



## CITY OF LONGVIEW

### Legislative Policy/Procedure

<b>Title:</b> Financial Management Policies	<b>Page Number:</b> 1 of 5
<b>Department:</b> Finance Department	<b>Effective Date:</b> January 1, 2016

### **PURPOSE**

Adequate reserve levels are a necessary component of the City's overall financial management strategy and a key factor in external agencies' measurement of the City's financial strength. Because a fiscally sound city government is in the best interests of citizens of the City of Longview, this Financial Management Policy Statement is being recommended as the guiding management principles which are to be applied in the management of the City's finances.

### **RESERVE FUND POLICIES**

1. It will be the policy of the city to maintain a General Fund reserve at a level of at least twelve percent (12%) of the total General Fund budgeted expenditures. The reserve is reflected in the projected annual ending fund balance. Operating reserves are maintained to address temporary or unexpected revenue shortfalls; unanticipated expenses; payment of approved expenditures due to cash flow shortage; reserves for expenditures deemed necessary by the City Council; and temporary short-term interfund loans. Annual contribution will be budgeted from General Fund resources as available to maintain the target reserve level.
2. Capital Reserve Funds
  - a. The city shall maintain capital reserve funds to provide funding for the five year Capital Improvement Plan, less proprietary fund projects. The use of any funds within the Capital Projects Fund shall be approved by the City Council.
  - b. Contributions to the capital reserve funds will be provided for in the biennial budget approved by the City Council.
3. All expenditures drawn from reserve accounts shall require Council approval unless previously authorized by the City Council for expenditure in the biennial budget.

### **Revenue Policies**

1. To the extent possible, a diversified and stable revenue system will be maintained to shelter public services from short-run fluctuations in any one revenue source. Trends analyzing the dependence on distinct revenue sources shall be included in the budget documents for consideration by the City Council.
2. Revenue forecasts for all revenues will present "conservative", yet "realistic" forecasts for all revenue sources. The forecasts shall be based on the best information available at the time the estimates are developed.
3. Revenue forecasts will assess the full spectrum of resources that can be allocated

for public services. Each biennium the Council shall review new potential sources of revenue as part of the biennial budget process.

4. Short-term (anticipated less than one year) economic downturns and temporary gaps in cash flow: Expenditure reductions or restrictions may be imposed. Council may authorize use of General Fund reserves or interfund loans to address temporary downturns in City revenues. Interfund loans may be utilized to cover temporary gaps in cash flow.
5. Long-term (greater than one year) revenue downturns: Deficit financing and borrowing to support on-going operations is not the policy of the City as a response to long-term revenue shortfalls. Revenue forecasts will be revised. Expenses will be reduced to conform to the revised long-term revenue forecast, or revenue increases may be considered.
6. 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 because of spending obligations that must be continued with local resources after grant funds are exhausted.
7. The City shall develop and maintain a comprehensive list of various fees and charges. Fees may be set at levels sufficient to cover the entire cost of service delivery (such as in "enterprise funds"), or the service may be subsidized as Council deems appropriate. The City will periodically review user fees and rates and consider adjustments as necessary to take into account the effects of additional service costs and inflation. Rate studies shall be conducted to ensure that the rates will continue to support direct and indirect costs of operations, administration, plant maintenance, debt service, depreciation of capital assets, and moderate system extensions or program enhancements. Comparisons of fees for similar services in other communities may also be considered.
8. The City will review contracts and leases which result in revenues to the City on a timely basis in order to provide for careful evaluation by the City Council.

**Expenditure Policies**

1. The City will only propose operating expenditures which can be supported from on-going operating revenues. Before the City undertakes any agreements that would create fixed on-going expenses, the cost implications of such agreements will be fully determined for current and future years. Capital expenditures may be funded from one-time revenues, but the operating budget expenditure impacts of capital expenditures will be reviewed for compliance with this policy provision.
2. Department heads are responsible for managing their budgets within the total appropriations for their departments.
3. The City will maintain expenditure categories according to state statute and administrative regulation.
4. The City will assess funds for services provided internally by other funds. The estimated direct and indirect costs of service will be budgeted and charged to the fund performing the service. Interfund service fees charged to recover these costs will be recognized as revenue to the providing fund. A review of the method of determining the amount of the interfund assessment will be conducted during the biennial budget process.
5. Emphasis is 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 will hire additional staff only after the need of such positions has been demonstrated and documented.
6. All compensation planning and collective bargaining will focus on the total cost of compensation which includes direct salary, health insurance benefits, retirement contributions, and other benefits of a non-salary nature which are a cost to the City.

**Debt Management Policies**

The City shall adopt policies to guide the issuance and management of debt.

1. All professional service providers (underwriters, financial advisors, bond insurers, etc.) selected in connection with the City's debt issues will be selected in accordance with the City's procurement policies.
2. The term of long-term debt issued will not exceed the projected life of the projects financed. Current operations will not be financed with long-term debt.
3. The city shall strive to maintain current credit ratings in the future. The current credit ratings are: General Obligation – A 1 with Moody's Investors Services. Revenue Bonds - Aa3 with Moody's Investors Services.

4. The City will comply with all statutory debt limitations imposed by the Revised Code of Washington (RCW). The City of Longview's debt will not exceed an aggregated total of 7.5% of the assessed valuation of the taxable property within the City.

The following individual percentages (as defined in state law) shall not be exceeded in any specific debt category:

General Debt	2.5% of assessed valuation
Utility Debt	2.5% of assessed valuation
Open Space and Park Facilities	2.5% of assessed valuation

5. No debt shall be issued for which the City is not confident a sufficient, specifically identified revenue source is available for repayment. The Finance Director shall prepare an analytical review for this purpose prior to the issuance of any debt.
6. Credit enhancements shall be considered with a cost/benefits analysis for each long term bond issued.
7. Reserve accounts shall be maintained as required by bond ordinances and where deemed advisable by the City Council. The City shall structure such debt service reserves so they do not violate IRS arbitrage regulations.

### **Financial Management/Strategic Forecasting Policies**

1. All decisions shall be within the context of long-range plans (Capital Improvement Plan). Staff shall provide a review of the implications of budgetary proposals on long-range plans.
2. The biennial budget shall be developed consistent with state law and in a manner which encourages early involvement with the public and City Council. A calendar of events related to budget development shall be presented to the City Council at the onset of the biennial budget process (early May in even numbered years).
3. The biennial budget will integrate into the Capital Improvement Plan (CIP). The biennial budget shall be consistent with the first two-years of the CIP. Budget planning activities shall be based on a revised/updated Capital Improvement Plan.
4. Assumptions used in the CIP will be noted and defined.
5. Basis of long-range planning will be results oriented. The City shall strive to illustrate the outcomes from CIP expenditures.

**Capital Asset Acquisition, Maintenance, Replacement and Retirement**

1. The City shall develop a Capital Improvement Plan (CIP) as defined and required by RCW 36.70A.070 which is consistent with the City's Comprehensive Plan. The Capital Improvement Plan shall be approved by Council in conjunction with the biennial budget.
2. Such plan shall include all projects to maintain public capital facilities required to maintain service levels at standards established by the City Council. Projects to be included in the CIP will cost in excess of \$5,000 and have a useful life of one year or more.
3. The proposed CIP may include for consideration such other projects as requested by the City Council.
4. Funding for capital projects shall be classified as to source (general purpose, transportation or enterprise) within the plan. The extent to which funds exist for each project shall be described in the plan.
5. The plan shall be for a period of five years.
6. With the exception of "on-going projects", each project shall be described such that development phases are delineated as separate stages of the project. Examples include land acquisition, planning, design/engineering, and construction. "On-going projects" represent capital programs such as pavement/sidewalk restoration.
7. An estimate for the operating budget impact of each proposed project shall be identified and incorporated into the Capital Improvement Plan.
8. The Capital Improvement Plan shall be approved every two-years and incorporated into the biennial budget document.

**REVISION CRITERIA**

Periodically, finance/administration will review legislative policies and recommend to the City Council appropriate changes and additions.