bonds or councilmanic bonds, may be issued by a vote of the City Council. General fund revenues are pledged to pay the debt service on councilmanic bonds because the voters have not approved a tax increase to pay for the principal and interest.
 2. Unlimited tax general obligation bonds, also called UTGO bonds or voted debt, must be approved by 60 percent of the voters, with a voter turnout that is at least 40 percent of those voting in the most recent general election. Voters are not only voting for the approval to issue bonds, but they are also voting for an excess levy which raises their property taxes to fund debt service payments.
- B. Certificates of Participation are used to acquire real or personal property with tax-exempt financing using a lease-purchase agreement. The City would make annual installment payments to a third-party investor over time, acquiring the property at the end of the lease period for a nominal payment.
- C. Revenue bonds are issued to finance facilities that have a definable user or revenue base, usually a City enterprise that is self-supporting. These debt instruments are secured by a specific source of funds, either from the operations of the project being financed or from a dedicated revenue stream, rather than the general taxing powers of the City. Generally, no election is required prior to the issuance or validation of revenue bonds.
- D. Special assessment bonds or local improvement districts (LIDs) are obligations payable from special assessment revenue. These bonds are issued to finance improvements that benefit a specific area. Because the benefit is largely enjoyed by a limited segment of

the community, a special assessment to pay debt service is levied only on properties or households benefiting from the project. Property owners may petition the City to form an LID, or the City Council may adopt a resolution of intent to form an LID. An LID initiated by Council Resolution may be blocked if the property owners who would be paying at least 60 percent of the costs protest. LIDs are commonly used for projects such street improvements, streetlights, sidewalks, and water and sewer systems.

- E. Utility local improvement districts (ULIDs) may be formed in a manner similar to LIDs for the purpose of providing water systems, sewer and storm drainage systems, and parking garages. The primary difference between the two kinds of districts is that revenue bonds must be issued for ULIDs, assessments must be deposited in a fund to pay off the revenue bonds, and the bonds are backed both by assessments and by utility revenue.

III. Short-term Borrowing

- A. Notes, such as bond anticipation notes (BANs) or tax anticipation notes (TANs), is a written short-term promise of the City to repay a specified principal amount on a certain date, together with interest at a stated rate, or according to a formula for determining that rate, payable from a defined source of anticipated revenue such as bonds, anticipated taxes, or some other anticipated revenue source expected to be received at a future date.
- B. Lines of credit are another short-term borrowing option that provides an alternative to anticipation notes. A bank and the City agree on the maximum amount that will be available under the line of credit. The City provides a note to the bank that is backed by the full faith and credit of the City.

IV. Debt Management Policy

The City Council adopted Resolution No. 100 on May 6, 1996, setting forth its debt management policy. The Resolution was amended by Resolution No. 702 on October 15, 2012. In general, the resolutions provide as follows.

- A. The maturity date for any debt will not exceed the reasonable expected useful life of the project so financed.
- B. Long term debt will not be used to finance ongoing current operations and maintenance.
- C. The City shall attempt to maintain a cash reserve of between five and fifteen percent (5-15%) of its operating budget, the approximate equivalent of one month's operating requirement.
- D. The City shall attempt to maintain a balanced relationship between issuing debt and using pay-as-you-go financing.

- E. In determining which type of debt to issue, the following factors should be considered:
1. A significantly larger portion of the citizens should benefit from projects financed by general obligation bonds.
 2. Whenever possible, the City shall identify alternative sources of funding and shall examine the availability of those sources in order to minimize the level of debt.
 3. The project should be integrated with the City's long-term financial plan and Capital Improvement Plan.
 4. The City shall encourage and maintain good relations with financial and bond rating agencies and will follow a policy of full and open disclosure on every financial report and bond prospectus. The City shall also establish affordability guidelines to preserve credit quality.

V. General Guidelines

- A. City Council approval is required prior to the issuance of debt. In addition, an analytical review should be conducted prior to the issuance of debt to determine if there are reasonable alternatives and to reduce the cost of borrowing.
- B. The City will use the services of a legally certified and credible bond counsel in the preparation of all bond representations.
- C. A Financial Advisor may be used to assist in the issuance of the City's debt. The Financial Advisor provides the City with objective advice and analysis on debt issuance. This includes, but is not limited to, monitoring market opportunities, structuring, and pricing debt, and preparing official statements of disclosure.
- D. An Underwriter(s) will be used for all debt issued in a negotiated or private placement sale method. The Underwriter is responsible for purchasing negotiated or private placement debt and reselling the debt to investors.
- E. A Fiscal Agent will be used to provide accurate and timely securities processing and timely payment to bondholders. In accordance with RCW 43.80, the City will use the Fiscal Agent that is appointed by the State.
- F. Short-term lines of credit, tax or Revenue Anticipation Notes should be used only when the City's ability to implement approved programs and projects is seriously hampered by temporary cash flow shortages. In general, these Notes will be avoided. No other form of debt will be used to finance ongoing operational costs.
- G. Whenever possible, the City should use special assessment, revenue, or other self-supporting bonds instead of general obligation debt.

- H. Long-term general obligation debt should be incurred when necessary to acquire land or fixed assets, based upon the ability of the City to pay. This debt should be limited to those capital improvements that cannot be financed from existing revenues and when there is an existing or near-term need for the project.
- I. Short-term borrowing only should be used to meet the immediate financing needs of a project for which long-term financing has been secured, but not yet received.

BASIS OF ACCOUNTING AND BUDGETING

Accounting

Accounting records for the City are maintained in accordance with methods prescribed by the State Auditor under the authority of Washington State law, Chapter 43.09 R.C.W., and in compliance with generally accepted accounting principles as set forth by the Governmental Accounting Standards Board.

Basis of Presentation

The accounts of the City are organized on the basis of funds and accounts. Each fund is a separate accounting entity with a self-balancing set of accounts. The City's resources are allocated to and accounted for in individual funds according to the purpose for which they are spent and how they are controlled. There are three categories of funds: 1) governmental, 2) proprietary and 3) fiduciary. A purpose and description of each fund is provided on the fund pages in the Budget by Fund section of this budget document. A description of the three fund categories is provided below.

1. Governmental Funds

Governmental funds are used to account for activities typically associated with state and local government operations. All governmental fund types are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures and changes in fund balances reports on the sources (i.e. revenues and other financing sources) and uses (i.e. expenditures and other financial uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and statements for governmental funds. The four generic fund types in this category are described in the following paragraphs.

- **General Fund.** The General Fund is the general operating fund of the City and accounts for all activities not required to be accounted for in some other fund.
- **Special Revenue Funds.** Special Revenue Funds account for the proceeds of specific revenue sources - other than expendable trusts or revenues designated for major capital projects - that are legally restricted to expenditures for specific purposes.
- **Debt Service Funds.** Debt Service Funds account for the accumulation of resources for and the payment of general long-term debt, principal, interest, and related costs.
- **Capital Projects Funds.** Capital Projects Funds account for the acquisition or construction of major capital facilities except those financed by proprietary funds and trust funds.

2. Proprietary Funds

Proprietary Funds are used to account for activities similar to those found in the private sector where the intent of the governing body is to finance the full cost of providing services, including depreciation, primarily through user charges. All proprietary fund types are accounted for on a

flow of economic resources measurement focus. All assets and all liabilities associated with the operation of these funds are included on the statement of net assets. The statement of changes in fund net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. The statement of cash flows provides information about how the City finances and meets the cash flow needs of its proprietary activities. As described below, there are two generic fund types in this category.

- Enterprise Funds. Enterprise Funds account for operations that are financed and operated in a manner similar to private business enterprises where the intent of the City is to finance or recover, primarily through user charges, the costs of providing goods or services to the general public on a continuing basis.
- Internal Services Funds. Internal Services Funds account for business-like activities where related goods or services are primarily provided to other departments or funds of the City on a cost-reimbursed basis.

3. Fiduciary Funds

Fiduciary funds are used to account for assets held by the City in a trustee capacity or as an agent for individuals, private organizations, other governments, or other funds. These funds share characteristics with both the governmental and proprietary funds and therefore, as described below, use the measurements focus and basis of accounting most appropriate to their specific operations. This fund category includes expendable trust, nonexpendable trust, pension trust, and agency funds. The City presently has no fiduciary funds.

Basis of Accounting

Basis of accounting refers to the recognition of revenues and expenditures or expenses in the accounts and reporting them in the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Proprietary and fiduciary funds also use the accrual basis of accounting.

1. Accrual Basis. The accrual basis of accounting recognizes revenues when they are earned, and expenses are recorded when incurred. All assets and liabilities are recorded in the fund.
2. Modified Accrual Basis. The modified accrual basis of accounting recognizes revenues and other financial resources when they become susceptible to accrual, i.e. when the related funds become both measurable and available to finance expenditures of the current period. "Measurable" means the amount of the transaction can be determined. To be considered "available", revenue typically must be collected within sixty days after year-end. Expenditures are recorded when the fund liability is incurred, except for principal and interest on general long-term debt, and vacation and sick pay which are recorded when paid. Inventory items are reported as expenditures when consumed.

Budgets and Budgetary Accounting

Scope of Budget

Annual appropriated budgets are adopted for the general, some special revenue, debt service, and proprietary funds on the modified accrual basis of accounting. Certain special revenue and capital project funds, however, are budgeted on a project-length basis. For governmental funds, there are no differences between the budgetary basis and generally accepted accounting principles (GAAP). Budgets for project/grant related special revenue funds and capital project funds are adopted at the level of the individual project and for fiscal periods that correspond to the lives of projects.

Legal budgetary control is established at the fund level, i.e., expenditures for a fund may not exceed the total appropriation amount. Any unexpended appropriation balances for annually budgeted funds lapse at the end of the year. Appropriations for other special purpose funds that are non-operating in nature are adopted on a “project-length” basis. Therefore, these appropriations are carried forward from year to year without reappropriation until authorized amounts are fully expended or the designated purpose of the fund has been accomplished. The individual funds within each fund type, which are included in the City’s annual operating budget, are listed below:

Funds Budgeted on an Annual Basis

1. General Fund. The General Fund is used to account for all financial resources except those required to be accounted for in another fund. This includes the Parks Fund, Development Services Fund and Police/Public Safety Fund.
2. Special Revenue Funds. Special Revenue Funds are established to account for proceed of specific revenue sources that are legally restricted to expenditures for specified purpose.
 - Street Fund
 - Real Estate Excise Tax Fund
 - Traffic Impact Fee Fund
 - Local Revitalization Funding Fund
 - Strategic Reserve Fund
 - Donations Fund
3. Debt Service Fund. The Debt Service Fund is to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest.
4. Enterprise Funds. Enterprise Funds accounts for operations that are normally financed and operated in a manner like a private business enterprise where the intent of the governing body is that the costs of providing goods and services to the general publicly on a continuing basis be financed or recovered primarily through user charges.
 - Surface Water Management Fund

5. Internal Service Funds. Internal Service Funds are established to account for the financing of goods and services provided by one department of the governmental unit on a cost reimbursement basis.

- Fleet and Equipment Fund
- Information Technology & Services Fund
- Property Management Fund
- Risk Management Fund

Funds Budgeted on a Multi-Year Basis

1. Special Revenue Fund. This fund is established to account for proceeds of specific revenue sources that are legally restricted to expenditures for specific purposes.

2. Capital Project Funds. Capital Project Funds account for financial resources to be used for the acquisition or construction of major capital facilities.

- Parks CIP Fund
- Public Works CIP Fund
- Municipal Facilities CIP Fund