

# BUDGET AND FINANCIAL POLICIES

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## PURPOSE OF BUDGET AND FINANCIAL POLICIES

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The financial integrity of our City government is of vital importance. Written, adopted financial policies have many benefits, such as assisting the Council and Administration in the financial management of the City, saving time and energy when discussing financial matters, engendering public confidence, and providing continuity over time as Council and staff changes occur.

The City of Everett budget emerges from a foundation of Council and administrative policies. These financial and budget policies create a framework for decision-making as we develop the City budget.

City staff members develop annual operating budget requests after receiving general direction from Administration. The budget determines what services the City will offer, the level of these services, and how funds will be provided to finance them. Recognizing the importance of these decisions, the following policy statements reflect the principles and priorities the City uses in preparing the budget.

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## BUDGET POLICIES

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### Strategic Planning

The City of Everett employs a strategic budgeting model that allows policies to be formulated and tested in a budgetary context spanning a period of five years. The strategic model demonstrates the City's ability to accomplish long-term goals by showing the consequences of any given budget decision. New General Government services are "tested" within the framework of the strategic budget model prior to implementation. In this manner, policy makers can examine the probable long-term outcome of many possible decisions and select the one that serves the interests of Everett's citizens most effectively.

Over a period of years, Everett created a series of strategic reserve funds to accomplish specific long-term financial goals by meeting annual budget objectives. Generally, each reserve fund is dedicated to a single purpose and has a stated financial goal. The City of Everett includes in its annual budget process an examination of the existing long-term financial goals and the development of new goals. The Reserve Policies section describes those funds that represent the long-term financial goals established jointly by the Council and Mayor.

The Strategic Outlook identifies fund balances, revenue patterns, and expense trends which are subject to constant change. The Strategic Outlook does not illustrate future budgets, services, or programs in any detail. The dynamic nature of local government as well as historical precedent indicates that even the current Operating Budget will be altered several times before the close of the year. It is critical to note that the Strategic Outlook does not simply take the current year's revenues and expenses and trend them into the future based on some assumed rate of inflation. By trending revenues and expenses forward at some anticipated rate of inflation we could only answer the question, "Where will we end up in the future if nothing changes?" The Strategic Outlook is really designed to help make two fundamental decisions: "Where do we want to go?" and, "How are we going to get there?" The Strategic Outlook incorporates the City's preplanned, explicit goals as well as the means by which they may be accomplished.

### Fund Balance Policy

Fund Balance is defined as the excess of assets over liabilities, which is an unreserved, undesignated resource that remains part of the General Government budget. The City desires to maintain a prudent level of financial resources to guard its citizens against service disruption in the event of unexpected temporary revenue shortfalls or unpredicted one-time expenditures. The Fund Balance has been accumulated to meet this purpose, to provide stability and flexibility to respond to unexpected adversity and/or opportunities. The long-term target is to maintain a rolling beginning fund balance equal to 20% of operating revenues.

The City's goals are to maintain annual expenditure increases at a conservative growth rate, and to limit expenditures to anticipated revenues. Revenues in excess of operating expenditures, ("Surplus Funds"), may be transferred to a Capital Reserve, Long Term Obligation, or Debt Service Fund. Capital projects, Street Overlays and Motor Vehicle replacements may be funded from Capital Reserve funds.

The decision to retain a fund balance of 20% of operating revenues stems from the following considerations:

- This amount, in combination with the Rainy Day Fund, provides adequate funding to cover approximately three months of operating expenses.
- It provides the liquidity necessary to accommodate the City's uneven cash flow, which is inherent in its periodic tax collection schedule.
- It provides the liquidity to respond to contingent liabilities.

Fund balance may be accessed under the following conditions:

- The Fund Balance target will be maintained at 20% of Operating Revenues. Surplus Funds may be transferred to a Capital Reserve, Long Term Obligation, Debt Service Fund, or may be used to restore the target fund balance.
- A maximum of 25% of the General Government Fund Balance (5% of operating revenues) may be used to fund unforeseen expenditure requirements or unanticipated revenue fluctuations. The City will identify a plan to restore the Fund Balance to its target amount as part of the budget proposal.
- Except in the event of the declaration of an emergency by the City Council, a minimum Fund Balance equal to 15% of operating revenues will be maintained. A supermajority of the council is required to approve use of the Fund Balance such that it falls below the 15% target. The City will identify a plan to restore the General Government fund balance to its target amount as part of the emergency budget proposal.

### Balancing the Operating Budget

RCW 35.33.075 requires that the City adopt a balanced budget based on the following requirement: *"Appropriations shall be limited to the total estimated revenues contained therein including the amount to be raised by ad valorem taxes and the unencumbered fund balances estimated to be available at the close of the current fiscal year."*

The City adopts a *statutorily* balanced budget, but also seeks to adopt a *structurally* balanced budget. A budget is statutorily balanced when total estimated resources (beginning fund balance plus revenues) equal the total appropriation (expenditures plus ending fund balance). In a statutorily balanced budget, beginning fund balance may be used as a revenue source. In contrast, in a *structurally* balanced budget, the total expenditure appropriation is limited to the annual estimated revenues. In a structurally balanced budget, beginning fund balance may not be used as a revenue source.

Cities frequently rely on their beginning fund balance as a "revenue" source. But, as previously stated, it is Everett's strategic goal to attain structural balance, thereby eliminating reliance on these funds to supplement current income. Any uncommitted operating surpluses (revenues that exceed expenditures) that occur at year-end may be held in reserve or reappropriated to a capital reserve, long term obligation, or debt service fund, rather than used as a supplemental source of revenue required to balance the budget each year.

It is the intent of this policy that the budget be structurally balanced (a) at the time of adoption, (b) throughout the budget year, and (c) at year-end, taking into consideration the Fund Balance access conditions listed above.

In the event that adjustments are necessary to bring the budget into balance during the course of the fiscal period, the administration will bring a budget amendment forward for approval by a supermajority of the City Council.

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## RESERVE POLICIES

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Over a period of years, Everett created a series of strategic reserve funds to accomplish specific long-term financial goals by meeting short-term annual budget objectives. Generally, each reserve fund is dedicated to a single purpose and has a stated financial goal. The City of Everett includes in its annual budget process an examination of the existing long-term financial goals and the development of new goals and targets. Listed below are funds that represent the long-term financial goals established jointly by the Council and Mayor.

### **Vehicle Replacement Reserve Fund - Fund 126**

The Vehicle Replacement Reserve was created as a revolving fund to receive and process new equipment and to prepare older equipment for sale. The long-term goal is to provide adequate and stable funding for future vehicle replacement needs.

### **CIP 3 Reserve - Fund 154**

The City created the Capital Improvement Program 3 Reserve to account for capital improvements that are funded from the second ¼ percent real estate excise tax. This tax was specifically enacted as a part of the state's growth management statutes, which call for the provision of resources for capital facilities that relate directly to growth as specified by the statute. The long-term goal of this fund is to accumulate cash and provide a limited amount of stable funding for Park and Street capital needs within the scope of the Growth Management Act of 1990.

### **Rainy Day Reserve Fund - Fund 160**

The Rainy Day Fund was created to serve as a contingency reserve to accumulate funds to be used when extraordinary needs arise that require immediate budget attention. Examples include natural and man-made disasters, civic unrest and severe economic downturns. The Revised Code of Washington (RCW) 35.33.145 restricts the accumulation of monies in rainy day funds to 37.5¢ per \$1,000 of total assessed valuation (AV). This limit was first reached in 1998. The long-term goal is to allow the fund to grow by accumulating its investment earnings. A Memo of Understanding governing Rainy Day Fund expenditures stipulates that Administration must prepare an appropriation proposal at the request of the Mayor or City Council, which must be reviewed and approved by the Budget Committee and the full Council by a majority plus one vote.

The city's assessed value increased by 26% for the year 2007. Due to uncertainty regarding property values and future year valuations, the city will continue to add interest earnings plus \$100,000 per year to this fund.

See the table on the next page for the five year strategic plan for this reserve fund.

**Rainy Day Fund 160**

|  | 2009       | 2010       | 2011       | 2012       | 2013       |
|--|------------|------------|------------|------------|------------|
| Beginning Fund Balance                       | 4,129,053  | 4,304,538  | 4,576,720  | 4,859,788  | 5,154,180  |
| General Fund Contribution                    | -          | 100,000    | 100,000    | 100,000    | 100,000    |
| Interest Earnings                            | 175,485    | 172,182    | 183,069    | 194,392    | 206,167    |
| Expenses                                     | -          | -          | -          | -          | -          |
| Ending Fund Balance                          | 4,304,538  | 4,576,720  | 4,859,788  | 5,154,180  | 5,460,347  |
| AV (000)                                     | 13,421,441 | 13,787,899 | 14,414,415 | 15,065,991 | 16,125,731 |
| Maximum Rate                                 | 0.375      | 0.375      | 0.375      | 0.375      | 0.375      |
| Maximum Balance                              | 5,033,040  | 5,170,462  | 5,405,405  | 5,649,747  | 6,047,149  |
| Ending Fund Balance as a % of Strategic Goal | 85.5%      | 88.5%      | 89.9%      | 91.2%      | 90.3%      |

**CIP 2 Reserve - Fund 162**

The City created the Capital Improvement Program 2 Reserve in 1989 to finance a \$19.5 million package for the construction of three new fire stations and the acquisition of the new City Hall. In 2001, CIP 2 financed \$13,000,000 in bonds that were used to purchase property for the site of the Everett Events Center. CIP 2 also provides the funds required for debt service payments for the \$15,000,000 bonds issued in 2003 for the Edward D. Hansen Conference Center and refunding of prior Theater COP and Animal Shelter/Fire Station LTGO debt. Debt redemption will be serviced from the existing fund balance and from the long-term revenue source, first ¼ percent real estate excise taxes. A third program has been added to CIP 2 for debt payments on the \$10.5 million Riverside (KC) property purchased in 2005. CIP 2's long-term goal is to meet all bond covenants and to make timely debt service payments on the outstanding capital improvement bonds and obligations.

**CIP 4 Reserve - Fund 162**

The City created the Capital Improvement Program 4 Reserve to provide funds for future general government capital projects. The long-term goal is to finance as many projects as possible with cash rather than debt. The short-term objective is to continue with an annual review and update to determine which projects will be funded with CIP 4 resources. The Fund Balance policy implemented in 2004 authorizes the transfer of "Surplus Funds" from the General Fund to this reserve, as they are available and approved. For the years 2004-2007, \$12.5 million was transferred to CIP 4 from the General Fund. This reserve may also be funded from property sales and one-time revenues.

**Self Insurance Reserve Fund - Fund 503**

There are several programs in the Self Insurance Reserve fund:

The Tort Liability reserve was created in 1955 to provide for the payment of claims and judgments arising out of torts. The Tort Liability program is targeted toward a reserve balance of \$3.5 million. This program is currently at its funding target. When the reserve balance is depleted due to large claims, it is the normal practice of the City to restore the reserve balances in the Self-Insurance programs over a five-year period.

The Unemployment Compensation program is targeted toward a reserve balance of \$150,000. This program has currently met its funding target.

The Worker's Compensation program is targeted toward a reserve balance of \$1,800,000, which represents approximately 75% of the annual budgeted expenditures. The City has currently met its funding target.

The Culmback Dam Reserve fund balance target is to reserve up to the amount necessary to meet the current retention level of the City's insurance policy. This program has currently met its funding target.

### Computer Equipment Reserve Fund - Fund 505

The computer equipment reserve was created to track major technology projects; to provide funds for PC, software and infrastructure replacement; to pay for maintenance contracts, and to provide a revolving fund for departments for unanticipated technology projects. The long-term goal of this reserve is to stabilize technology expenditures. A reserve target has not yet been set for this fund.

### Health Benefit Reserve Fund - Fund 508

The health benefit reserve was created in 1995 following a major overhaul of employee health care service provisions at the City. The City sets the reserve target based on guidance from the State of Washington Department of Risk Management, and on estimated incurred but not reported claims. The long-term goal of this reserve is to stabilize annual health care expenditures.

### Police Pension Fund - Fund 637

The Police Pension Reserve was created to provide actuarially sound fund balances to match the pension and Other Post Employment Benefits (OPEB) liabilities accrued for covered police personnel. An actuarial study is commissioned every two years to assess the status of the pension plan and to set new reserve targets as required. The pension plan is expected to service retirees until approximately the year 2054. The long-term goal is to defease the accrued and future pension liabilities with a fully-funded reserve of over \$39 million by the year 2020.

The table below shows the five year strategic plan for the Police Pension Fund:

|  | 2009        | 2010        | 2011        | 2012        | 2013        |
|--|-------------|-------------|-------------|-------------|-------------|
| Beginning Balance  | 21,294,163  | 20,974,632  | 21,300,702  | 22,631,959  | 24,067,996  |
| General Fund Contribution                                | 429,192     | 1,193,651   | 2,303,334   | 2,418,500   | 2,539,426   |
| Interest Earnings  | 1,277,650   | 1,258,478   | 1,278,042   | 1,357,918   | 1,444,080   |
| Cash Outlays   | (2,026,373) | (2,126,059) | (2,250,119) | (2,340,381) | (2,471,070) |
| Ending Balance   | 20,974,632  | 21,300,702  | 22,631,959  | 24,067,996  | 25,580,432  |
| Ending Fund Balance<br>as a percent of<br>Strategic Goal | 53%         | 54%         | 57%         | 61%         | 65%         |

### Fire Pension Fund - Fund 638

The Fire Pension Reserve was created to provide actuarially sound fund balances to match the pension and other post employment benefits (OPEB) liabilities accrued for covered fire personnel. An actuarial study is commissioned every two years to assess the status of the pension plan and to set new reserve targets as required. The pension plan is expected to service retirees until approximately the year 2054. The long-term goal is to defease the accrued and future pension liabilities with a fully-funded reserve of over \$52.0 million by the year 2020.

The table below shows the five year strategic plan for the Fire Pension Fund:

|  | 2009        | 2010        | 2011        | 2012        | 2013        |
|--|-------------|-------------|-------------|-------------|-------------|
| Beginning Balance  | 35,707,202  | 35,391,483  | 35,791,719  | 37,177,669  | 38,620,033  |
| General Fund Contribution                                | 390,437     | 1,268,458   | 2,381,881   | 2,500,975   | 2,626,024   |
| Interest Earnings  | 2,142,432   | 2,123,489   | 2,147,503   | 2,230,660   | 2,317,202   |
| Insurance Premium Tax                                    | 70,000      | 70,000      | 70,000      | 70,000      | 70,000      |
| Cash Outlay  | (2,918,588) | (3,061,711) | (3,213,434) | (3,359,271) | (3,515,827) |
| Ending Balance   | 35,391,483  | 35,791,719  | 37,177,669  | 38,620,033  | 40,117,432  |
| Ending Fund Balance<br>as a percent of<br>Strategic Goal | 67%         | 68%         | 70%         | 73%         | 76%         |

| Reserve Fund Summary |  |                                    |   |   |
|----------------------|--|------------------------------------|---|---|
| Fund                 |  | 12/31/2007<br>Balance<br>(rounded) | 12/31/2008<br>Est. Balance<br>(rounded) | 12/31/2009<br>Est. Balance<br>(rounded) |
| 126                  | Motor Vehicle/Equip Replacement        | \$ 2,607,000                       | \$ 3,176,000                            | \$ 2,751,000                            |
| 146                  | Property Mngmt / Facilities Maint Rsrv | 3,628,000                          | 4,034,000                               | 1,118,000                               |
| 154                  | Real Estate Excise Tax Fund - CIP 3    | 6,733,000                          | 6,381,000                               | 7,588,000                               |
| 160                  | Rainy Day Fund                         | 3,756,000                          | 4,129,000                               | 4,305,000                               |
| 162                  | Capital Reserve - CIP 1                | 4,170,000                          | -                                       | -                                       |
| 162                  | Capital Reserve - CIP 2                | 9,666,000                          | 12,928,000                              | 11,276,000                              |
| 162                  | Capital Reserve - CIP 4                | 12,852,000                         | 5,897,000                               | 15,067,000                              |
| 503                  | Self-Insurance Fund - Tort Liability   | 3,475,000                          | 3,518,000                               | 3,620,000                               |
| 505                  | Computer Equipment Reserve             | 769,000                            | 551,000                                 | 97,000                                  |
| 508                  | Health Benefits Reserve                | 6,530,000                          | 7,036,000                               | 5,831,000                               |
| 637                  | Police Pension Fund                    | 20,945,000                         | 20,105,000                              | 19,593,000                              |
| 638                  | Fire Pension Fund                      | 35,307,000                         | 34,812,000                              | 34,209,000                              |
|                      | <b>TOTAL DESIGNATED RESERVES</b>       | <b>110,438,000</b>                 | <b>102,567,000</b>                      | <b>105,455,000</b>                      |
| 002                  | Undesignated General Fund Balance      | \$ 23,473,000                      | \$ 23,800,000                           | \$ 23,800,000                           |

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## ASSET POLICIES

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### Cash Management

The City Council adopted revised investment policies in 2001. The revised policies were developed along guidelines set by the Washington Municipal Treasurer's Association.

The responsibility for daily cash management is delegated to the City Treasurer by ordinance. Custody of City funds rests with the City Treasurer in accordance with the City Charter. The investment of City funds is considered to be a significant responsibility in which due diligence is undertaken to adhere to the investment policy and protect the City's assets.

As part of the City's investment policy, the City Treasurer develops monthly portfolio reports, which are provided to Administration and City Council. These reports identify the cash and investments within each fund, interfund loans, and the mix of investments within the City's accounts. In addition, a close review of the General Government cash position is presented and analyzed to determine whether temporary operating cash loans between funds may be necessary. The General Government has not required an interfund loan for operating needs for more than fourteen years.

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## LIABILITY POLICIES

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### Debt Management Policy

The City's policy is to plan and direct the use of debt so that debt service payments will be a predictable and manageable part of the Operating Budget.

The City continues to pursue a moderate capital improvement program through a careful balance of increased debt and substantial pay-as-you-go capital projects. Each capital project that may be funded by debt is evaluated within the context of the City's long range debt management policy and the capital improvement program. Alternative financing sources are always considered. The City will not issue long-term debt to finance current operations.

It is the City Council's policy to utilize less than 75% of the legal debt capacity for general obligation debt. Legal debt limits are set by the State Legislature and are based on a percentage of the total assessed valuation of all taxable property in the City.

Each year the Snohomish County Assessor certifies the assessed valuation for the upcoming year. The City's 2008 assessed valuation was \$13,787,898,581.

The following tables compare the statutory debt limits by type of debt to the City's current use of debt and provide the remaining available capacity for each type of debt.

| Type of Debt                | Statutory Limit | Outstanding as of 12/31/08 | Available Capacity |
|-----------------------------|-----------------|----------------------------|--------------------|
| General Obligation          |                 |                            |                    |
| Non-voted (Councilmanic)    | 1.50%           | 0.240%                     | 1.260%             |
| Voted                       | 1.00%           | 0.000%                     | 1.000%             |
| Open Space and Parks, voted | 2.50%           | 0.000%                     | 2.500%             |
| Utilities, voted            | 2.50%           | 0.000%                     | 2.500%             |
| Revenue                     | no limit        | na                         | na                 |
| Local Improvement District  | no limit        | na                         | na                 |

| Type of Debt                | Statutory Limit | Outstanding as of 12/31/08 | Available Capacity |
|-----------------------------|-----------------|----------------------------|--------------------|
| General Obligation          |                 |                            |                    |
| Non-voted (Councilmanic)    | \$ 206,818,479  | \$ 33,057,338              | \$ 173,761,141     |
| Voted                       | 137,878,986     | -                          | 137,878,986        |
| Open Space and Parks, voted | 344,697,465     | -                          | 344,697,465        |
| Utilities, voted            | 344,697,465     | -                          | 344,697,465        |
| Revenue                     | no limit        | 82,550,000                 | na                 |
| Local Improvement District  | no limit        | -                          | na                 |

Only general obligation debt is subject to the legal debt capacity restrictions. Revenue bonds and Local Improvement District (LID) bonds are not limited because no taxing power or general fund pledge is provided as security.

As shown in the tables above, the City can incur an additional 2.5% of voted debt for utility purposes and an additional 2.5% of voted debt for open space and parks. Currently the City does not have either type of debt outstanding.

Capital will be raised at the lowest possible cost through maintenance of a high credit rating and reputation of fiscal conservatism in the credit markets. The City's bond rating for general obligation debt is AA- by Standard & Poor's Investor Services. The City's bond rating for revenue debt is Aa3 by Moody's Investors Services and AA- by Standard & Poor's Investor Services. The City continually works to maintain its bond rating through sound financial planning and decisions.

To the extent possible, the City will seek level or declining debt repayment schedules. Principal and interest will be paid in accordance with the terms of bond ordinances and loan agreements.

It is the intent of the City to avoid arbitrage. However, if bond proceeds are not used within the established time frame, the City will remit any rebatable earnings to the federal government in a timely manner in order to preserve the tax-exempt status of the outstanding debt.

The City will maintain compliance with all covenants stated in bond ordinances, contracts, etc. In addition, the City provides the Comprehensive Annual Financial Report (CAFR) to established national information repositories each year to comply with state and national regulatory disclosure requirements.

### Debt Service Targets

The International City Managers' Association publishes guidelines designed to measure the financial health of a city. A recommended measure of fiscal control is to limit the issuance of debt such that annual debt service payments are less than 10% of the general expense budget. The City's debt portfolio currently stands at approximately \$33,057,000, which requires annual contributions averaging just over \$1,300,000 per year from the General Fund **into the debt service reserve accounts** and debt service payments averaging about \$2.1 million paid **out from the debt service reserves** each year.

The table below shows the city's debt service share of the general government budget:

|                           | 2009        | 2010        | 2011        | 2012        | 2013        |
|---------------------------|-------------|-------------|-------------|-------------|-------------|
| Gen. Govt. Exp. Budget    | 118,522,923 | 127,425,268 | 133,017,183 | 139,629,488 | 145,008,242 |
| Debt Service Contribution | 722,000     | 2,031,909   | 2,231,909   | 3,595,545   | 3,553,409   |
| Share of Budget           | 0.6%        | 1.6%        | 1.7%        | 2.6%        | 2.5%        |
| Debt Service Payment      | 3,406,400   | 3,370,560   | 3,588,300   | 3,690,700   | 3,118,768   |
| Share of Budget           | 2.9%        | 2.6%        | 2.7%        | 2.6%        | 2.2%        |

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## REVENUE POLICIES

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### General Revenue Policies

Revenue forecasts will be neither overly optimistic nor overly conservative. They will be as realistic as possible based on the best available information; with a slight inclination towards caution. Should economic downturns develop which could result in revenue shortfalls or fewer available resources, the City will make adjustments in anticipated expenditures to compensate if necessary.

The City will not respond to revenue shortfalls with deficit financing or borrowing to support on-going operations. Expenses will be reduced to conform to the long-term revenue forecast. Interfund loans are permissible to cover temporary gaps in cash flow, but only when supported by a well-defined repayment schedule of a short duration.

The City will pursue a vigilant tax collection effort to the extent consistent with the marginal costs of collection.

### Revenue Diversification

The City strives to maintain a diversified and stable revenue base to shelter public services from short-term fluctuations in any one revenue source. Currently, the City has a diversified, but variable revenue base. The City has chosen to manage these fluctuations by creating a fund balance policy that combines conservative expenditure growth with the ability to transfer surplus funds to Capital Reserve, Long term Obligation or Debt Service Funds.

### Fees and Charges

User fees will be imposed to cover the cost of services provided for unique or narrow segments of the community. Fees may be set at levels sufficient to cover the entire cost of service delivery, or the service may be subsidized, as Council deems necessary.

The City will continuously maintain its sewer and water distribution and collection systems. To insure that the enterprise funds remain self-supporting, rate structures will fully fund the direct and indirect costs of operations, capital plant maintenance, debt service, depreciation, and moderate system extensions.

**One-Time Revenues**

It is the general policy of the City to use major one-time revenues to fund capital improvements or reserves. The use of one-time revenues to fund ongoing expenditures is discouraged.

Unpredictable revenues are budgeted conservatively, and any amount collected in excess of the budget is generally carried forward in the fund balance.

All potential grants shall be carefully examined for matching requirements. Some grants may not be accepted if the local matching funds cannot be justified. Grants may also be rejected if programs must be continued with local resources after grant funds are exhausted.

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**EXPENDITURE POLICIES**

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**General Expenditure Policies**

High priority is given to expenditures that will reduce future operating costs, such as increased utilization of technology and equipment and proven business methods.

An appropriate balance will be maintained between budget dollars provided for direct public services and dollars provided to assure good management and legal compliance.

All department heads share in the responsibility of looking at and understanding the City's long-term financial viability, its general spending trends, its projected incomes, and educating themselves, division heads, and employees on the necessary short and long-term balance between revenues and expenditures.

Before the City undertakes any agreements that would create fixed ongoing expenses, the cost implications of such agreements will be estimated for current and future years with the aid of our strategic financial planning models.

All externally mandated services for which full or partial reimbursement is available will be fully costed out to allow for recovery of expenses.

All bonds, notes, contracts, accounts payable, and other monetary liabilities will be paid when due and shall have the most superior lien position during the allocation of resources in budget planning.

**Maintenance and Replacement**

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 costed out and included as decision criteria.

**Capital Improvements**

The City will maintain a multi-year Capital Improvement Plan (CIP) and update it annually. The CIP will be developed in conjunction with the operating budget to insure that all operation and maintenance costs associated with new capital improvements are adequately addressed. All capital improvements will be made in accordance with the adopted plan.

The City will maintain all of its assets at a level adequate to protect the capital investment and minimize future maintenance and replacement costs.

**Operating/Capital Expenditure Accountability**

It is the City's policy to compare actual expenditures to budget, generally on a monthly basis. If necessary, actions are taken to bring the budget into balance.

**Unfunded Mandates Policy**

The imposition upon the City of laws and regulations from state and federal legislation is expensive and diverts locally generated revenues into programs that higher levels of government have mandated without funds to pay for them. The long-term goal is to assist state and federal legislators in recognizing the need to provide funds to accompany any mandate that is directed to the local level and to allow local officials alternative ways of responding to problems of public concern. The City has collected and circulated an extensive list of unfunded mandates with the intent of educating elected officials about their cost impact on local governments.

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