
CITY FINANCIAL POLICIES

In addition to following all laws related to budgeting as outlined by RCW 35, the City has internal Financial Management Policies that are adopted by city Council and reviewed every two years during the budget development process. The Financial Management Policies are a compendium of all City policies that shape the Budget. The policies ensure that the City maintains a healthy financial foundation into the future. The goal of these policies is to promote:

- An extended financial planning horizon to increase awareness of future potential challenges and opportunities.
- Setting aside reserves for contingencies, replacement of capital equipment, and other similar needs.
- Maintaining the effective buying power of fees and charges and increasing cost recovery where directed to do so.
- Accountability for meeting standards for financial management and efficiency in providing services.
- Planning for the capital needs of the community.
- Maintaining manageable levels of debt while maintaining quality bond ratings.
- Communication to residents and customers on how the community goals are being addressed.

The budget policy statements are grouped by major category in alignment with the policy goals and are presented in the following order:

- Long Range Financial Planning
- General Operations
 - Reserves
 - Revenue and Resource Utilization
 - Budget Management
 - Capital Planning
 - Debt Level and Capacity
- Water, Sewer and Surface Water Utility Operations

LONG-RANGE FINANCIAL PLANNING

1. A long-term forecast of revenues and expenditures will be developed for all operating budgets for the six-year period following the end of the current biennial budget. Updates will be prepared on an annual basis by May 31 of each year, including a comparison of actual results to the forecast.

Status:

- Revenue and expense forecast for all funds for 2009-2014 was prepared in March of 2008 and updated in April of 2009.
 - 2009 General Fund revenue forecast overestimated actual revenues by 3%.
 - 2008 General Fund revenue forecast underestimated actual revenues by 4/10 of one percent.
 - 2007 General Fund revenue forecast underestimated actual revenues by 1.8%.
 - 2006 General Fund revenue forecast underestimated actual revenues by 3%.
 - 2005 General Fund revenue forecast underestimated actuals revenues by 3/10 of one percent.
2. The financial impact from budget decision made during the development of the biennial budget will be reviewed in the context of the six year forecast.

GENERAL OPERATIONS

Reserves

3. A general (emergency) reserve will be maintained equal to 7% actual revenues in the General Fund during the prior year.

Status:

9/31/10 General Fund Emergency Reserve Balance	\$8,946,733	7%
12/31/08 General Fund Emergency Reserve Balance	\$8,529,103	7%

4. A general capital reserve fund will be maintained. When available, 24% of the annual General Fund operating surplus will be dedicated to the general capital reserve. In addition, net proceeds from the sale of City owned property will be dedicated to the general capital reserve. Funds in the general capital reserve will be allocated through the budget process for capital projects.

Status:

- 8/31/09 General Fund Capital Reserves
Columbia Arts Center \$892,652

5. A capital repair appropriation will be maintained for unanticipated major repairs of general operating facilities and emergency replacement of general fund equipment. Additions to the capital repair contingency reserve will be made based on Council directions.

Status:

2011/2012 Budget for facility repairs	\$400,000	per year
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6. Equipment replacement reserves will be maintained in the equipment services Capital fund sufficient to replace vehicles and heavy equipment at the end of their useful lives. Equipment rental rates will include a factor to accrue the estimated replacement cost over the life of the equipment. Estimated balances are based on projected contributions and scheduled replacements. Reserve balances were reviewed in 2009 and determined to be sufficient to cover the replacement cost of the City's vehicles.

Status:

12/31/09 Balance	\$10,516,216
12/31/08 Balance	\$ 9,019,958
12/31/07 Balance	\$ 9,264,504

7. Continue funding an opportunity fund for projects or innovations that have quick paybacks.
8. Technology equipment replacement reserves will be maintained in the technology equipment replacement fund sufficient to repair covered equipment and for replacement at the end of its useful life.

Status:

12/31/09 Balance	\$2,144,519
12/31/08 Balance	\$2,003,952
12/31/07 Balance	\$2,009,252

9. A liability self-insurance reserve will be maintained to cover potential liability for tort claims. The unrestricted fund balance subtracts from available cash all the known claims against the City and those claims that might have occurred, but not yet reported. The fund balance is based on the most recent actuarial study of the self-insurance fund. The actuarial study of the fund is to be performed once every two years.

Status:

12/31/09 Unrestricted Fund Balance	\$1,822,233
12/31/09 Cash Balance	\$6,709,202
12/31/08 Unrestricted Fund Balance	\$1,616,829
12/31/08 Cash Balance	\$5,793,714
12/31/07 Unrestricted Fund Balance	\$ 267,692
12/31/07 Cash Balance	\$4,746,445

10. A benefits self-insurance reserve will be maintained to cover one and a half months of costs associated with benefit insurance premiums.

Status:

12/31/09 Balance	\$4,479,101
12/31/08 Balance	\$5,437,223
12/31/07 Balance	\$4,819,462

11. Fire Pension benefit obligations will be addressed by annual contributions to the fire pension fund in accordance with recommendations in the most recent actuarial study, as required by R.C.W. 41.16.050. (Note: This is a “closed” plan with no new participants. Current number of members who are retired and receiving pension payments from the city is 64 with no additional members on active duty. City obligations arise only for those firefighters hired prior to March 1, 1970. The State of Washington has assumed all obligations for those hired on or after that date.) In addition to the pension payments, the city is responsible for life-time medical benefits for a total of 79 retired and 5 additional on active duty. City contribution includes the projected annual pension payments for currently active and retired members eligible for retirement benefits and project annual medical benefit payments for those active and retired members eligible for medical and long-term coverage.

Status:

Total Future Obligation	\$31,090,000
2011 Recommended General Fund Support	\$ 1,763,000
2010 General Fund Support	\$ 1,711,000
12/31/09 Balance Funded	\$ 6,347,471

12. Police Pension benefit obligation will be funded on a pay-as-you-go basis by making contributions to the police pension fund in an amount sufficient to meet police pension benefit obligations. (Note: this is a “closed” plan with no new participants. Current number of members who are retired and receiving pension payments from the city is 28 with no additional members on active duty. City obligations arise only for those police officers hired prior to March 1, 1970. The State of Washington has assumed all obligations for those hired on or after that date.) In addition to the pension payments, the city is responsible for life-time medical benefits for a total of 55 retired and 3 additional on active duty.

Status:

Total Future Obligation	\$19,376,000
2011 Recommended General Fund Support	\$ 1,074,000
2010 General Fund Support	\$ 889,000
12/31/09 Balance Funded	\$ 560,062

Revenue and Resource Utilization

13. The City will endeavor to maintain a diverse general revenue base to diminish the effects of short-term fluctuations in any given revenue. The goal is to have a combination of revenues that grow in response to a good economy (elastic) and those that remain stable during times of economic downturn (inelastic). Examples of the former include sales taxes, utility taxes and building permit fees. Example of the later include property taxes, court fine revenues and the gambling tax.
14. Revenue estimates will be developed using reasonable conservative, but realistic assumptions. Revenue from volatile elements of the retail sales tax base will be appropriately discounted in developing sales tax revenue estimates. Overall fund revenues should vary from original estimates by no more than 2.47%.
15. One-time revenues, including cash carried forward from the previous period, will not be relied upon to fund ongoing expenditures. Such revenues will be applied for to payment of interfund loans, then to funding of reserves, then to capital purchases or other one-time uses that are not dependent on an ongoing commitment of resources.
16. Grants that support city priorities and regional partnerships will be aggressively sought. Grants requiring a local match or a continuing city obligation to fund programs will be carefully considered before application to ensure that ongoing resources will be available to meet the obligation.
17. User fees and utility rates in all funds will be based on balancing the cost of providing the service, the competitive market, public benefit, community affordability and other appropriate policy considerations. Beginning on January 1, 2011, fees and rates will be adjusted annually at least by the CPI-W for the Portland metro area using the index for the 12 month period ending in June of the prior year for increases in the costs of providing services. Fees and rates will be reviewed every three to five years and further adjusted if necessary.
18. Specific Council Policies related to cost recovery targets by specific program are listed below.

Status:

- Development Review cost of service study completed in 2008
 - Building Fee Cost Recovery Target: 90%
 - Land Use Fee Cost Recovery Target (2010): 60%

- Water/Sewer/Surface Water cost of study update will be completed in 2010. Until the results of the update are finalized, the following rate increases will be in effect effective January 1, 2011.
 - No increase on Water rates is recommended in the 2011-12 Recommended Budget. An increase in rates is highly likely in 2012 to reflect the actual cost of providing the service.
 - Sewer rates are recommended to increase by 9% in 2011 and by 6.5% in 2012 to reflect the actual cost of providing the service and to cover the debt service obligations of Sewer Utility.
 - No increase over the 2010 rates is recommended on Surface Water is recommended in the 2011-2012 Recommended Budget. An increase in rates is highly likely in 2012 to reflect the actual cost of providing the service.
- Recreation fees cost recovery plan implemented in 2000
 - 2009 Overall Cost Recovery 65%
 - 5% recovery increase expected annually
 - 2011 cost of Service Recovery Target 72%
(The target includes administrative costs, including Parks and Rec. Administration, costs associated with the inclusion program and equipment repair and replacement costs as well as facilities and grounds maintenance costs related to facilities operated by the Parks and Recreation Department.)
- Development Review fees in Transportation
 - Recovery Target 2010 60%

19. Solid Waste fees will be set to support a full range of solid waste management programs including neighborhood clean-up, recycling and household hazardous waste disposal, and a 20% utility tax on Solid Waste.

20. Revenue from the first ¼% Real Estate Excise Tax (REET 1) will be dedicated as follows (revised in October 2008):

- Beginning 1/1/2009:
 - Transportation Capital:
 - 6% up to a maximum of \$130,000 (indexed for inflation) to fund neighborhood traffic safety projects.
 - Parks and Recreation:
 - Amount to equal the annual budgeted amount for debt service for Firstenburg and Marshall Community Centers (\$1,536,752 in 2009).
 - Economic Development
 - 20% up to a maximum of \$450,000 per year to fund the expenditures (or the debt service) related to the Waterfront Transportation Access project for a period of five years.
 - Parks Capital:
 - The remaining undesignated REET 1 revenue, up to \$250,000 above the other obligations mentioned above shall fund the Parks Capital Program.

Status:

2011 Anticipated Revenue	\$1,188,000
2010 Anticipated Revenue	\$ 926,400
2009 Actual Revenue	\$1,482,032
2008 Actual Revenue	\$1,771,347
2007 Actual Revenue	\$3,296,097

21. Revenue from the second ¼% Real Estate Excise Tax (REET 2) will be dedicated to preservation of the City's street system through its Pavement Management Program.

Status:

2011 Anticipated Revenue	\$1,188,000
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2010 Forecasted Revenue	\$ 926,400
2009 Actual Revenue	\$1,482,032
2008 Actual Revenue	\$1,771,347
2007 Actual Revenue	\$3,296,097

22. The Pavement Management Program will be funded by annual contributions to the street fund equal to \$6,695 (2005 rate) per mile of streets within the city limits. The per-mile contribution is increased by the percentage change in the index used by the Washington State Department of Transportation for construction cost estimating. The index is call “FHWA composite index” for calendar years.

Status:

	Funding	Target	Rate Per Mile	Gap
2012 Estimate	\$6,254,827	\$6,223,365	\$10,748	-
2011 Estimate	\$6,026,674	\$5,980,171	\$10,328	-
2010 Estimate	\$4,179,419	\$5,736,556	\$ 9,925	\$1,557,137
2009 Estimate	\$3,647,369	\$5,154,878	\$ 9,885	\$1,507,509
2008 Estimate	\$3,106,557	\$5,207,520	\$ 9,136	\$2,100,963

23. Increases in Impact Fees and System Development Charges will be done annually by the inflationary index CPI-W for the Portland metro area for the 12 month period ending in June of the prior year for increases in the cost of providing services. Impact fees will be reviewed every three to five years to adjust for increases specific to capital costs inflation if necessary.

Budget Management

24. Operating budgets will be balanced within the expected ongoing revenues for the biennium.
25. Enterprise operations, including Pearson Field, Tennis Center, Solid Waste Utility, Water/Sewer/Surface Water Utility and Parking operations will be operated on a self-supporting basis.

Status:

- Pearson Field was self supporting in 2009.
- Tennis Center receives support for debt payments and for city-wide indirect costs. Support for debt repayment is anticipated to continue and support for interfund charges is expected to be reduced over time.

	Debt	Interfund Support	Total
2010 Estimate	\$71,808	\$197,250	\$269,058
2009 Actual	\$68,773	\$231,531	\$300,304
2008 Actual	\$66,245	\$265,299	\$331,544
2007 Actual	\$66,247	\$222,455	\$288,702

- Parking is anticipated to fully support its operations through the rate structure. The Parking Advisory Committee will continue to review the rate structure of the parking program and provide solutions to Council for generating additional revenue for the program. Excess of revenues over budgeted expenditures in 2009 and 2010 will be reserved in the fund balance for future capital costs.

	Interfund Support
2011 Recommended General Fund Support	\$1,245,000
2010 Estimate	\$1,245,540
2009 Actual General Fund support	\$1,277,034
2008 Actual General Fund support	\$1,385,454

- Solid Waste utility was self supporting in 2009.
- Water and Surface Water utilities were self supporting in 2009.
- The Sewer utility operated at a loss as anticipated due to additional debt service and phased in rate increases in each year from 2005 to 2009. A rate increase is being proposed for 2010.

26. Funding requests for new events, commissions, or agencies will be conditionally approved with the understanding that the funds are provided as “seed money.” It is intended that the activity will be self-supporting.
27. Service levels will be defined and measured in a manner that is based on results (e.g. units of service delivered, service quality & customer satisfaction) rather than resources allocated to provide the service.

Status:

- The City has continued to maintain the Business Plan program. Most city departments have developed business plans for their organizations and many have already gone through update processes.
 - Every department in the City completes their “performance snapshot” annually, which includes quantifying service levels with major outcomes and performance measures to report upon annually. These reports are selectively presented to Council during a workshop session for discussion and all are available on the City’s performance web site.
 - Annual internal customer surveys and a biannual community survey are conducted, and the results are used to improve customer service and focus.
28. Overhead costs will be appropriately shared by all operating funds as determined by the City’s indirect costs allocation plan. The amount charged by the City for services provided under an interlocal or similar agreement will include a factor to cover the city’s overhead costs.
 29. The City’s classification and compensation plan will be maintained in a manner consistent with the labor market by reviewing classification specifications and benchmarks, so that change in the classification structure may coincide with the budget cycle. The City will compare employee compensation using a total compensation approach that includes the value of benefits.

Status:

- The last full City Classification and Compensation study was completed in 2001.
 - The City has provided for classification reviews since that time through the use of a Position Review Committee. Any budgetary impacts based on classification changes are presented to City Council during mid-year supplemental processes or during the formal budget process.
30. The City Council shall approve the number of permanent City staff positions, their classification and their assignments to specific City funds when it adopts the City’s Biennial Budget.

Council approves the number of positions at the fund level. This allows approved positions to be reassigned to a different department without the need for a supplemental budget ordinance and declaration of an emergency. Changes in position assignments between City funds (for example from the General Fund to the Street Fund) will require City Council approval.

31. The City Charter requires a biennial budget appropriation by City Council. The City will manage the biennial budget to annual budget allocations based on estimates prepared by staff.

As a budget control, City staff prepared discrete budgets for each year of the biennium. The City Council does not require a re-appropriation of carry forward funds in the second year of the biennium. New

appropriations require Council approval. Staff will continue to manage the budget on annual allocations and financial reports to City Council will continue to compare annual budget to actual activity.

Capital Planning

32. A comprehensive Six-Year Capital Improvement Plan will be updated annually to ensure a funded program consistent with Growth Management and Concurrency management requirements.
- Six-year capital plans are prepared by Water, Sewer and Surface Water Utilities, Transportation and Parks and are updated annually.
33. Starting with 2007, Capital Budget is appropriated in annual increments for the two-year period of the biennium. The analysis to determine if a project is fully funded is performed using estimates of the full cost of the project. Adoption of the Capital Budget will coincide with adoption of the operating budget.
34. Capital funding for projects, including major facilities maintenance projects, will be allocated in a manner that balances community needs with City priorities, the potential for attracting matching funds and the ability to reduce or limit expenses in future years.
35. Impacts on annual operating costs will be identified as part of the funding considerations for new capital projects such as buildings, parks and street enhancements. This includes identifying potential reductions in maintenance costs if improvements are funded.

Status:

- The operating budget provides for maintenance impacts resulting from capital improvements.
36. New capital funding sources will be sought, especially for transportation capital needs.
37. Consider local transportation funding in a manner consistent with regional transportation project priorities as established by the Regional Transportation Council (RTC), and in ways that maximize local match and increase state and federal financial participation.

Debt Level and Capacity

38. The City will issue debt in conformance with the requirements of its statutory debt limits. The voted debt limit that is shown in the following table is the City's total general obligation debt limit. The non-voted debt limit is a sub-part of that limit.

Status: As of 12/31/09

	Limit as of % of Assessed Value	Available Dollar Limit	Outstanding Dollars	% of Limit
Non-voted Debt	1.5%	\$228.3 million	\$116.2 million	51%
Voted Debt – General	1.0%	\$152.2 million	\$0	0%
Voted Debt – Utility	2.5%	\$380.5 million	\$0	0%
Voted Debt – Parks	2.5%	\$380.5 million	\$0	0%
TOTAL	7.5%	\$1.14 billion	\$116.2 million	

39. The City will reserve 10% of its non-voted debt capacity as a contingency against unforeseen emergencies requiring the issuance of debt.

Status:

- \$22.8 million reserved as of 12/31/09
- \$89.3 million available capacity on 12/31/09

40. Annual General Obligation debt service (contribution) shall not exceed 10 percent of the annual operating budget appropriations in the General, Street and Fire Funds.
41. Any Capital projects financed through the issuance of bonds shall be financed for a period not to exceed the expected useful life of the project.
42. The City will maintain its level of debt within industry benchmarks for community debt burden.

Status:

- Per Capital Net Debt
 - Standard: Not to exceed \$1,200
- Debt as % General Revenue
 - Standard: Not to Exceed 20%
- Debt Rating (for non-voted debt)
 - Standard & Poor's: AA- (Lowest AA rating, in 2008 the City was upgraded from A+ to AA-)
 - Moody's: A1 (Highest A rating)

WATER, SEWER AND SURFACE WATER UTILITY OPERATIONS

43. Operating cash balances in the water, sewer and surface water utility funds will be maintained equal to 60 days of expenditures to meet the ongoing needs of the utility and to act as a revenue stabilization reserve in the event of an unexpected downturn in operating revenues.
44. Replacement reserves will be maintained in the water, sewer and surface water utility, as a contingency for extraordinary capital replacement needs. If accessed, the reserve levels will be replenished over the following five years.

Status:

- Balance on 12/31/09
Water/Sewer replacement reserves \$5,755,551

45. A System Development Reserve will be maintained to fund growth related capital costs. All systems development charge revenue will be contributed to the fund.

Status:

- Balance on 12/31/09
Water system development reserves \$244,159
Sewer system development reserves \$ 17,214

46. The City will maintain debt service coverage on its water/sewer revenue bonds at a level of at least 1.65 times the average annual debt service, as established by council policy (Resolution M-2980; July, 1995). A coverage stabilization reserve will be maintained to allow management of water/sewer/surface water utility revenues to assist in meeting that coverage. Operating revenues exceeding those necessary to meet the 1.65 coverage ratio will be contributed to the reserve.

Status:

- Debt Service Coverage Ratio
2009 Estimate 3.46
2008 Estimate 2.36
2007 Actual 3.01