



CITY OF SNOHOMISH

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NOTICE OF SPECIAL MEETING

SNOHOMISH CITY COUNCIL

in the
George Gilbertson Boardroom
1601 Avenue D

TUESDAY
April 19, 2016
6:00 p.m.

WORKSHOP AGENDA

- 6:00 1. **CALL TO ORDER**
2. **DISCUSSION ITEM** – Financial Management Policy and Five-Year Financial Plan Workshop 3 – Expenditure Section (*P.1*)
- 6:55 3. **ADJOURN**

AGENDA ITEM 2

Date: April 19, 2016
To: City Council
From: Jennifer Olson, Finance Director
Subject: **Financial Management Policy and Five-Year Financial Plan
Workshop 3 – Expenditure Section**

The purpose of this workshop is for a discussion on the proposed Financial Management Policy – Expenditure Section. A Financial Management Policy serves as an operational guideline and basis for management and staff to crystallize City Council strategic intents for dealing with fiscal vitality and to support the community wide Strategic Plan goals and objectives. Staff is using a collaborative approach in updating the policy that contains acceptable and unacceptable courses of action, establishes parameters in which the city may operate and provides a standard for safeguarding City financial resources and practices (See Attachment A).

Background: In December 2015, the City Council kicked-off the planning work for updating the Financial Management Policy and for creating a 5-year Financial Plan, both of which are 2016 City Council Goals. On January 19, 2016, the City Council conducted a workshop to review the Financial Management Policy Section on Reserves and Fund Balances. On March 15, 2016, the City Council continued policy discussion focusing on Revenues.

General Fund – Fund Balance, Revenue and Expenditures – Updated 5-Year Outlook:

The updated 5-year outlook (See attachment B) forecasted for annual General Fund reserves continues to show improvement in the estimated structural imbalance, and this slightly reduces some of the time pressures for potentially developing new revenues or eliminating any ongoing expenditures. However, a structural imbalance is still looming and our work in creating a 5-year balanced financial plan is as important as ever. Staff continues to be cautious of our major source of revenue, sales tax, that has reached pre-recessionary levels and it is important to take the necessary time to fully understand the impacts and to seek community input on potential changes in service delivery and programs.

Financial Management Policy – Expenditures: The primary reason for setting expenditure policy is to design a fundamental level of integrity, directness and transparency on how the City Council spends public money entrusted to their stewardship. Coupled with this, is the need to direct funds towards the services and programs that citizens prefer and to do so in the most efficient manner possible.

Current financial policy has sections that define purchasing and expenditure control procedures (See Attachment C). Whereas, new financial management policy language seeks to define five main elements of expenditures and spending that guide management on funding operations, personnel compensation, funding non-current liabilities and implementation of performance and efficiency improvements.

AGENDA ITEM 2

Funding operations is the most basic purpose of an expenditure section of a financial management policy and the balance of flexibility and control through policy assists management with guidelines to deliver effective programs and services. Recommended expenditure objectives include support and participation in the local economy, quality personnel retention efforts, use of technology to improve efficiencies and compliance with state and federal laws.

Expenditure policy procurement standards and procurement authority is designed to ensure that management adheres to often strict regulations and State law when it comes to spending public funds. The proposed expenditure guidelines suggest a level of procurement authority given by the City Council to the City Manager. Purchasing authority limits and purchasing thresholds allow for City management to be flexible and operate in an efficient manner when it comes to routine activities and service delivery.

Because resources are scarce, efficiencies, organizational structure, service delivery improvements and possible outsourcing are necessary and critical to overall financial performance and long-term solvency. The proposed policy language seeks to define City Council expectations of management to achieve cost effective, reliable and sustainable methods of delivering services.

Workshop Outcomes: While expenditure policy is an important component of a financial management policy, expenditure policy is often not grouped together in only one section of a comprehensive financial policy document. The Budget and CIP Sections also include expenditure related objectives, priorities and targets. Staff will facilitate discussion of expenditure procurement but will also provide historical expenditure data and other details for a review of existing operating costs as a way to set the stage for the next workshop and policy discussion on operating and capital budgets. Most important to long-term solvency of the General Fund will be a discussion of the increasing costs of law enforcement, criminal justice and jail costs, streets and park maintenance and other General Fund-supported activities. Potential new capital improvements - that impact the general fund -- will be discussed and direction to staff will be important as the long-term obligations associated with new capital projects impact and compete with all current service delivery programs. The goal for the workshop is to receive direction on the City Council's preferences and concerns as they relate to establishing comprehensive expenditure and purchasing policy that will guide the 5-year financial modeling process set to begin later on in the current year.

STRATEGIC PLAN REFERENCE: This action is related to all Strategic Plan initiatives.

RECOMMENDATION: That the City Council **DISCUSS** the proposed **Financial Management Policy – Expenditures** and **DIRECT** staff regarding elements of expenditures and spending guidelines.

ATTACHMENTS:

- A. Proposed Financial Management Policy
- B. General Fund – Fund Balance, Revenues & Expenditures-Updated 5-yr Outlook
- C. Current Financial Management Policy – Section C. Purchasing and Expenditure Control

CITY OF SNOHOMISH

FINANCIAL MANAGEMENT POLICY

Adopted: **Date**

Red font indicates proposed targets, benchmarks, objectives or key policy principals requiring City Council discussion and direction to staff before final consideration and policy adoption.

**CITY OF SNOHOMISH
FINANCIAL MANAGEMENT POLICY**

1.0 INTRODUCTION AND OBJECTIVES

The financial management policy of the City of Snohomish is established by the City Council. The policy is designed to provide guidance to all stakeholders whether they be directly involved in financial processes, internal control oversight, or any financial transaction. The financial management policy is intended to serve as a blueprint to achieve fiscal stability required to accomplish the City's Strategic Plan, Comp Plan and all master plans and goals. The City Council sets forth the authorities, responsibilities, and accountability requirements of those participating in the operations of Snohomish City government at all levels of the organization and endeavors to:

- Set forth financial principles which minimize the cost of government
- Reduce financial risk
- Maintain appropriate financial capacity for present and future needs
- Ensure the legal use of financial resources through an effective system of internal controls
- Provide financial transparency to the public

2.0 RESERVES AND FUND BALANCE

Fund balance is an approximate measure of liquidity. Reserves are a cornerstone of financial flexibility and provide the City of Snohomish with options to respond to unexpended issues and provide a buffer against minor fiscal challenges. This section defines thresholds and descriptions for fund balances, reserves, and retained earnings of all funds of the City of Snohomish. It is the intent of the City to provide a stable financial environment for which its citizens can depend on a consistent and quality level of service and for planned future expenditures. The Finance Director and City Manager are responsible for monitoring reserve levels and reporting current and projected reserves during each budget development cycle.

2.1 Fund Balance Definitions

As defined by GASB Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, the City will reserve funds according to the following:

2.1.1 Non-spendable Fund Balance

Inherently non-spendable portions of net resources that cannot be spent because of their form or portions of net resources that cannot be spent because they must be maintained intact.

2.1.2 Restricted Fund Balance

Externally enforceable limitations, on the use of funds, that are imposed by creditors, grantors, contributors, or laws and regulations of other governments or limitations imposed by law through constitutional provisions or enabling legislation. Debt Service fund balance will be designated as restricted.

2.1.3 Committed Fund Balance

Self-imposed limitations, on the use of funds, that are set in place prior to the end of a period. Limitations imposed at highest level of local decision making that requires formal action at the same level to remove. Capital Project fund balances typically will consist of funds designated by City Council for future capital improvement projects.

AGENDA ITEM 2

2.1.4 Assigned Fund Balance

Limitations resulting from intended use that is established by the highest level of decision making or intended use established by the City Council for a specific purpose. The resources for these funds may be acquired through the budgeting process or funds that are deposited with the city for specific purposes. Special Revenue fund balances typically consist of funds assigned by other governmental agency for specific use or by the City Council specific use.

2.1.5 Unassigned Fund Balance

Residual net resources that make up the fund balance in the general fund in excess of non-spendable, restricted, committed, and assigned fund balance (i.e., surplus) or excess of non-spendable, restricted, and committed fund balance over total fund balance (i.e., deficit). The General operating fund balance typically will consist of unassigned funds for use by the City Council.

2.2 Reserve Level Target – General Fund

A healthy unassigned fund balance is needed to provide cash flow to pay expenditures when due. The City receives a majority of its tax collections two times per year. A fund balance reserve target allows for cash flow while the city waits to receive its shared revenues and taxes. The unassigned fund balance is also a security against unforeseen changes or needs, i.e. natural disasters, loss of state shared revenues, etc.

Option 1. The general fund unassigned fund balance should be approximately **15-20%** of revenues of the general fund, less annual transfers-in and total cost allocation fees to the fund. The unassigned fund balance of the general fund should never fall below **10%** of operating revenues.

Option 2. The general fund unassigned fund balance should be approximately **15-20%** of expenditures of the general fund, less annual transfers-out and total cost allocation charges to the fund. The unassigned fund balance of the general fund should never fall below **10%** of operating expenditures.

2.3 Conditions for Using Reserves

The City will avoid the appropriation of fund balance for recurring operating expenditures. If at any time the utilization of a fund balance to pay for operating expenditures is necessary to maintain the quality or level of current services, an explanation of the circumstances of the utilization of fund balance and the strategy to arrest the future use of fund balance will be included in the budget transmittal letter.

Reserves may be used at the discretion of the City Council to:

- **Provide resources to make up for temporarily decreased revenues, such as state shared revenues**
- **Provide temporary resources in the event of an economic downturn while expenditure reductions are implemented**
- **Provide resources to meet emergency expenditures in case of flood, fire, earthquake, landslides or other catastrophic failures.**

2.4 Reserve Level Target - Enterprise Funds

It is the goal of the enterprise funds to cover the cost of operations, debt obligations and capital infrastructure improvements and annual maintenance, so as to maintain a financially healthy enterprise. Enterprise fund balance is a product of revenues over expenditures over time and consists of the net result of assets minus liabilities. The City will establish utility rates and capital connection fees that are structured to meet several financial requirements. The Enterprise fund balance financial indicators are as follows:

AGENDA ITEM 2

2.4.1 Capital funding obligations-as defined through the 6-Year Capital Improvement Plan (CIP) - Utility Sections.

2.4.2 Debt coverage ratio – a ratio 1.5 of net revenues to total debt service.

2.4.3 Operating reserves-90 days of operating expenses reserved for water and 60-**Option -90** days each for wastewater and storm water.

2.4.4 Debt service-the amount needed to pay for current and future debt (125% or as per bond covenants).

2.4.5 System replacement-amounts required to pay for annual system replacement as defined through the CIP-Utility Sections.

2.4.6 Emergency capital repairs-amounts required to pay for cost overruns and unanticipated capital costs.

2.5 Reserve Level Target – Special Revenue, Capital Project and Other Fund Types

The main purpose of special revenue, capital project and debt funds is to account for resources and track spending that is specific to the funds purpose and it is presumed that all fund resources will eventually be spent. Capital Project Funds will reflect items represented in the CIP approved during the capital budget adoption process. It is the intent of the City of Snohomish to set aside funds, when operations allow, for large capital projects to help minimize the debt service needs for these projects. Current commitments for Capital Project fund reserves are transportation, parks, sidewalks and trails, utilities, and civic facilities as defined in the Comprehensive Plan – Capital Facilities Plan element.

Special revenue funds by their nature are funds used for specific purposes, and by definition, the corresponding fund balance will be used to solely support that purpose. Fund balances in special revenue funds will be monitored to stay consistent with the need and use of the specific purpose of that fund.

2.5.1 Seizure Funds

As defined by Ch. 69.50.505 RCW and inter-local agreement, between the City and Snohomish County Drug Task Force, law enforcement asset seizure funds shall be used for payment of all expenses of the investigation that led to the seizure, including the proceedings for forfeiture and sale, expenses of seizure, maintenance of custody, advertising, actual costs of prosecuting, city attorney and court costs.

2.6 Reserve Level Target – Internal Service Funds

Reserve targets established for internal service funds shall ensure that the fund continues to provide service without interruption including self-insurance and equipment replacement plans. Internal service fund reserves are funded through the City of Snohomish Cost Allocation Plan (CAP). The equipment reserve funds will be maintained at a level sufficient to meet scheduled equipment replacement so as to sustain an acceptable level of municipal services and prevent a physical deterioration of city assets. If CAP charges are sufficient to cover internal service operations, maintenance and equipment replacement expenditures then the minimum reserve balance may be 30% of the funds operating budget expenditures.

2.7 Replenishment of Reserves

Should assigned fund balance targets fall below a 15% threshold, **the City will strive toward regaining the minimum threshold during the next budget cycle** and forecast the timing of the unassigned fund balance improvement within the long-term financial plan.

AGENDA ITEM 2

2.8 Excess Reserves

Reserves above the targeted reserve levels may be used for new expenditures, with emphasis on one-time uses that achieve future operating cost reductions, capital expenditures or prepaying existing debt. **Use of excess reserves will be determined by the City Council through the next available budget cycle.**

3.0 REVENUES

3.1 Revenue Objectives

The City will maintain a diversified and stable revenue system to shelter it from short-term fluctuations. To protect and better develop future tax base, revenue guidelines will emphasize preserving the City's ability to grow and expand. The following are revenue objectives based on type of revenue:

3.1.1 Revenues That Align with Cost Recovery

Fees or tax are based on an objective of recovering a stated percentage of a given program's expenses.

3.1.2 Revenues Related to Economic Development

Fees or tax are based on objectives that foster growth related activity. The City's overall revenue structure should be designed to recapture some of the financial benefits resulting from City economic and community development investments. The City will strive to keep a total revenue mix that encourages growth and keeps Snohomish economically competitive and a city of choice for people to live in and do business.

3.1.3 Revenues with a Relationship to the Value of Money and Market Forces

Fees are based on maintaining a logical relationship with local market forces. Fees that are subject to ongoing inflationary or other indexes may be adjusted.

3.1.4 Revenues that Enforce Compliance

Fines and Infraction are set at a level that assists with enforcing compliance with City rules and regulations.

3.1.5 Revenue that is Self-Supporting

Fees and charges usually associated with a governmental "business" enterprise. Fees are based on a formal rate model for factoring in relevant operational, capital, and debt service cost components.

3.1.5.1 All utility enterprise funds shall be self-supporting; that is, they should generate enough revenue to pay for all costs without a subsidy from the general fund, from each other or from other sources. Utility rates should divide costs equitably among customer classes according to benefit and cost of service. If rates are set that subsidizes one class of customer at the expense of another, this action should be taken in support of explicit City policy. Because of the vital importance of water, sewer and storm water as public services, a minimum level of service should be available at a relatively low cost to all utility customers.

AGENDA ITEM 2

3.2 Fee Schedule

Charges and fees, including utility rates, should be reviewed and updated periodically based on factors such as impact of inflation, other cost increases, adequacy of coverage of costs, and current competitive rates. On a **periodic** basis, the Fee Schedule, as adopted by City Ordinance, may be amended in conjunction with the budget development cycle.

3.3 Revenue Receipting & Processing

Deposits and cash receipting procedures, as defined in administrative procedures, will be adhered to for revenue collected at all City facilities per Ch. 43.09.240 RCW. Only authorized personnel are allowed to take cash receipts from customers. Administrative procedures provide guidance and enforcement of internal control, deposit of collections and oversight on all changes to revenue items in the financial system.

3.4 Bad Debt and Collections

Revenue collection guidelines, as defined in administrative procedures, will provide processes for the recognition of bad debt and the computation of an allowance of doubtful accounts, define procedures for determining refunds and discounts as allowed in City Code and provide for the administration of escrow accounts used for land use projects.

3.5 Grants

Grant funding can significantly leverage City resources to provide services, equipment and capital projects that would otherwise be unaffordable. The City is committed to pursuing grant funding as an appropriate funding source. Any grant programs must be consistent with the City's mission and Strategic Plan goals. City staff will seek out, apply for, and effectively administer federal, state and other grants that address the City's policy objectives and provide a positive benefit. Before any grant above \$50,000 is pursued, staff shall provide a detailed pro-forma to the City Manager and Finance Director that addresses the immediate and long-term costs and benefits to the City.

If grants are pursued for an on-going service and/or staff position(s) the City Council must:

- **Pre-approve staff identified source of long-term funding to supplant the grant at the end of the grant program.**
- **Matching fund requirements must have an identified and available funding source prior to the acceptance of the grant award.**

Responsibility for the administration of grants is the joint responsibility of the applying department, finance department and City Manager. Administrative procedures define the requirements for grant administration and compliance.

3.6 Donations & Gifts

All donations, as per Ch. 35.21.100 RCW, provided to the City shall be presented to the City Council for approval. If no terms or conditions are attached to the donation, the city staff will prepare a summary of the funding source and recommended use of proceeds for City Council approval.

3.6.1 Substantial Gifts

The City of Snohomish seeks to recognize donors who, through a distinguished effort or substantial financial gift, wish to support a City facility or structure. For example, structures may include pavilions, shelters, plazas, real estate to be used for parks, trails or open space, interpretive areas, or active recreation; or other large-scale projects as discussed with the Advisory Boards and City Council. The following guideline will be used for recognizing donations for amenities or projects, in addition to defining the period of time in which the donation or gift will be received by the City.

AGENDA ITEM 2

For the purposes of this policy, "Substantial Financial Gift" is defined as at least 50% of the estimated cost of:

- 1) New construction, remodeling, or renovation
- 2) Developing a new real property, such as park buildings, structures, or real estate
- 3) Replacement of an existing, unnamed facility or landmark that requires substantial renovation at the time of the gift

3.6.2 Donation Funded Projects

The City of Snohomish will review projects that are proposed by private individuals or groups, where the project funding source will come from donations collected by the individual or group, (e.g. trees, park benches and other equipment or fixtures) on a case-by-case basis. City staff will review the donation project with the City Manager prior to City Council acceptance and oversee the donation funded projects according to administrative procedures.

3.7 Gifts to City Officials

With a few exceptions, no city official or city employee shall accept any gift as per Ch. 42.52.140 RCW.

4.0 EXPENDITURES

4.1 Expenditure Objectives

The City of Snohomish endeavors to connect expenditures to a fundamental level of stewardship by committing to a level of expenditures that are sufficient to ensure the on-going health, safety, and welfare of its' citizens. Operating expenditures, within particular funds, must be supported by the operating revenues generated by that fund. Expenditures will not expand beyond the City's ability to pay for them with current revenues.

The objectives of the expenditure guidelines are:

- To support the local firms and merchants within the community whenever possible subject to meeting other expenditure guideline objectives.
- To obtain supplies, equipment, and services as economically as possible and that are best suited to the specific departmental needs.
- To maintain compensation packages which are competitive with other public sector employers and that are sufficient to attract and retain quality employees.
- To enhance service methods that increase efficiency and effectiveness of the delivery of city services through technology improvements.
- To improve the speed of delivery to departments by predetermining, through contracts or other appropriate means the sources of supply before the actual needs.
- To ensure compliance with all applicable policies and regulations of the City, the State, and Federal Government.

4.2 Local Purchasing Objectives

Purchasing from local business and merchants is a high priority to support the economic vitality of the Snohomish business community. Whenever economically possible, local vendors will be included in the Purchase Contract Process, as per Ch. 39.04.190 RCW and as defined in administrative procedures.

4.3 Procurement Standards

All employees of the City shall comply with all City, State, and Federal statutory requirements regarding purchase of materials or services. The following practices are specifically forbidden so as not to create a conflict of interest:

AGENDA ITEM 2

- Using information available to an employee solely because of their position for personal profit, gain, or advantage.
- Directly or indirectly furnishing estimating services, or any other services or information not available to all prospective bidders, to any person bidding on, or who may reasonably be expected to bid on, a contract.
- Using their position or status in the City to directly or indirectly solicit business of any kind for private use or to obtain supplies and equipment at special discounts or with special concessions from any vendor who sells or solicits sales to the City.

4.4 Procurement Authorization & Accountability

Department Directors will be accountable for procurement within their departmental budgets. Purchases that exceed a departmental annual budget are not allowed. Failure to follow administrative procedures for procurement may result in disciplinary action, loss of purchasing privileges and a personal liability for purchases.

Pursuant to Ch. 42.24.080 RCW, warrants presented for payment to the City Council must be in writing, itemized and audited by the Auditing Officer. The Finance Director is designated as the City of Snohomish Auditing Officer. Department managers will be responsible for ensuring invoices meet this requirement and provide them to the Finance department for prompt payment and audit review as defined in the administrative procedures.

4.5 Level of Procurement Authority

The City Manager shall have the authority to authorize general purchases, execute Professional Service Agreements (PSA) and minor contracts for a dollar amount up to **\$30,000** and a term not to exceed one year. All purchases are subject to compliance with administrative procedures.

All significant purchases should be made according to the Purchasing Threshold and further defined in administrative procedures and shall include requirements for acquiring quotes, estimates and competitive bidding. The City Manager has the sole authority to waive purchasing procedures, but only to the extent as authorized by State Law.

Purchasing Threshold Matrix	
Amount	Description
< \$500	Authorized staff and Department Manager prior approval. No bids, quotes required.
\$500 - \$5,000	Authorized Department Manager. Two or three verbal quotes. No competitive bids required.
\$5,001 - \$30,000	Authorized Department Manager with Department Director prior approval. Two written quotes. No competitive bids required. City Manager authorization for purchases over \$15,000.
> \$30,000 - \$40,000	Authorized Department Director and City Manager with City Council prior approval. Three written quotes required. No competitive bids required.
> \$40,000 - < \$65,000	City Manager with prior City Council approval. Sealed bid process may be utilized or direct negotiation - must obtain three written quotes.
> \$65,000	City Manager with prior City Council approval. Sealed bid process must be utilized. Requires contract and bid specifications

8

AGENDA ITEM 2

4.6 Purchasing Controls & Methods

Primary responsibility and authority for the expenditure of monies according to the adopted budget will be vested by the City Manager in the department managers or authorized designee. In addition to the primary responsibilities, the Finance Director shall exercise a secondary oversight responsibility for all budget expenditures. A purchase order system and commercial card programs may be used for all purchases as defined in administrative procedures. Open accounts shall not be allowed unless approved by the City Manager or Finance Director.

In general, each department shall make purchases for the requirements of the City. Purchases will not be separated into smaller purchasing components in order to eliminate a threshold authorization requirement. To facilitate a sound and cost effective purchasing operation, authorized personnel shall follow procurement methods as defined in administrative procedures which contain guidelines for procurement, bidding and awarding contracts.

4.7 Emergency Purchases

Emergency purchases are those made by the City Manager or authorized designee, such as a Department Manager, where an immediate purchase is necessary to correct a situation, which would adversely affect the life, health, or safety of the citizens.

To the greatest extent possible, administrative procedures should be followed for purchasing. However, in case of an emergency, a Department Manager may purchase directly any supplies, materials or services necessary to alleviate the emergency. Every effort shall be made to contact the City Manager or Finance Director whether the emergency occurs during or after normal working hours.

In the event where emergency purchasing is related to natural disaster events, a Declaration of Emergency Resolution shall be considered by the City Council according to State Law at the first opportunity available. The Finance Director shall review and approve of account coding for all emergency purchases and maintain a tracking system according to FEMA requirements, Emergency Management Plan, BARS and GFOA recommended practices for emergency management recordkeeping.

4.8 Personnel Compensation

Because personnel costs are the largest expenditure area of the annual budget, compensation guidelines are defined in the Employee Handbook and Local Union Agreements which establish salary ranges, performance evaluation requirements and total compensation costs as the basis for all compensation planning and bargaining.

4.9 Efficiency

The City will make efficient use of limited resources and will continually look for and implement the most cost effective and reliable methods of delivering services. City Management will develop service level changes that are needed to respond to budget shortfalls using system-wide and productivity measures that have been approved by the City Council. Opportunities may be found to improve efficiencies by pursuing a range of productivity-enhancing techniques such as:

- Analyzing systems and procedures to remove unnecessary requirements
- Evaluating new technologies and capital investments
- Establishing a systematic, ongoing process for periodic formal reviews of operations
- Maintaining the right balance between centralization and decentralization in managing the City support functions

AGENDA ITEM 2

4.10 Outsourcing

Contracting with other public agencies or the private sector for the delivery of services may provide the City with opportunities for cost containment and productivity service enhancement. As such, the City is committed to using outside resources for delivering municipal services as a key element in our continuing effort to provide effective and efficient programs while minimizing costs. In the event the City is contracting out all or part of bargaining unit work which would result in the displacement of bargaining unit employee(s), the City agrees to meet with the Union, upon request, to discuss the decision and effect(s) of outsourcing, if any.

5.0 BUDGET

5.1 Budget Objective

The formal operating and capital budget development process provides the primary mechanism by which key decisions are made regarding the levels and types of services to be provided, given the anticipated level of available resources.

5.2 Budget Principles

5.2.1 Link the budget to long-term, strategic financial plans

The City's budget will be developed in accordance with the policies and priorities set forth in the five-year Strategic Plan, Comprehensive Plan, City Council goals, the needs of the community and federal and state laws.

5.2.2 Critically examine past spending patterns

The City seeks to maximize the value the public receives through its spending. Accordingly, management should develop budget tools and methods to measure and maximize value, particularly by critically examining existing spending patterns to make sure they continue to provide value.

5.2.3 Prioritize services

The City will prioritize services based on a hierarchy from essential to discretionary, their relative importance to preserving the community's health, safety, and welfare, mandates, risk assessments, long-term costs, and evidence of their effectiveness in meeting strategic plan initiatives, comprehensive plan elements, annual goals and required mandates. Essential services will receive first priority for funding. The City will attempt to maintain current service levels for all essential services. The City will identify low-priority services for reduction or elimination, if necessary, before essential services. New services shall be evaluated for long-term sustainability.

5.2.4 Maintain existing services over providing new services

The City will ensure that it maintains the quality of existing core services before it adds new services unless there is an explicit decision to lower the quality of existing services in favor of providing a new service based on strategic goals and objectives.

5.2.5 Risk management and mitigation of liabilities

The City intends to fund the current portion of liabilities within the budget so as to maintain trust of creditors and to avoid or mitigate accumulating an unmanageable liability.

5.2.6 Establish preferences for budget balancing strategies

The City's preferred strategy for balancing the budget is to reduce expenditures through improved productivity. Except during dire economic circumstances, service and program

AGENDA ITEM 2

elimination is preferable. At no time, will the annual budget be balanced at the expense of long-term financial health.

5.3 Budget Scope & Basis

The City will adopt budgets for all funds on a **biennial** basis. A budget calendar will be prepared by city staff and include all required public hearings. Proposed budgets will be viewed and discussed by the City Council and the public at the department and object code levels. The final budget will be adopted by ordinance of the City Council at the fund level. To encourage synchronization between the budget document and financial reporting, the City will establish the budget based on the cash plus encumbrances basis of accounting which is the same as the cash basis of financial reporting.

5.4 Balanced Budget

The objective of the operating budget is to pay for all current expenditures with current revenues. The budgets for all city funds should be structurally balanced throughout the budget development process. Recurring revenue should equal or exceed recurring expenditures in both the proposed and adopted budgets. If a structural imbalance occurs, then a plan will be developed and implemented to bring the budget back into structural balance. The City will endeavor to avoid budgetary allocations that balance current expenditures at the expense of meeting future years' expenses. Beginning fund balance sources may be used to fund capital improvement projects or other one-time, non-recurring expenditures as long as the fund reserve targets are met.

5.5 Performance Measurement

The City will present a budget that furthers the short-term and long-term goals of the Strategic Plan and Comprehensive Plan. Where appropriate and instructive, performance measurements shall be used to offer insight into how efficiently money is being spent and the workload that is driving the need for service. The City will monitor progress by establishing objectives for strategic and policy intents and measures will illustrate trends, targets and other criteria by which the City's efforts on a given program can be evaluated. This evaluation is intended to inform organizational learning, repeating what works, discontinuing what isn't working and fostering continuous improvement.

5.6 Cost Allocation

The Cost Allocation Plan (CAP) is a method used to determine and assign the cost of indirect services to the internal government users of those services or direct operating funds.

5.6.1 References

OMB Circular A-87, "Cost Principles for State, Local, and Indian Tribe Governments."
RCW 43.09.210 states in part, "all service rendered by...from, one department...to another, shall be paid for at its true and full value by the department...receiving the same, and no department...shall benefit in any financial manner whatsoever by an appropriation or fund made for the support of another..."

5.6.2 Definitions

- Indirect Costs are incurred for a common purpose benefitting more than one cost function or organizational unit. They cannot be directly assigned without effort disproportionate to the benefit received.
- Indirect Services are activities that support the departments that provide direct service to the public. Examples include accounting, purchasing, human resources, engineering, and fleet and information technology.
- Direct Services are activities that provide services directly to or for the public and are supported by indirect services. Examples include parks, streets and utilities (water, sewer, storm water).

AGENDA ITEM 2

5.6.3 Costs to be allocated

Costs shall only be allocated to departments that receive indirect support services. Only costs allowable for allocation in accordance with the requirements of OMB Circular A-87 shall be included in the cost allocation plan. This means that the City's resulting allocation plan will meet federal grant cost allocation requirements. It is the responsibility of staff creating the department's indirect cost allocation plan to review OMB Circular A-87 and ensure that only allocable costs are included.

As part of the annual budget development process, costs will be allocated based on the projected year budget forecast. Annually, a year-end adjustment or true up will be completed for the previous year's difference between budget-to-actual results or allocated based on actual costs. The true up will occur as part of the year-end financial reconciliations in preparation for the annual audit.

5.6.4 Basis of Allocation

Indirect cost allocation methods, as defined in administrative procedures, shall be reasonable, consistent, and equitable to distribute shared costs across funds and departments. Different factors are necessary to equitably allocate the various overhead costs. The Finance Director is responsible for preparing and determining which factor(s) will best accomplish this based on input from Direct Service Department Directors.

5.7 Budget Amendments

All budget amendments, such as shifting budget allocations from a) one fund to another fund; b) personnel and benefits and c) capital outlay or capital project expenditures must be approved by the City Council.

5.7.1 Administrative Budget Amendments

Department managers may, upon approval by the City Manager, request inter-departmental line item budget amendments for operating purposes only. These administrative budget amendments, authorized as per Ch. 35A.33.120 RCW, may be for contractual, supplies and materials and other miscellaneous line items within the department. No administrative amendments are allowed for personnel and capital outlay items. The process for requesting an administrative budget amendment is defined in administrative procedures.

5.8 Service Levels and Funding

The City will endeavor to maintain its present service levels for priority and essential services subject to available revenues. The objective is to maximize the benefit of available resources. The results or outcomes that matter most to citizens should be defined by the City Council. New services or programs will be considered for funding within available resources.

Department managers will be given the opportunity to request personnel, goods, and capital items needed to carry out the department responsibilities. Department requests must include supporting documentation and justification of needs for operating requests. Requests should integrate strategic plan priorities and departmental objectives into the budget.

5.9 Maintenance and Replacement

Maintenance and replacement funding will be prioritized each year to ensure that capital facilities and equipment are sufficiently maintained to avoid service disruptions. Non-current liabilities have important implications for a local government's fiscal health. The City will maintain its capital assets in a manner adequate to protect the City's capital investment and to minimize future liabilities for maintenance and replacement costs. Administrative procedures will identify the processes to include:

AGENDA ITEM 2

- Complete inventory and periodic measurement of physical condition
- Establish condition/functional standards by asset class
- Evaluate infrastructure and other assets and then set priorities
- Monitor and communicate progress

5.9.1 Capital Asset Management

Option 1: The City will annually project its equipment replacement and maintenance needs for the next five years and will update this projection each year. A maintenance and replacement schedule will be budgeted, developed and followed. Future maintenance needs for all new capital facilities will be cost out and included as decision criteria.

Option 2: The City inventories and assesses the condition of its buildings, equipment and vehicles annually. The budget process includes a multi-year projection of facilities and vehicle replacement requirements. The budget will provide sufficient funding for adequate maintenance and orderly replacement of capital plant and equipment. Future maintenance needs for all new capital facilities will be cost out and included as decision criteria.

Option 3: The budget will provide for adequate maintenance of public facilities and equipment and for orderly replacement. A minimum of ten (10%) of all new (ongoing) discretionary revenue will be devoted to deferred maintenance and infrastructure maintenance.

5.10 Enterprise Fund Budgets

Enterprise operations are to be self-supporting, including capital improvements and depreciation. Enterprise operations are to be reviewed annually for self-sufficiency and proper cash-flow needs. Utility Rate studies, which occur every three years, will be included in the budget development process in the year for which new rates are established. Enterprise operating budgets will incorporate year one capital projects as identified within the Capital Improvement Plan (CIP).

5.11 Budget Reporting

The recommended and adopted budget documents will be available on the City website and at City Hall. The City will maintain an internal control system to help adhere to the budget allocations. Regular reports comparing actual revenues and expenditures to budgeted amounts will be provided to department managers on a monthly basis. The City Council will review quarterly budget versus actual reports.

6.0 CAPITAL IMPROVEMENT PLAN (CIP)

6.0 CIP Objective

The City of Snohomish Capital Improvement Plan (CIP) will describe the capital investments the City intends to make over a period of six years. Capital projects shall link to and identify the relationship to the Comprehensive Plan – Capital Facilities Plan (CFP) section that incorporates all master and functional plans where projects are identified with that plan. The CIP will serve as a comprehensive list of all capital project types where the City Council will address capital infrastructure improvements, capital equipment needs, and the affect on the City's resources.

6.1 CIP Criteria and Ranking

As adopted within the City of Snohomish Comprehensive Plan – CFP: Elements Goals and Policies, CIP projects shall be evaluated and prioritized using criteria adopted within the CFP.

AGENDA ITEM 2

6.2 CIP Budget

The City will coordinate development of the CIP with the development of the operating budget. As resources are available, the most current year of the CIP will be recommended for incorporation into the current year operating budget as capital project fund budget line items. Years two through six of the CIP are for planning purposes only. Details regarding the CIP development process will be found in administrative procedures.

6.3 Project Source and Use Identification

Capital project submissions shall include multi-year funding sources, including grants, applicable impact fees, special funding and other outside sources. Multi-year project costs, including acquisitions, right-of-way, design, construction, in-house staff time, permitting, inflationary costs and contingency must be included in the project identification. Capital projects shall be identified as unfunded, partially funded or fully funded. Each capital improvement project will be reviewed by department managers for its long-term impact on the operating budget in terms of:

- future year revenue generation
- additional personnel requirements
- future operating and maintenance expenditures

6.4 Project Costs

For the purpose of the CIP, capital outlay is distinguished from capital projects. Capital outlay includes expenditures for equipment, technology and professional services between \$5,000 and \$29,999 and having less than an estimated three years of useful life. Capital outlay type expenditures will be included in the operating budget, as well as, master planning or professional services of any size and scope, adopted by the City Council, shall be budgeted for within the operating budget as a separate line item.

All capital projects or capital equipment purchases at least \$30,000 or over and having a useful life of three years or more are included in the CIP budget process. These projects include large capital maintenance items that extend the useful life of the capital asset. Projects may not be combined to meet the minimum standard unless they are dependent upon each other. Projects may not be separated to forego the maximum standard. Items that are operating expenditures (such as professional services, master plan updates, maintenance agreements, technology items, etc.) will not be considered within the CIP.

6.5 Capital Improvement Plan Review

Department managers will present the CIP to the City Council for approval prior to the year-one CIP projects being included within the annual operating budget. Any substantive change to the CIP after approval must be approved by the City Council.

7.0 DEBT MANAGEMENT

7.1 Debt Purpose

Debt financing is primarily used for capital project expenditures. Use of long-term debt financing for operations and maintenance costs are forbidden. Debt financing will be considered if the City is able to repay debt without causing financial distress. It is the City's objective to:

- Only obtain financing when necessary
- Identify the timing and amount of debt required as specifically as possible
- Achieve the most favorable interest rates and other related financing costs
- Ensure that future financial flexibility be maintained
- Utilize inter-fund loans from one fund to another as a first source of debt financing

AGENDA ITEM 2

8.2 Prudence

Investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived.

The standard of prudence to be used by investment officials shall be the “prudent person” and/or “prudent investor” standard and shall be applied in the context of managing an overall portfolio. Investment officers acting in accordance with this policy and with Ch. 35.39 RCW and exercising due diligence, shall be relieved of personal responsibility for an individual security’s credit risk or market price changes, provided deviations from expectations are reported in a timely fashion and appropriate action is taken to control adverse developments.

8.3 Objective

The primary objectives, in priority order, of the City of Snohomish investment activities shall be:

8.3.1 Safety: Safety of principal is the foremost objective of the investment program. Investments of the City of Snohomish shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. To attain this objective, the City of Snohomish will diversify its investments by investing funds among a variety of securities offering independent returns and financial institutions.

8.3.2 Liquidity: The City of Snohomish investment portfolio will remain sufficiently liquid to enable the City to meet all operating requirements, which might be reasonably anticipated.

8.3.3 Return: The City of Snohomish investment portfolio shall be designed with the objective of attaining a benchmark rate of return throughout budgetary and economic cycles, commensurate with the City’s investment risk constraints and the cash flow characteristics of the portfolio. Short-term investment returns should attain a return rate of at least **equal to the three-month Treasury bill**.

8.4 Delegation of Authority

Management responsibility for the investment program is hereby delegated to the Finance Director and City Manager who shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate personnel and their procedures in the absence of the Finance Director and City Manager.

8.5 Investment Procedures

The Finance Director shall establish written administrative procedures for the operation of the investment program consistent with this policy. The procedures should include reference to safekeeping, repurchase agreements, wire transfer agreements, banking service contracts and collateral/depository agreements. Such procedures shall include explicit delegation of authority to persons responsible for investment transactions. No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the Finance Director.

8.6 Ethics and Conflicts of Interest

Public officials and city employees involved in the investment process shall refrain from personal business activity that could conflict with proper execution of the investment program, or which could impair their ability to make impartial investment decisions. Employees and investment officials shall disclose to the City Council any material financial interest in financial institutions that conduct business within their jurisdiction, and they shall further disclose any large personal financial/investment positions that could be related to the performance of the City of Snohomish.

AGENDA ITEM 2

8.7 Authorized Financial Dealers and Institutions

The Finance Director will maintain a list of financial institutions authorized to provide investment services. In addition, a list will also be maintained of approved security broker/dealers selected by credit worthiness who are authorized to provide investment services in the State of Washington. These may include "primary" dealers or regional dealers that qualify under Securities & Exchange Commission Rule 15C3-1 (Uniform Net Capital Rule). No public deposit shall be made except in a qualified public depository as established by Washington State laws.

All financial institutions and broker/dealers who desire to become qualified bidders for investment transactions must supply the Finance Director, upon request, with annual audited financial statements, proof of National Association of Security Dealers (NASD) certification, and proof of State of Washington registration. Annual completion of Notification to Broker and Certification by Broker will be done.

8.8 Authorized and Suitable Investments

From the governing body perspective, special care must be taken to ensure that the list of instruments includes only those allowed by law and those that local investment managers are trained and competent to handle. Interest-bearing deposits in authorized depositories must be fully insured or collateralized.

The following is a list of investments which the City of Snohomish will be authorized to invest in:

Government Securities: Instruments such as bonds, notes, bills, mortgages and other securities which are direct obligations of the federal government or its agencies, with the principal fully guaranteed by the U.S. Government or its agencies.

Certificate of Deposit: A negotiable or nonnegotiable instrument issued by commercial banks and insured up to \$100,000 by the Federal Deposit Insurance Corporation (FDIC), or, if exceeding \$100,000 FDIC coverage, is fully insured or collateralized.

Prime Commercial Paper: An investment used by corporations to finance receivables. A short-term (matures in 270 days or less) unsecured promissory note is issued for a maturity specified by the purchaser. Corporations market their paper through dealers who in turn market the paper to investors.

State of Washington Securities and Pools: Any security which is a general obligation of the State of Washington or any of its municipalities. Statewide investment pools which invest in authorized instruments.

Money Markets: Money market mutual funds which invest in authorized instruments.

8.9 Safekeeping and Custody

When a broker dealer holds investments purchased by the City of Snohomish in safekeeping, the broker-dealer must provide asset protection of \$500,000 through the Securities Investor Protector Corporation (SIPC) and at least another \$49.5 million supplemental insurance protection.

8.10 Diversification

The City will attempt to diversify its investments according to type and maturity. The portfolio, as much as possible, will contain both short-term and long-term investments. The City will attempt to match its investments with anticipated cash flow requirements, as per the long-range financial plan. Extended maturities may be utilized to take advantage of higher yields and to match investment maturities with debt obligations; however, no more than 20% of the total investments should extend beyond 5 years. Unless prior City Council approval is received, no investment with a maturity exceeding 10 years will be purchased.

AGENDA ITEM 2

- The City will attempt to diversify its investment portfolio according to broker-dealer or financial institutions. No more than 50% of the entire investment portfolio shall be held with one broker.

8.11 Reporting

Periodic required investment reports to policymakers and elected officials provide necessary written communication regarding investment performance, risk analysis, adherence to policy provisions, as well as other information. The Finance Director shall provide the City Council periodic investment reports, which provide a clear picture of the status of the current investment portfolio. The management report should include a summary of securities held at the end of the reporting period by authorized investment category, percentage of portfolio represented by each investment category, percentage of portfolio represented by each financial institution, and overall portfolio values.

9.0 LONG-TERM FINANCIAL PLANNING

A 6-year Financial Management Plan with an integrated 6-year Capital Improvement Plan (CIP) is utilized to assist the City Council and department managers in strategizing and aligning financial capacity with the City Council Strategic Plan and objectives. The long-term financial plan serves as a foundation for conversations regarding purchases and project planning.

The plan will include an analysis of the current and future year's financial environment, revenue, operating and capital expenditure forecasts, debt positions and affordability analysis. The financial plan will be updated as needed in order to provide direction to the budget process.

The City's budget process involves incorporating the goals and strategies identified by the City Council's five-year Strategic Plan to provide for the community's highest priority needs. Strategic planning begins with determining the City's fiscal capacity based upon long-term financial forecasts of recurring available resources.

10.0 AUDITING, ACCOUNTING & INTERNAL CONTROL

The City of Snohomish will establish and maintain a high standard of accounting practices and procedures. Accounting standards will conform to Generally Accepted Accounting Principles (GAAP) as outlined by the Governmental Accounting Standards Board (GASB). Accounting standards will reflect Best Practices recommended by the Government Finance Officers Association (GFOA) and chart of accounts required by the Washington Office of the State Auditor (SAO) BARS manual.

After each fiscal year, the Washington SAO will conduct an audit of the City financial transactions, contract management and internal control. The report will include a financial opinion and a management and compliance report on internal controls. Annually, a comprehensive annual financial report will be prepared by the City. This report shall be made available to elected officials, city management, bond-rating agencies, and the general public.

10.1 Internal Control

The City Council and City Management is responsible for ensuring and maintaining a system of internal control to safeguard its assets against loss, check the accuracy and reliability of its accounting data promote operational efficiency and encourage adherence to prescribed administrative procedures.

The Finance Director shall develop internal control processes or administrative procedures to ensure and maintain a strong internal control function. Periodic updates and new recommended practices set

AGENDA ITEM 2

forward by the SAO and GFOA are communicated and addressed with the City Council. Any weakness in internal control and accounting procedures shall be addressed immediately by the City Manager or Finance Director so a timeline to remedy improvement can be established.

10.2 Accounting Write-offs

The Finance Director shall make every effort to collect all receivables owed to the City. The following is criteria that must be met before a receivable is allowed for write-off:

- Standardized collection procedures have been exhausted
- A determination has been made that the debt is uncollectible or that further measures to collect the debt are inappropriate and deemed to exceed the cost of collection
- The characteristics of the debt are such that write-off is appropriate - If funds are uncollectible, the Finance Director would make a determination for write offs to a bad debt expenditure up to **\$5,000**. City Council approval is required for balances above this threshold and must accompany the write off to the bad debt expenditure.
- The reason for the write-off is documented adequately and is made available for audit.

10.3 Petty Cash and Bank Account Controls

The Finance Director shall establish processes for control and handling of petty cash funds, which include investigative buy funds. The Finance Director will oversee and manage all City of Snohomish Banking Accounts such as Imprest accounts, Claims accounts, and Payroll accounts within administrative procedures. Bank accounts will be reconciled on a monthly basis.

10.3 Capital Asset Threshold

Real property, titled vehicles and utility system components shall be considered capital assets. All other property, with a value of **\$5,000** or more and a useful life of **three** years or more shall be considered capital. For purposes of asset disposition and equipment replacement planning, the City shall depreciate capital assets under a straight-line method, based on the assets useful life to a book value of \$1.00 or salvageable value.

10.4 Inventory of Small and Attractive Items

Operating departments shall be responsible for conducting regular inventory of their small and attractive items (i.e. cell phones, tablet, hand tools and power equipment) and submit a physical inventory to the Finance Director. Asset management and inventory procedures are defined in administrative procedures

10.5 Surplus Assets

The City Manager may administratively surplus non-public utility office equipment, computer equipment, small tools, computer software and minor equipment with a value of less than **\$5,000**. Titled vehicles, real property, and any City property with a value of greater than **\$5,000** will be surpluses by the City Council by resolution. The process for surplus assets is defined in administrative procedures. The Finance Director shall be responsible for the accounting of all surplus property transactions.

10.5.1 Surplus or Inter-governmental Disposition of Public Utility Assets

As per Ch. 35.94.040 RCW, titled vehicles, real property, and equipment originally acquired for public utility purposes and which no longer required for providing continued public utility service may be surplus after a public hearing and subsequent City Council resolution.

FINANCIAL MANAGEMENT POLICY ADOPTION

The City of Snohomish financial management policy shall be adopted and amended by action of the City Council. The Snohomish City Council shall review the policy periodically and any modifications made thereto must be approved by the City Council.

AGENDA ITEM 2

Policy Approved on: **Date - Resolution #** _____

This policy replaces separate, previously adopted policies and procedures regarding revenue management, procurement, fund reserves, purchasing or commercial credit cards, asset management policies or any other policy regarding financial management and administrative procedures.

PROPOSED

City of Snohomish 4/12/2016

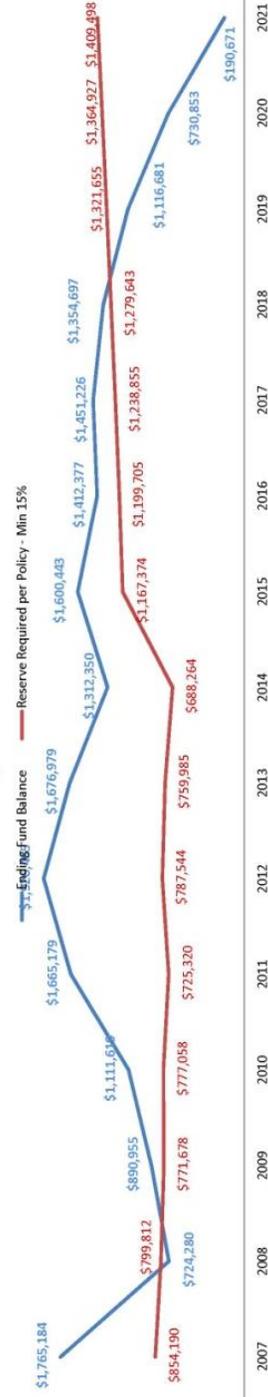
DISCUSSION ON STRATEGIES FOR BALANCING GENERAL FUND RESERVES

General Fund - Fund Balance, Revenue & Expenditure Forecast based on proposed reserve policy

Revenue Change Assumption 1.5% yr
Expense Change Assumption 3.0% yr

Year	Ending Fund Balance	Reserve Required per Policy - Min 15%	Reserve Required per Policy - Max 20%	Budgeted Revenues	Actual Revenues	Chg Actual Rev	Budgeted Expenditures	Actual Expenditures	Chg Actual Exp	Budgeted Increase (Decrease) in Fund Balance	Actual Increase (Decrease) in Fund Balance	Budgeted Operating Margin	Actual Operating Margin	Reserves based % of Expenditure (Minimum)
2007	\$ 1,765,184	\$ 854,190	\$ 676,113	\$ 7,528,070	\$ 8,541,900	8.8%	\$ 8,153,577	\$ 7,865,787	16%	\$ (625,507)	\$ 676,113	-8.3%	7.9%	22.4%
2008	\$ 724,280	\$ 799,812	\$ (1,040,904)	\$ 9,524,283	\$ 7,998,120	-6.4%	\$ 9,913,026	\$ 9,039,024	15%	\$ (888,743)	\$ (1,040,904)	-4.1%	-13.0%	8.0%
2009	\$ 890,955	\$ 771,678	\$ 166,675	\$ 8,481,813	\$ 7,716,779	-3.5%	\$ 7,923,553	\$ 7,550,104	-16%	\$ 58,260	\$ 166,675	6.6%	2.2%	11.8%
2010	\$ 1,111,619	\$ 777,058	\$ 220,664	\$ 7,845,398	\$ 7,770,584	-0.7%	\$ 8,004,386	\$ 7,549,920	0%	\$ (158,988)	\$ 220,664	-2.0%	2.8%	14.7%
2011	\$ 1,665,179	\$ 725,320	\$ 553,560	\$ 7,199,682	\$ 7,253,196	6.7%	\$ 7,342,869	\$ 6,699,636	-11%	\$ (143,187)	\$ 553,560	-2.0%	7.6%	24.9%
2012	\$ 1,926,465	\$ 787,544	\$ 261,287	\$ 7,125,674	\$ 7,875,437	8.6%	\$ 7,987,255	\$ 7,614,150	14%	\$ (861,581)	\$ 261,287	-12.1%	3.5%	25.3%
2013	\$ 1,676,979	\$ 759,985	\$ (249,486)	\$ 7,161,713	\$ 7,599,846	3.5%	\$ 8,377,522	\$ 7,849,332	3%	\$ (1,215,809)	\$ (249,486)	-17.0%	-3.3%	21.4%
2014	\$ 1,312,350	\$ 688,264	\$ (364,629)	\$ 7,666,263	\$ 8,002,638	5.3%	\$ 8,367,806	\$ 8,367,267	7%	\$ (701,543)	\$ (364,629)	-9.2%	-4.6%	17.5%
2015	\$ 1,600,443	\$ 1,167,374	\$ 1,556,499	\$ 8,248,434	\$ 8,835,820	10.4%	\$ 8,666,771	\$ 8,547,727	2%	\$ (418,337)	\$ 288,093	-5.1%	3.5%	20.6%
2016	\$ 1,412,377	\$ 1,199,705	\$ 1,599,607	\$ 8,611,967	\$ 8,968,357	1.5%	\$ 8,800,033	\$ 8,800,033	3.0%	\$ (188,066)	\$ 168,324	-2.2%	1.9%	17.7%
2017	\$ 1,451,226	\$ 1,238,855	\$ 1,651,807	\$ 9,102,883	\$ 9,102,883	1.5%	\$ 9,064,034	\$ 9,064,034	3.0%	\$ 38,849	\$ 38,849	0.4%	0.4%	17.6%
2018	\$ 1,354,697	\$ 1,279,643	\$ 1,706,191	\$ 9,239,426	\$ 9,239,426	1.5%	\$ 9,335,955	\$ 9,335,955	3.0%	\$ (96,529)	\$ (96,529)	-1.0%	-1.0%	15.9%
2019	\$ 1,116,681	\$ 1,321,655	\$ 1,762,207	\$ 9,378,017	\$ 9,378,017	1.5%	\$ 9,616,034	\$ 9,616,034	3.0%	\$ (238,016)	\$ (238,016)	-2.5%	-2.5%	12.7%
2020	\$ 730,853	\$ 1,364,927	\$ 1,819,903	\$ 9,518,688	\$ 9,518,688	1.5%	\$ 9,904,515	\$ 9,904,515	3.0%	\$ (385,827)	\$ (385,827)	-4.1%	-4.1%	8.0%
2021	\$ 190,671	\$ 1,409,498	\$ 1,879,330	\$ 9,661,468	\$ 9,661,468	1.5%	\$ 10,201,650	\$ 10,201,650	3.0%	\$ (540,182)	\$ (540,182)	-5.6%	-5.6%	2.0%

Change in Fund Balance



AGENDA ITEM 2

ATTACHMENT C

Financial Management Policies

- B-3 Generally, utility rates should divide costs equitably among customer classes according to benefit and cost of service. If rates are set that subsidizes one class of customer at the expense of another, this action should be taken in support of explicit City policy.
- B-4 Because of the vital importance of water and sewer as public services, a minimum level of service should be available at a relative low cost to all customers.
- B-5 *Res 764 (4-2-91)*
The ratio of revenues available for debt service divided by the bonded debt payment requirements for any year shall not fall below 1.4. Revenues available for debt service are: total resources available, less the beginning fund balance and operating expenses. Operating expenses for this calculation include: salaries, benefits, supplies, services, and interfund payments other than equipment replacement. It does not include debt service, equipment replacement and capital outlays.
- B-6 *Res 764 (4-2-91)*
Monthly utility rates should be set at a level to cover operating and maintenance costs, which shall include debt service, salaries and benefits, supplies and services, equipment replacement, system replacement due to age and system upgrading to meet minimum standards (for example for fire flow, pressures, or health), plus an adequate ending fund balance. (See policy A-3).
- B-7 System replacement costs due to age, or the need to upgrade to meet minimum standards, should be financed by regular rates by any one or a combination of three ways:
a. By a prioritized list of capital projects for each of a series of years.
b. By a regular fixed dollar interfund payment to a reserve fund, based on the amortized cost of a prioritized list of capital projects.
c. By borrowing and repaying on a schedule that matches the life of the improvements.
- B-8 *Res 764 (4-2-91)*
Care must be taken in borrowing money against utility revenues for capital projects. Generally:
a. The life of the loan should be no longer than the estimated life of the improvements.
b. When borrowing, transaction costs associated with the loan, such as Bond Council fees and bank charges, should be considered.
c. Revenue bond borrowing capacity should be managed as part of a long term plan (ten year) to ensure that the capacity is available to meet emergencies as well as long term system needs.
- C. **PURCHASING AND EXPENDITURE CONTROL** *Res 664 (4/7/87) except as amended*
- C-1 Primary responsibility and authority for the expenditure of monies according to the adopted budget will be vested by the City Manager in the Department Heads.
- C-2 In addition to the primary responsibilities in Policy C-1, the Finance Director shall exercise a secondary oversight responsibility for ALL budget expenditures. This includes responsibility for both technical errors and for errors of judgement, which should be brought immediately to the attention of the responsible Department Head and the City Manager. However, no unilateral changes will be made in line item expenditures approved by responsible department heads without first consulting with the originating Department Head.
- C-3 *Res 888 (2/1/97)*
Except for Treasurer's Checks issued by the Finance Director; purchases from the periodic vendor list; payroll and benefits; and petty cash transactions; no expenditures requiring claim checks will be made without approved Purchase Orders.
- C-4 *Res 784 (2/18/92)*
All purchase orders will be signed by the responsible Department Head (or City Manager), and

AGENDA ITEM 2

Financial Management Policies

reviewed and authorized by the Finance Director.

- Res 784 (2/18/92)*
C-5 Purchase orders for the costs of public utilities, telephone, postage, copy machines expenses, and vehicle fuels, shared by more than one department will be issued by the Finance Director.
- Res 888 (2/4/97)*
C-6 City claims checks will be signed on the day following City Council approval, usually the Wednesday following a Council meeting. The execution of checks in advance of City Council approval may occur only under the following condition:

The City Council will have the opportunity to review the supporting documentation of such disbursement at the next regularly scheduled meeting.

If the City Council at the subsequent Council meeting, disapproves any such warrants, the disapproved claims shall be recognized as a receivable of the City and collections of said receivable shall be diligently pursued until the amounts disapproved are collected or until the Council is satisfied and approves the claims.

1. Payroll Checks
2. Employee benefit insurance premiums
3. State or County remittances
4. Discount opportunities
5. Debt payments
6. Emergency disbursements, as determined by the City Manager
7. Purchases from vendors that do not take purchase orders

Any Purchase Orders and checks submitted for prepayment by this policy shall be presented for prior written approval by the City Manager.

- C-7 No Purchase Orders or expenditures that violate the total of the budgeted amount for a single line item will be permitted without advanced written approval of the City Manager.
- C-8 The City will use an encumbrance accounting system in which commitments for the expenditures of monies can be recorded and shown in regular budget reports before the actual expenditure is made. In addition to the actual balance, an "unencumbered balance" will be kept for each budget line item that takes into account both actual and committed expenditures.
- Res 888 (2/4/97)*
C-9 All significant purchases should be made only after an effort to compare prices and alternatives from more than one vendor. For purchases less than \$3,000 to \$15,000 will be made only after soliciting written or faxed competitive bids for the item or service. In the case of faxed bids, the City Clerk shall have the authority to extend the deadline for bids due to technological problems in fax reception. For amounts greater than \$15,000 sealed bids will be solicited by advertisement; opened by the City Clerk at a time and place specified in the ad; and awarded by City Council action. The City Manager has the sole authority to waive purchasing procedures, but only to the extent as authorized by State law.
- Res 967 (6/15/99)*
C-10 Visa Cards can be issued to the City Manager, the Department Heads, and the Police Commander. two cards issued under the City's name controlled by the Finance Director, and one card issued under the City's name, subcategory Police Department, controlled by the Police Chief. No Cash advances or guaranteeing personal transactions are allowed.

Res 888 (2/4/97)
Visa Card transactions must be authorized by a purchase order prior to use.

AGENDA ITEM 2

Financial Management Policies

The Visa Cards issued directly to the City Manager or Department Heads are expressly limited to travel and meal expenses relating to the specific card holder. The two cards issued in the City's name and under the control of the Finance Director are expressly limited to travel, meal, and procurement of goods from vendors who do not accept purchase orders.

The Finance Director will establish written procedures for the control, use, and documentation of use for the two cards issued in the City's name.

Within five days of returning from travel, the employee shall submit a fully itemized travel expense voucher including detailed source receipts. Any charges not properly identified shall be paid by the employee by check or cash to the Visa Card bank.

If any charges are disallowed, the City has a right to withhold the disallowed amount from the wages of the individual who incurred the disallowed charges, including interest and late charges.

Use of the Visa Card while disallowed charges are outstanding is not permitted. Should charges be incurred during this period, the individual shall surrender the credit card to the auditing officer.

- Res 874 (5/7/96)*
C-11 The City will offer to present to the local business community an annual report of the future purchasing needs of the City of Snohomish. This presentation should be offered in the month of December or January.
- Res 874 (5/7/96)*
C-12 The City will distribute a listing of local vendors to department heads to assist in the identification of local vendors.
- Res 874 (5/7/96)*
C-13 The City is encouraged to include at least one local vendor when conducting non-formal procurement of goods and services, telephone bids or soliciting written bids of less than \$15,000. This policy should be reviewed with the purchasing policies set forth in C-9.
- Res 921 (2/17/98)*
C-14 The City Manager may administratively surplus office equipment, computer equipment, small tools, computer software, police weapons and similar personal property with an aggregate value of less than \$5,000. Titled vehicles, real property, and any City property with an aggregate value of greater than \$5,000 will be surplus by City Council resolution.
- Res 921 (2/17/98)*
C-15 All property with an expected value greater than the cost to surplus, will be offered through a competitive process, in which at least three interested parties are notified. Property where the expected value is less than the cost to surplus may be destroyed or donated to another governmental agency or local community non-profit. Bicycles in Police custody, where ownership cannot be determined, may be donated to a local community non-profit for refurbishing and distribution to needy children.
- Res 921 (2/17/98)*
C-16 The Finance Director shall be responsible for the accounting of all surplus property transactions. In cases of administrative surpluses, the Finance Director shall report property description, estimated value, number of bidders, and the lowest-highest bid range to the City Council.
- Res 1067 (1/7/03)*
C-17 City employees may use City phones to make personal phone calls. Employees shall review phone bills monthly and reimburse the City for all personal charges. Monthly amounts less than \$5.00 shall be considered de minimis, and the costs to process the reimbursement exceeding the value of the reimbursement. Employees are responsible to review phone activity monthly. Department heads are responsible for oversight of phone usage and reimbursement.