

Introduced by: Allan J. Martin  
Requested by: Finance Committee  
Drafted by: Treasurer  
Introduced: August 28, 2012  
Adopted: August 28, 2012

**RESOLUTION NO. 022-12**

**A RESOLUTION OF THE CITY OF PORT ORCHARD, WASHINGTON,  
ESTABLISHING FINANCIAL POLICIES GUIDING REVENUE,  
EXPENDITURE, CASH, INVESTMENT AND DEBT MANAGEMENT,  
FUND BALANCE AND RESERVE, INVENTORY AND PHYSICAL  
ASSETS, AND ACCOUNTING PRACTICES AND PROCESSES**

**WHEREAS**, the Port Orchard City Council and Mayor recognize that financial integrity is of utmost importance; and

**WHEREAS**, written, adopted financial policies have many benefits, such as assisting our elected officials and staff in the financial management of the City, saving time and energy when discussing financial matters, engendering public confidence, and providing continuity over time as elected officials and staff members change; and

**WHEREAS**, financial policies provide the basic foundation and framework for many of the issues and decisions facing the City, and will promote sound financial management and assist in the City's stability, efficiency, and effectiveness; and

**WHEREAS**, the Council Finance Committee provided guidance in the year long development of the polices and Council feedback and recommendations were solicited, now, therefore;


**THE CITY COUNCIL OF THE CITY OF PORT ORCHARD, WASHINGTON,  
HEREBY RESOLVES AS FOLLOWS:**

**THAT:** The financial policies in Attachment A to this Resolution are hereby adopted.

PASSED by the City Council of the City of Port Orchard, SIGNED by the Mayor and attested by the City Clerk in authentication of such passage this 28th day of August 2012.

  
\_\_\_\_\_  
Timothy C. Matties, Mayor

ATTEST:

  
\_\_\_\_\_  
Brandy Rinearson, CMC, City Clerk



## **City of Port Orchard Financial Policies**

The financial integrity of our City government is of utmost importance. Our City has evolved with a variety of financial policies that can be found in many different sources including: City Council Resolutions and Ordinances; Budget documents; and Capital Improvement Programs. The set of policies within this document seeks to serve as a central reference point of the most important of our policies, which are critical to the continued financial health of our city.

Written, adopted financial policies have many benefits, such as assisting the elected officials and staff in the financial management of the City, saving time and energy when discussing financial matters, engendering public confidence, and providing continuity over time as elected officials and staff members change. While these policies will be amended periodically, they will provide the basic foundation and framework for many of the issues and decisions facing the City. They will promote sound financial management and assist in the City's stability, efficiency, and effectiveness.

### Financial Goals

The City of Port Orchard's financial goals seek to:

- Ensure the financial integrity of the City
- Manage the financial assets in a sound and prudent manner
- Improve financial information for decision makers at all levels:
  - Policy makers as they contemplate decisions that affect the City on a long- term basis
  - Managers as they implement policy on a day-to-day basis
- Maintain and further develop programs to ensure the long term ability to pay all costs necessary to provide the level and quality of service required by the citizens
- Maintain a spirit of openness and transparency while being fully accountable to the public for the City's fiscal activities

### Financial Policies

Port Orchard's financial policies address the following major areas:

- **General Policies**
- **Revenue Policies**
- **Expenditure Policies**
- **Operating Budget Policy**
- **Capital Management Policy**
- **Accounting Policy**
- **Debt Policy**
- **Cash Management/Investment Policy**
- **Reserve/Stabilization Arrangements**

**I. General Policies**

1. The City Council may adopt resolutions or ordinances to set financial policies to assure the financial strength and accountability of the City.
2. The Mayor and/or Treasurer may develop administrative directives and general procedures for implementing the City Council's financial policies.
3. All City Departments share in the responsibility of meeting policy goals and ensuring long-term financial health. Future service plans and programs will be developed to reflect current policy directives, projected resources, and future service requirements.
4. Efforts should be coordinated with other governmental agencies to achieve common policy objectives, share the cost of providing governmental services on an equitable basis, and support favorable legislation at the state and federal level.
5. Initiate, encourage, and participate in economic development efforts to create job opportunities and strengthen the local economy.
6. The City will strive to maintain fair and equitable relationships with its contractors and suppliers.

**II. Revenue Policies**

*Design, maintain, and administer a revenue system that will assure a reliable, equitable, diversified, and sufficient revenue stream to support desired City services.*

General Revenues

1. Current expenditures will be funded by current revenues. The City will try to maintain a diversified and stable revenue system to protect programs from short-term fluctuations in any single source.
2. Budgeted revenues will be estimated conservatively using accepted standards and estimates provided by the state, other governmental agencies or reliable economic forecasters when available.
3. General Fund and other unrestricted revenues will not be earmarked for specific purposes, activities or services unless otherwise authorized by City Council or required by law, or generally accepted accounting practices (GAAP). All nonrestricted revenues will be deposited into the General Fund and appropriated by the budget process.
4. If revenues from "one-time" or limited duration sources are used to balance the City's annual operating budget, it is to be fully disclosed and explained at the time the budget is written. It is the City's goal to not rely on these types of revenues to balance the operating budget.
5. The City will not use deficit financing and borrowing to support on-going

operations in the case of long-term (greater than one year) revenue downturns. Revenue forecasts will be revised and expenses will be reduced to conform to the revised long-term revenue forecast or revenue increases will be considered.

6. The City will follow an aggressive and professional policy of collecting revenues. When necessary, discontinuing service, small claims court, collection agencies, foreclosure, liens and other methods of collection, such as imposing penalties, collection and late charges, may be used.

#### Fees and Charges

7. Enterprise and Internal Service operations are to be self-supporting.
8. The City is to maximize the use of service users' charges in lieu of ad valorem (property) taxes and subsidies from other City funds, for services that can be identified and where costs are directly related to the level of service provided.
  - a. Charges for providing utility services shall be sufficient to finance all operating, capital outlay, and debt service expenses of the City's enterprise funds, including operating contingency, planned capital improvements, and reserve requirements.
  - b. Park recreation programs should be funded by a users' charge. User charges shall be comparable to other neighboring cities where practical.
  - c. Other reimbursable work performed by the City (labor, meals, contracted services, equipment and other indirect expenses) shall be billed at actual or estimated actual cost.
  - d. The City Council by resolutions or ordinances may declare certain community events beneficial to the City and its citizens, and allow City personnel, under the direction and control of the Mayor or his/her designated department director to support the event, without requiring reimbursement of expenses. Community events declared beneficial shall be included in the current expense budget.
  - e. Charges for services shall accurately reflect the actual or estimated cost of providing a specific service. The cost of providing specific services shall be recalculated periodically, and the fee adjusted accordingly. The City shall maintain a current schedule of fees and charges, showing when the fees were last reviewed and/or recalculated.
  - f. The City will consider market rates and charges levied by other municipalities for like services in establishing rates, fees, and charges.
  - g. Certain fees, such as rental fees, will be based upon market conditions and are not subject to the limitations of cost recovery.

### Grants

9. Grant funding for programs or items which address the City's current priorities and policy objectives should be considered to leverage City funds. Inconsistent and/or fluctuating grants should not be used to fund on-going programs.
10. Before accepting any grant the City shall thoroughly consider the implications in terms of ongoing obligations that will be required in connection with acceptance of said grant.
11. All grants and other federal and state funds shall be managed to comply with the laws, regulations, and guidance of the grantor.

### **III. Expenditure Policies**

*Identify priority services, establish appropriate service levels, and administer the expenditure of available resources to assure fiscal stability and the effective and efficient delivery of services.*

1. The City will strive to adopt an annual General Fund budget in which current expenditures do not exceed current projected revenues. Capital expenditures may be funded from one-time revenues. The City will determine a list of one-time revenues.
2. Department Directors are responsible for managing their budgets within the total appropriation for their department.
3. The City will take immediate corrective actions if at any time during the fiscal year expenditure and revenue re-estimates are such that an operating deficit is projected at year-end. Corrective actions can include a hiring freeze, expenditure reductions, fee increases, or use of contingencies. The City Council may approve a short-term interfund loan or use of one-time revenue sources to address temporary gaps in cash flow, although this will be avoided if possible.
4. Long-term debt or bond financing shall not be used to finance current operating expenditures.
5. The City will assess funds for services provided internally by other funds. Interfund service fees charged to recover these costs will be recognized as revenue to the providing fund.
6. Emphasis should be placed on improving individual and work group productivity rather than adding to the work force. The City will invest in technology and other efficiency tools to maximize productivity. The City should hire additional staff only after the need for such positions has been demonstrated and documented.
7. All compensation planning and collective bargaining is encouraged to focus on the total cost of compensation which includes direct salary, health care benefits, pension contributions, and other benefits which are a cost to the City.

8. Periodic comparisons of service delivery will be made to ensure that quality services are provided to our citizens at the most competitive and economical cost. Privatization and contracting with other governmental agencies should be evaluated as alternatives to service delivery where appropriate. Programs that are determined to be inefficient and/or ineffective shall be reduced in scope or eliminated.
9. Whenever feasible, government activities should be considered enterprises if so doing will increase efficiency of service delivery or recover the cost of providing the service from the benefiting entity by user fees.
10. The City will make every effort to maximize any discounts offered by creditors/vendors.

#### **IV. Operating Budget Policies**

1. The City Council will adopt and maintain a balanced annual operating budget.
2. The City will strive to adopt a budget where current annual operating revenues will be equal to or greater than current operating expenditures.
3. Balanced revenue and expenditure forecasts should be prepared to examine the City's ability to absorb operating costs due to changes in the economy, service demands, contractual obligations, and capital improvements.
4. In the event a balanced budget is not attainable, and the cause of the imbalance is expected to last for no more than one year, the planned use of reserves to balance the budget is permitted. In the event that a budget shortfall is expected to continue beyond one year, the planned use of reserves must be developed as part of a corresponding strategic financial plan to close the gap through revenue increases or expenditure decreases.
5. The operating budget shall serve as the annual financial plan for the City. It will serve as the policy document of the City Council for implementing Council goals and objectives. The budget will provide the staff the resources necessary to accomplish City Council determined service levels.
6. As mandated by RCW 35.33.051, the Mayor shall annually present a proposed operating budget to the City Council on or before the first Monday in October. The City Council must adopt by ordinance a final balanced budget no later than December 31 of each year.
7. Funds may not be expended or encumbered for the following fiscal year until the budget has been adopted by the City Council.

#### **V. Capital Management Policies**

*Review and monitor the state of the City's capital equipment and infrastructure, setting priorities for its replacement and renovation based on needs, funding alternatives, and availability of resources.*

Capital Facilities Plan

1. The City will develop a Capital Facilities Plan (CFP) as defined and required by RCW 36.70A.070 which is consistent with the City Comprehensive Plan. The plan shall be for a period of six years.

Capital Asset Management

1. The City will maintain its capital assets at a level adequate to protect the City's capital investment and to minimize future maintenance and replacement costs. The budget will provide for adequate maintenance and orderly replacement of capital assets from current revenues where possible.
2. The capitalization threshold used in determining if a given asset qualifies for capitalization is \$4,000 per item with a useful life of over one year.
3. The City Departments will conduct an annual physical count/inspection of all capital assets.
4. Adequate insurance will be maintained on all capital assets consistent with the results of the annual physical count/inspection.

**VI. Accounting Policies**

*Comply with prevailing federal, state, and local statutes and regulations. Conform to a comprehensive basis of accounting in compliance with Washington State statutes and with generally accepted accounting principles (GAAP) as promulgated by the Governmental Accounting Standards Board (GASB), and the Government Finance Officers Association (GFOA) where applicable.*

1. The City will maintain expenditure categories according to state statute and administrative regulation. The City will use the "Budgeting, Accounting & Reporting System" (BARS) prescribed by the State Auditor for its revenue and expenditure classification.
2. Quarterly budget reports showing the current status of revenues and expenditures will be prepared and distributed to council, and appropriate staff and management personnel in a timely manner and made available for public inspection.
3. Electronic financial systems will be maintained to monitor revenues, expenditures, and program performance on an ongoing basis.
4. The Annual Financial Report will be prepared and submitted to the State Auditor's Office no later than 150 days from the end of the preceding fiscal year.
5. The Annual Financial Report will be prepared on the basis of accounting that

demonstrates compliance with Washington State statutes and the BARS manual prescribed by the State Auditor, which is a comprehensive basis of accounting other than generally accepted accounting principles. The report will provide full disclosure of all financial activities and related matters.

6. The City's budget should satisfy criteria as a financial and programmatic policy document, as a comprehensive financial plan, as an operations guide for all organizational units, and as a communications device for all significant budgetary issues, trends and resources. It should be a goal of the Finance Department to submit the budget document to the Washington Finance Officers Association (WFOA) or Government Finance Officers Association (GFOA) Distinguished Budget Presentation program.

## **VII. Debt Policies**

*Establish guidelines for debt financing that will provide needed capital equipment and infrastructure improvements while minimizing the impact of debt payments on current revenues.*

1. The City will not use long-term debt to pay for current operations. The use of bonds or certificates of participation will only be considered for significant capital and infrastructure improvements.
2. The term of the debt shall never extend beyond the useful life of the improvements to be financed.
3. General obligation debt will not be used for self-supporting enterprise activity.
4. The general policy of the City is to establish debt repayment schedules that use level annual principal and interest payments.
5. Interest earnings on bond proceeds will be limited to 1) funding the improvements specified in the authorizing bond ordinance, or 2) payment of debt service on the bonds.
6. Proceeds from debt will be used in accordance with the purpose of the debt issue. Funds remaining after the project is completed will be used in accordance with the provisions stated in the bond ordinance that authorized the issuance of the debt.
7. The City will use the most prudent methods of acquiring capital outlay items, including the use of lease-purchase agreements. In no case will the City lease-purchase equipment whose useful life is less than the term of the lease.
8. The City will maintain its bond rating at the highest level fiscally prudent, so that future borrowing costs are minimized and access to the credit market is preserved. The City will encourage and maintain good relations with financial bond rating agencies and will follow a policy of full and open disclosure.



### **VIII. Cash Management and Investment Policies**

*Manage and invest the City's operating cash to ensure its legality, safety, provide for necessary liquidity, avoid imprudent risk, and optimize yield.*

1. Cash and Investment programs will be maintained in accordance with City regulations and will ensure that proper controls and safeguards are maintained. City funds will be managed in a prudent and diligent manner with an emphasis on safety of principal, liquidity, and financial return on principal (yield), in that order.
2. The City will develop and adopt an investment policy.
3. The City will maintain written guidelines on cash handling, accounting, segregation of duties, and other financial matters.
4. All financial transactions of the city fall under the responsibility and control of the City Treasurer; except the financial duties of the municipal court as prescribed by Washington Court Rule, General Rule 29, (GR29) which shall be the responsibility of the Presiding Judge of the Municipal Court.
5. Special investigative unit funds as provided in Chapter 69.50 RCW needed for the interception of illegal drugs leading to drug seizures shall be held in a transactional account for the purpose of securely and quickly providing access to funds on demand. Signatories shall include the Chief of Police and Police Commander.
6. Monthly reports will be prepared and distributed to all departments and the City Council showing cash position, and year-to-date budgeted and actual expenditures.
7. The City will conduct annual reviews of its internal controls and cash handling procedures.

### **VIII. Reserve Policies**

*Maintain the reserves, contingencies, and ending fund balances of the various operating funds at levels sufficient to protect the City's credit as well as its financial position from emergencies.*

#### **General Fund Reserves**

The City recognizes that reserves need to be acquired over multiple budget years and require discipline and a strong commitment to maintain.

Reserves are a necessary component of the overall finance management strategy of the City. Reserves serve a variety of purposes. 1) Ensuring adequate resources for cash flow 2) Mitigating short-term effects of revenue shortages 3) Leveraging beneficial opportunities 4)

Providing the ability to exercise flexible financial planning, and 5) To address unforeseen emergencies or changes in conditions.

**The City will strive to maintain a two tier reserve structure.**

- Assigned Ending Fund Balance designated as working capital in the general fund
- Stabilization Arrangement reported as restricted or committed in the general fund

### **Working Capital**

The City's goal shall be to maintain an undesignated General Fund ending fund balance of at least five percent of budgeted General Fund operating revenues. Ending Fund balance may be used to cover cash flow needs caused by the ad valorem tax cycle which results in the traditional "W" cash flow sequence. Ending fund balance reserve is considered working capital of the general fund.

### **Stabilization Arrangement**

A City Stabilization Arrangement in an amount of two months of its five year arithmetic mean of General Fund expenditure budget may be maintained annually as resources allow. Funding may come from one time revenues, monthly budgeted amounts from general revenues, and transfers from ending fund balance as authorized by Council resolution.

Stabilization reserves shall be used if all efforts have been exhausted to fund a qualifying event and no reasonable budget adjustments are available to continue to provide essential services to the public. The City Treasurer must quantify, document and present the significance of the qualifying event. Authorization for spending stabilization reserves requires a simple majority vote of the City Council.

Qualifying Events:

- The State of Washington or Federal government formally declares a disaster or emergency.
- A natural or urgent event that jeopardizes public safety, impedes commerce, or threatens additional damage to City infrastructure.
- Unforeseen events or situation outside of the scope of contingency planning or planned normal course of government operations.
- An act of war, terrorism, or declaration of Martial law.