

MEMO TO: City Council
FROM: John Marchione, Mayor
DATE: April 6, 2010
SUBJECT: **Approval of the 2010 Fiscal Policy Revisions**

I. RECOMMENDED ACTION:

Adopt the attached revisions to the City's Fiscal Policies (Attachment A) amending the Capital Investment Budget Policies consistent with Council's discussions in 2009, revising language to incorporate the City's new Budgeting by Priorities (BP) principles, implementing changes based on the 2008 utility rate discussions and making other minor changes to provide clarification.

II. DEPARTMENT CONTACTS:

Michael E. Bailey, Finance and I.S. Director	425-556-2160
Malisa Files, Financial Planning Manager	425-556-2166

III. DESCRIPTION:

In February and March, the Public Administration and Finance Committee and the full Council reviewed proposed changes to the City's Fiscal Policies. Outlined below is a description of the proposed changes as well as additional revisions requested by Councilmembers.

Proposed Revisions

In April and July, 2009 Council discussed policy issues in relation to the City's capital investment program. The changes to the attached fiscal policies memorialize the decisions made by Council in July, 2009 as well as the reestablishment of the Business Tax/Transportation Advisory (BTTI) Committee in September, 2009. These decisions include:

- The City will transfer, annually, at least five percent (5%) of General Fund revenues (excluding development and significant one-time revenues), available one-time money and the pavement management contribution to the capital investment program.
- Discretionary capital investment revenue collected from the five percent (5%) or more General Fund transfer and real estate excise tax will be split by percentage into three capital investment areas – Parks twenty-five percent (25%);

Transportation fifty-five percent (55%) and General Government (including Fire and Police) twenty percent (20%).

- A contribution (\$1.1 million) from sales tax on construction, adjusted annually for inflation, will be transferred into the capital investment program.
- The City will utilize the Business Tax/Transportation Advisory (BTTI) Committee to advise the City on expenditures from the transportation surcharge portion of the business tax as outlined in the Committee charter.

In reviewing the changes needed in the capital improvement section of the fiscal policies, it was discovered that some of the policy language was inconsistent with the City's BP principles. Some of the attached changes include adding the goals of the BP process and the monthly expenditure and revenue reporting to Council to the Operating Budget Policies. Also, included is new language that will bring supplemental appropriations (appropriations requested after the original budget is adopted) into alignment with the BP principles.

Additional changes include new language in Section 8 under Reserve Policies to redefine the utility depreciation reserves and establish a stabilization reserve consistent with Council's utility rate discussions in 2008 as well as other minor adjustments or wording clarifications. Examples of these minor changes occur under the short and long-term debt policies such as, moving a section regarding general obligation bonds under the appropriate section of the policies and addition of new language about lease purchase financing.

Council Requested Revisions

In discussions with Council further revisions were requested as outlined below.

- Operating Budget Policies Section 2(f) – In the fourth paragraph dealing with how the City defines a balanced budget the language was clarified to read:

“The City of Redmond defines a balanced budget as current biennium revenues (including fund balances) are equal to or greater than current biennium expenses.”

- Revenue Policies Section 3(d) – The end of the paragraph has been revised to more clearly define the review process. The added language is in bold below.

“The Finance Department will biennially review and make available to the Public Administration and Finance Committee an analysis of each potential major revenue source **before going to the full Council for review.**”

- Capital Investment Policies Section 5(g) – Language was added to make the policy more consistent with other CIP policies that speak of the 5% transfer. The change is in bold below.

“Discretionary capital investment revenues collected from the five percent (5%) **or more** General Fund transfer and real estate excise tax will be split by percentage into three capital investment areas...”

FISCAL POLICY
CITY OF REDMOND, WASHINGTON

1. General Financial Goals

- a. To provide a financial base sufficient to sustain municipal services to maintain the social well being and physical conditions of the City.
- b. To be able to withstand local and regional economic trauma, to adjust to changes in the service requirements ~~of the community~~, and to respond to other changes as they affect the ~~City's residents~~community.
- c. To maintain an ~~excellent-good~~ credit rating in the financial community and assure taxpayers that Redmond city government is ~~well-managed financially and~~ maintained in sound fiscal condition.

2. Operating Budget Policies

- a. The base operating budget is the City's comprehensive two-year financial plan which provides for the desired level of city services as defined by the City's ~~goals, priorities, and objectives~~. A ~~new base~~ budget will be ~~adopted~~developed every two years ~~as a result of a comprehensive process incorporating any newly approved programs, inflationary increases, and other expenses. The analysis and review of new programs must be initiated prior to inception of the Council's budget review process using a "budgeting by priorities" process.~~
- b. The goals of the budget by priorities process are:
 - Align the budget with citizen priorities
 - Measure progress towards priorities
 - Get the best value for each tax dollar
 - Foster continuous learning in the City
 - Build regional cooperation
- b. No "one-time" expenses require specific authority to will be carried forward into subsequent budgets. ~~without specific authority.~~
- b. Revenues and expenditures for the General Fund and all operating funds shall be projected for the ensuing biennium.

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- c. Biennial operating budgets should provide for ~~acceptable~~ design, construction, maintenance and replacement of the City's capital, plant, and equipment consistent with the Capital Facilities Plan including the related cost for operating such new facilities.
- d. The City will maintain all its assets at a ~~n-acceptable~~ level ~~to such that it protects~~ the City's capital investment and ~~to~~ minimizes future maintenance and replacement costs.
- e. The City will develop an equipment replacement and maintenance needs analysis for the ~~next several years~~ life cycle of the equipment and will update this projection every two years consistent with budget development. ~~From this projection a maintenance and replacement schedule will be developed and followed. (It is anticipated that this would occur on odd number years.)~~
- f. All general government current operating expenditures will be paid from current revenues and cash carried over from the prior biennium.

Reports on revenues and expenditures will be prepared monthly and Current revenues and operating expenditures will be reviewed quarterly by the City Council during the year.

The city will avoid budgetary and accounting procedures which balance the current budget at the expense of future budgets. ~~All budgetary procedures will conform to existing state and local regulations.~~

The City of Redmond defines a balanced budget as operating current biennium revenues ~~(including and beginning fund~~ balances) ~~specifically designated within the budget as being carried into the next operating budget being at least~~ are equal to or greater than current biennium budgeted expenditures.

~~It is the policy of the~~ The City ~~to will~~ attempt to utilize beginning balances and other one-time revenues only for one-time/non-recurring expenditures ~~only~~.

- g. All supplemental appropriations for programs (appropriations requested after the original budget is adopted) will ~~only be~~ approved after consideration considered as a result of the availability of new revenues (such as unanticipated grants).

All supplemental appropriations will conform to the "budgeting by priorities" process.

3. Revenue Policies

- a. The City will strive to maintain a diversified and stable a revenue system as permitted by state law to shelter it from short-run fluctuations in any one revenue source. The revenue mix should combine elastic and inelastic revenue sources to minimize the effect of an economic downturn.

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- b. Because revenues, especially those of the General Fund, are sensitive to both local and regional economic activities, revenue estimates provided to the City Council shall be conservative.
- c. The City will estimate its biennial revenues by an objective, analytical process using best practices as defined by the Government Finance Officers Association.
- d. The City will project revenues for the next six years and will update this projection ~~biannually~~biennially. The Finance Department will ~~biannually~~biennially review and make available to the Public Administration and Finance Committee an analysis of each potential major revenue source before going to the full Council for review.
- e. The City will establish all user charges at a level related to the cost of providing the service and within policy parameters established by the City Council.
- f. In each odd numbered year, the City will review user fees to adjust for the effects of inflation and other factors as appropriate. The City will set fees for user activities, such as recreational services, at a level to support the direct and ~~appropriate~~ indirect costs of the activity in accordance ~~with regard to cost recovery policies adopted with by council policy with regard to cost recovery unless specifically exempted by the City Council.~~ with regard to cost recovery policies adopted with by council policy
- g. The City will set fees and user charges for each enterprise fund, such as Water/Wastewater and Stormwater, at a level that fully supports the total direct and indirect cost of the activity. ~~Indirect costs~~ including the cost of annual depreciation of capital assets. Additionally, for analysis and rate modeling purposes, the proposed rates shall also take into account debt service coverage commitments made by the City of 1.2 times annual debt service.

4. Expenditure Policies

- a. The City budget will provide for a sustainable level of service ~~for the well being and safety of the community~~ as defined in the context of the Budgeting by Priorities process.
- b. The City's operating budget will not use one-time revenues to support ongoing expenditures.
- c. The City will maintain expenditure categories according to state statute and administrative regulation. Capital expenditures shall meet the requirements of generally accepted accounting principles (GAAP).
- d. ~~Services will parallel and adjust to the City's inelastic revenue sources in order to maintain the highest level of service. During periods of economic upturn, long-term expansion of core services will be limited to the anticipated increase of those sources~~ The City will structure service levels in the context of financial sustainability.

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- e. The City will forecast its General Fund expenditures biannually-biennially for the next six years. The drivers and assumptions used in the forecast will be described.
- f. A cost allocation plan will be developed and incorporated into the City budget. The cost allocation plan will be the basis for distribution of general government costs to other funds or capital projects (also known as indirect costs).

5. Capital Investment Budget Policies

- a. The City will make capital improvements in accordance with an adopted capital investment program.
- b. The capital investment program and the base operating budget will be reviewed at the same time to ensure that the City's capital and operating needs are balanced with each other and that the capital investment program is aligned with the City's other long-range plans.
- c. The City will develop a six-year plan for capital improvements including operations and maintenance costs and update it every biennium. Capital expenditures will be forecasted taking into account changes in population, changes in real estate development, or changes in relevant economic condition of the City and the region.
- d. The City will identify the estimated costs and potential funding sources for each capital project proposal before it is submitted to Council for approval. The City will use intergovernmental assistance and other outside resources whenever possible.
- e. The City will determine the least costly financing method for all new projects.
- f. The City will transfer, annually, at least five percent (5%) of General Fund revenues (excluding development and significant one-time revenues), available one-time money and the pavement management contribution to the capital investment program.
- g. Discretionary capital investment revenues collected from the five percent (5%) or more General Fund transfer and real estate excise tax will be split by percentage into three capital investment areas - Parks twenty-five percent (25%); Transportation fifty-five percent (55%) and General Government (including Fire and Police) twenty percent (20%).
- h. A contribution (\$1.1 million) from sales tax on construction, adjusted annually for inflation, will be transferred into the capital investment program.
- i. The City will utilize the Business Tax/Transportation Improvement (BTTI) Committee to advise the City on expenditures from the transportation surcharge portion of the Business Tax as outlined in the Committee's charter.

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6. Short-Term Debt Policies

- a. Short-term debt is defined as ~~covers~~ a period of three years or less.
- b. The City may use short-term debt to cover temporary cash flow shortages, which may be caused by a delay in receipting tax revenues or issuing long-term debt. The City will not use short-term debt for current operations.
- c. The City may issue interfund loans rather than outside debt instruments to meet short-term cash flow needs. Interfund loans will be permitted only if an analysis of the affected fund indicates excess funds are available and the use of these funds will not impact the fund's current operations. All interfund short-term borrowing will be subject to Council approval by ordinance or resolution and will bear interest based upon prevailing rates.

7. Long-Term Debt Policies

Long Term debt is that debt which exceeds three years.

- a. The City will utilize long-term borrowing for capital improvements that cannot reasonably be financed on a pay-as-you-go basis from anticipated cash flows.
- b. Acceptable uses of bond proceeds are items which can be capitalized and depreciated. Refunding bond issues designed to restructure currently outstanding debt is also an acceptable use of bond proceeds provided that the net present value (NPV) of savings is at least 4%.
- c. The City will determine whether self supporting bonds (such as special assessment improvement district bonds) are in the City's best interest when planning to incur debt to finance capital improvements.
- d. The City will not use long-term debt for current operations.
- e. The City will maintain good communications with bond rating agencies about its financial condition. The City will follow a policy of full disclosure on every financial report and bond prospectus including proactive compliance with disclosure to the secondary market.
- f. General Obligation Bond Policy
 1. Every project proposed for financing through general obligation debt shall be accompanied by a full analysis of the future operating and maintenance costs associated with the project.

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~~Before general obligation bond propositions are placed before the voters, the capital project under consideration should have been included in the Capital Improvement Program. The source of funds should describe the intended use of bond financing.~~

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

g. Limited Tax General Obligation Bond Policies

1. As a precondition to the issuance of limited tax general obligation bonds, alternative methods of financing should also be examined.
2. Before general obligation bond propositions are placed before the voters, the capital project under consideration should have been included in the Capital Improvement Program. The source of funds should describe the intended use of bond financing.
3. Limited tax general obligation bonds should only be issued under certain conditions:
 - A project requires monies not available from alternative sources;
 - Matching fund monies are available which may be lost if not applied for in a timely manner; or
 - Catastrophic conditions.

h. Financing of Lease Purchases

1. Under Washington State law, the public may vote to approve bond issues for general government purposes in an amount not to exceed 2.5% of assessed valuation. Within the 2.5% limit, the Redmond City Council may approve bond issues and/or lease purchases up to 1.5% of the city's total assessed value. In addition, state law provides for an additional 2.5% of assessed valuation for parks and open space purposes with a vote of the public.
2. Lease purchase financing may be used when the cost of borrowing or other factors make it in the city's best interest.

8. Reserve Fund Policies

- a. The City will maintain General Operating Reserves at a level equal to at least 8.5% of the total General Fund budgeted revenue, excluding the beginning fund balance,

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development review revenue, and any significant one-time revenue. A separate reserve shall be established for development review services.

These reserves shall be created and maintained to:

- 1) Provide sufficient cash flow to meet daily financial needs.
- 2) Sustain City services in the event of a catastrophic event such as a natural/manmade disaster (e.g. earthquake, windstorm, flood, terrorist attack) or a major downturn in the economy.

In general, the City shall endeavor to support ongoing operations with ongoing revenues, but may use reserves on a one-time basis to support City services pending the development of a longer term financial solution. However, in no event shall reserves be used longer than one biennium to support City operations. If reserves are used, the City will begin to replenish these reserves at the end of the biennium if a surplus exists, but no later than the biennium following their use.

- b. Biennium surpluses in the General Fund will be used to fund one-time operations and capital expenditures, dedicated to the Capital Improvement Program or placed in an economic contingency account if:
 - 1) There are surplus balances remaining after all current expenditure obligations and reserve requirements are met.
 - 2) The City has made a determination that revenues for the ensuing biennium are sufficient to support budgeted General Fund operations.
- c. A surplus is defined as the difference between the actual beginning fund balance and the budgeted beginning fund balance. It consists of under-expenditures and excess revenues over and above the amounts included in the following biennial budget.
- d. The City may also maintain, at its discretion, an Economic Contingency to serve as a hedge against economic fluctuations, fund future one-time operational and capital needs or support City services on a one-time basis pending the development of a longer term financial solution. The source of funding for this reserve is the biennium surplus as outlined in sections 8b and 8c above. Restoration of this reserve is at the City's discretion.
- e. The City will maintain a building permit reserve in the Operating Reserves Fund to provide for completion of building permit responsibilities in the event of a decline in development activity. This reserve will be equal to 25% of the annual building inspection and review costs.

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- f. The City will maintain operating reserves in the following funds: ~~125~~ (55 days) for the Water/Wastewater Operations and Maintenance Funds, not including Metro Wastewater Treatment expenses, which shall have a reserve requirement of 2%, 5% for the Stormwater Management Fund and 12% for the Solid Waste/Recycling Fund. This operating reserve shall be created and maintained to provide sufficient cash flow to meet daily financial needs and will be based upon total operating expenses. For budgeting purposes, operating expenses will be calculated upon the funds' total expense budgets excluding ending fund balances, capital purchases, and the current year's portion of principal paid on outstanding debt.
- g. ~~A depreciation reserve shall be established to replace utility capital, plant, and equipment in the following funds: Water/Wastewater Operations and Maintenance and Stormwater Management. This reserve will be adjusted biennially by the most current year's depreciation expense less bond reserves, principal paid on outstanding debt, and purchases of replacement capital. . In order to maintain the significant investments in utility capital assets there shall be a transfer from the utility operations funds to the utility capital project or reserve funds to be expended on future utility capital projects. The transfer will be calculated on the current year's depreciation expense, less the annual principal payments on outstanding debt.~~
- h. The City will establish a revenue stabilization fund for the Water and Wastewater utilities. The required fund balance shall be set at 15% of the total of water and wastewater revenues collected through monthly rates excluding the portion of monthly revenues for King County wastewater treatment. Monies may be withdrawn from the revenue stabilization funds to supplement operating revenues in years of revenue shortfalls caused by reduced sales due to weather or restrictions on water use. The revenue stabilization funds will be replenished within four years of a withdrawal.
- hi. Bond reserves shall be created and maintained by the Water/Wastewater and Stormwater Utilities in accordance with the provisions set forth in the bond covenants. These shall be in addition to the reserves described above.
- ij. The City shall additionally maintain the following Equipment Replacement Reserve Funds:
- 1) Fleet Maintenance Reserve;
 - 2) Fire Equipment Reserve; and
 - 3) Capital Equipment Reserve for general asset replacement.

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.

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jk. The City shall also maintain Reserve Funds as follows:

- 1) All statutorily required reserve funds to guarantee debt service; and
- 2) A vacation accrual reserve.

No reserve shall be established for sick leave. One-fourth of accrued sick leave is payable only upon retirement and is not considered material.

9. Investment Policies

The Finance & Information Services Director will ~~annually~~ biennially submit an investment policy to the City Council for review.

10. Special Revenue Policies

- a. The City will establish and maintain Special Revenue Funds which will be used to account for the proceeds of specific revenue sources to finance specified activities which are required by statute, ordinance, resolution, or executive order.
- b. Special Revenue Funds having biennial operating budgets will be reviewed by the City during the budget process.

11. Accounting, Auditing, and Financial Reporting Policies

- a. The City will establish and maintain a high standard of **internal controls and** accounting practices. The City accounts for revenues and expenditures on a modified accrual basis.
- b. The accounting system will maintain records on a basis consistent with accepted standards for local government accounting and the State of Washington Budgeting, Accounting, and Reporting Systems.
- c. Regular monthly and annual financial reports will present a summary of financial activity by major types of funds. Such reports will be available via the City's website (www.redmond.gov)
- d. The annual financial report shall conform to Generally Accepted Accounting Principles and be in the form of a Comprehensive Annual Financial Report as described by the GFOA.**
- de.** A fixed asset system will be maintained to identify all City assets, their location, and their condition.

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- ef. The City will ensure that City records are audited annually and which will result in the issuance of a financial opinion. The results of such audit are to be available to the public via the city's web site.

12. Budget Calendar

- a. In order to facilitate and implement the budget process, the Mayor will propose a biennial budget calendar at the first regular Council meeting in March in every even year.
- b. The calendar will be comprehensive in nature and generally provide for a process that resembles the ~~Recommended Best~~ Practices as published by the Government Finance Officers Association.

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FISCAL POLICY
CITY OF REDMOND, WASHINGTON

1. General Financial Goals

- a. To provide a financial base sufficient to sustain municipal services to maintain the social well being and physical conditions of the City.
- b. To be able to withstand local and regional economic trauma, to adjust to changes in the service requirements, and to respond to other changes as they affect the community.
- c. To maintain an excellent credit rating in the financial community and assure taxpayers that Redmond city government is maintained in sound fiscal condition.

2. Operating Budget Policies

- a. The base operating budget is the City's comprehensive two-year financial plan which provides for the desired level of city services as defined by the City's priorities. A budget will be developed every two years using a "budgeting by priorities" process.
- b. The goals of the budget by priorities process are:
 - Align the budget with citizen priorities
 - Measure progress towards priorities
 - Get the best value for each tax dollar
 - Foster continuous learning in the City
 - Build regional cooperation
- b. One-time" expenses require specific authority to be carried forward into subsequent budgets.
- b. Revenues and expenditures for the General Fund and all operating funds shall be projected for the ensuing biennium.
- c. Biennial operating budgets should provide for design, construction, maintenance and replacement of the City's capital, plant, and equipment consistent with the Capital Facilities Plan including the related cost for operating such new facilities.
- d. The City will maintain all its assets at a level such that it protects the City's capital investment and minimizes future maintenance and replacement costs.

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- e. The City will develop an equipment replacement and maintenance needs analysis for the life cycle of the equipment and will update this projection every two years consistent with budget development.
- f. All general government current operating expenditures will be paid from current revenues and cash carried over from the prior biennium.

Reports on revenues and expenditures will be prepared monthly and reviewed quarterly by the City Council during the year.

The city will avoid budgetary and accounting procedures which balance the current budget at the expense of future budgets.

The City of Redmond defines a balanced budget as current biennium revenues (including fund balances) are equal to or greater than current biennium budgeted expenditures.

The City will attempt to utilize beginning balances and other one-time revenues only for one-time/non-recurring expenditures.

- g. All supplemental appropriations for programs (appropriations requested after the original budget is adopted) will be considered as a result of the availability of new revenues (such as unanticipated grants).

All supplemental appropriations will conform to the “budgeting by priorities” process.

3. Revenue Policies

- a. The City will strive to maintain as diversified and stable a revenue system as permitted by state law to shelter it from short-run fluctuations in any one revenue source. The revenue mix should combine elastic and inelastic revenue sources to minimize the effect of an economic downturn.
- b. Because revenues, especially those of the General Fund, are sensitive to both local and regional economic activities, revenue estimates provided to the City Council shall be conservative.
- c. The City will estimate its biennial revenues by an objective, analytical process using best practices as defined by the Government Finance Officers Association.
- d. The City will project revenues for the next six years and will update this projection biennially. The Finance Department will biennially review and make available to the Public Administration and Finance Committee an analysis of each potential major revenue source before going to the full Council for review.

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- e. The City will establish all user charges at a level related to the cost of providing the service and within policy parameters established by the City Council.
- f. In each odd numbered year, the City will review user fees to adjust for the effects of inflation and other factors as appropriate. The City will set fees for user activities, such as recreational services, at a level to support the direct and indirect costs of the activity in accordance with cost recovery policies adopted by Council .
- g. The City will set fees and user charges for each enterprise fund, such as Water/Wastewater and Stormwater, at a level that fully supports the total direct and indirect cost of the activity including the cost of annual depreciation of capital assets. Additionally, for analysis and rate modeling purposes, the proposed rates shall also take into account debt service coverage commitments made by the City of 1.2 times annual debt service.

4. Expenditure Policies

- a. The City budget will provide for a sustainable level of service as defined in the context of the Budgeting by Priorities process.
- b. The City's operating budget will not use one-time revenues to support ongoing expenditures.
- c. The City will maintain expenditure categories according to state statute and administrative regulation. Capital expenditures shall meet the requirements of generally accepted accounting principles (GAAP).
- d. The City will structure service levels in the context of financial sustainability.
- e. The City will forecast its General Fund expenditures biennially for the next six years. The drivers and assumptions used in the forecast will be described.
- f. A cost allocation plan will be developed and incorporated into the City budget. The cost allocation plan will be the basis for distribution of general government costs to other funds or capital projects (also known as indirect costs).

5. Capital Investment Budget Policies

- a. The City will make capital improvements in accordance with an adopted capital investment program.
- b. The capital investment program and the base operating budget will be reviewed at the same time to ensure that the City's capital and operating needs are balanced with each

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other and that the capital investment program is aligned with the City's other long-range plans.

- c. The City will develop a six-year plan for capital improvements including operations and maintenance costs and update it every biennium. Capital expenditures will be forecasted taking into account changes in population, changes in real estate development, or changes in relevant economic condition of the City and the region.
- d. The City will identify the estimated costs and potential funding sources for each capital project proposal before it is submitted to Council for approval. The City will use intergovernmental assistance and other outside resources whenever possible.
- e. The City will determine the least costly financing method for all new projects.
- f. The City will transfer, annually, at least five percent (5%) of General Fund revenues (excluding development and significant one-time revenues), available one-time money and the pavement management contribution to the capital investment program.
- g. Discretionary capital investment revenues collected from the five percent (5%) or more General Fund transfer and real estate excise tax will be split by percentage into three capital investment areas - Parks twenty-five percent (25%); Transportation fifty-five percent (55%) and General Government (including Fire and Police) twenty percent (20%).
- h. A contribution (\$1.1 million) from sales tax on construction, adjusted annually for inflation, will be transferred into the capital investment program.
- i. The City will utilize the Business Tax/Transportation Improvement (BTTI) Committee to advise the City on expenditures from the transportation surcharge portion of the Business Tax as outlined in the Committee's charter.

6. Short-Term Debt Policies

- a. Short-term debt is defined as a period of three years or less.
- b. The City may use short-term debt to cover temporary cash flow shortages, which may be caused by a delay in receipting tax revenues or issuing long-term debt. The City will not use short-term debt for current operations.
- c. The City may issue interfund loans rather than outside debt instruments to meet short-term cash flow needs. Interfund loans will be permitted only if an analysis of the affected fund indicates excess funds are available and the use of these funds will not impact the fund's current operations. All interfund short-term borrowing will be subject to Council approval by ordinance or resolution and will bear interest based upon prevailing rates.

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7. Long-Term Debt Policies

Long Term debt is that debt which exceeds three years.

- a. The City will utilize long-term borrowing for capital improvements that cannot reasonably be financed on a pay-as-you-go basis from anticipated cash flows.
- b. Acceptable uses of bond proceeds are items which can be capitalized and depreciated. Refunding bond issues designed to restructure currently outstanding debt is also an acceptable use of bond proceeds provided that the net present value (NPV) of savings is at least 4%.
- c. The City will determine whether self supporting bonds (such as special assessment improvement district bonds) are in the City's best interest when planning to incur debt to finance capital improvements.
- d. The City will not use long-term debt for current operations.
- e. The City will maintain good communications with bond rating agencies about its financial condition. The City will follow a policy of full disclosure on every financial report and bond prospectus including proactive compliance with disclosure to the secondary market.
- f. General Obligation Bond Policy
 1. Every project proposed for financing through general obligation debt shall be accompanied by a full analysis of the future operating and maintenance costs associated with the project.
 2. Bonds cannot be issued for a longer maturity schedule than a conservative estimate of the useful life of the asset to be financed.
- g. Limited Tax General Obligation Bond Policies
 1. As a precondition to the issuance of limited tax general obligation bonds, alternative methods of financing should also be examined.
 2. Before general obligation bond propositions are placed before the voters, the capital project under consideration should have been included in the Capital Improvement Program. The source of funds should describe the intended use of bond financing.
 3. Limited tax general obligation bonds should only be issued under certain conditions:

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

h. Financing of Lease Purchases

1. Under Washington State law, the public may vote to approve bond issues for general government purposes in an amount not to exceed 2.5% of assessed valuation. Within the 2.5% limit, the Redmond City Council may approve bond issues and/or lease purchases up to 1.5% of the city's total assessed value. In addition, state law provides for an additional 2.5% of assessed valuation for parks and open space purposes with a vote of the public.
2. Lease purchase financing may be used when the cost of borrowing or other factors make it in the city's best interest.

8. Reserve Fund Policies

- a. The City will maintain General Operating Reserves at a level equal to at least 8.5% of the total General Fund budgeted revenue, excluding the beginning fund balance, development review revenue, and any significant one-time revenue. A separate reserve shall be established for development review services.

These reserves shall be created and maintained to:

- 1) Provide sufficient cash flow to meet daily financial needs.
- 2) Sustain City services in the event of a catastrophic event such as a natural/manmade disaster (e.g. earthquake, windstorm, flood, terrorist attack) or a major downturn in the economy.

In general, the City shall endeavor to support ongoing operations with ongoing revenues, but may use reserves on a one-time basis to support City services pending the development of a longer term financial solution. However, in no event shall reserves be used longer than one biennium to support City operations. If reserves are used, the City will begin to replenish these reserves at the end of the biennium if a surplus exists, but no later than the biennium following their use.

- b. Biennium surpluses in the General Fund will be used to fund one-time operations and capital expenditures, dedicated to the Capital Improvement Program or placed in an economic contingency account if:

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- 1) There are surplus balances remaining after all current expenditure obligations and reserve requirements are met.
 - 2) The City has made a determination that revenues for the ensuing biennium are sufficient to support budgeted General Fund operations.
- c. A surplus is defined as the difference between the actual beginning fund balance and the budgeted beginning fund balance. It consists of under-expenditures and excess revenues over and above the amounts included in the following biennial budget.
- d. The City may also maintain, at its discretion, an Economic Contingency to serve as a hedge against economic fluctuations, fund future one-time operational and capital needs or support City services on a one-time basis pending the development of a longer term financial solution. The source of funding for this reserve is the biennium surplus as outlined in sections 8b and 8c above. Restoration of this reserve is at the City's discretion.
- e. The City will maintain a building permit reserve in the Operating Reserves Fund to provide for completion of building permit responsibilities in the event of a decline in development activity. This reserve will be equal to 25% of the annual building inspection and review costs.
- f. The City will maintain operating reserves in the following funds: 12% (55 days) for the Water/Wastewater Operations and Maintenance Funds, not including Metro Wastewater Treatment expenses, which shall have a reserve requirement of 2%, 5% for the Stormwater Management Fund and 12% for the Solid Waste/Recycling Fund. This operating reserve shall be created and maintained to provide sufficient cash flow to meet daily financial needs and will be based upon total operating expenses. For budgeting purposes, operating expenses will be calculated upon the funds' total expense budgets excluding ending fund balances, capital purchases, and the current year's portion of principal paid on outstanding debt.
- g. In order to maintain the significant investments in utility capital assets there shall be a transfer from the utility operations funds to the utility capital project or reserve funds to be expended on future utility capital projects. The transfer will be calculated on the current year's depreciation expense, less the annual principal payments on outstanding debt.
- h. The City will establish a revenue stabilization fund for the Water and Wastewater utilities. The required fund balance shall be set at 15% of the total of water and wastewater revenues collected through monthly rates excluding the portion of monthly revenues for King County wastewater treatment. Monies may be withdrawn from the revenue stabilization funds to supplement operating revenues in years of revenue

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shortfalls caused by reduced sales due to weather or restrictions on water use. The revenue stabilization funds will be replenished within four years of a withdrawal.

- i. Bond reserves shall be created and maintained by the Water/Wastewater and Stormwater Utilities in accordance with the provisions set forth in the bond covenants. These shall be in addition to the reserves described above.
- j. The City shall additionally maintain the following Equipment Replacement Reserve Funds:
 - 1) Fleet Maintenance Reserve;
 - 2) Fire Equipment Reserve; and
 - 3) Capital Equipment Reserve for general asset replacement.

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.

- k. The City shall also maintain Reserve Funds as follows:
 - 1) All statutorily required reserve funds to guarantee debt service; and
 - 2) A vacation accrual reserve.

No reserve shall be established for sick leave. One-fourth of accrued sick leave is payable only upon retirement and is not considered material.

9. Investment Policies

The Finance & Information Services Director will biennially submit an investment policy to the City Council for review.

10. Special Revenue Policies

- a. The City will establish and maintain Special Revenue Funds which will be used to account for the proceeds of specific revenue sources to finance specified activities which are required by statute, ordinance, resolution, or executive order.
- b. Special Revenue Funds having biennial operating budgets will be reviewed by the City during the budget process.

11. Accounting, Auditing, and Financial Reporting Policies

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- a. The City will establish and maintain a high standard of internal controls and accounting practices. The City accounts for revenues and expenditures on a modified accrual basis.
- b. The accounting system will maintain records on a basis consistent with accepted standards for local government accounting and the State of Washington Budgeting, Accounting, and Reporting Systems.
- c. Regular monthly and annual financial reports will present a summary of financial activity by major types of funds. Such reports will be available via the City's website (www.redmond.gov)
- d. The annual financial report shall conform to Generally Accepted Accounting Principles and be in the form of a Comprehensive Annual Financial Report as described by the GFOA.
- e. A fixed asset system will be maintained to identify all City assets, their location, and their condition.
- f. The City will ensure that City records are audited annually and which will result in the issuance of a financial opinion. The results of such audit are to be available to the public via the city's web site.

12. Budget Calendar

- a. In order to facilitate and implement the budget process, the Mayor will propose a biennial budget calendar at the first regular Council meeting in March in every even year.
- b. The calendar will be comprehensive in nature and generally provide for a process that resembles the Best Practices as published by the Government Finance Officers Association.