

CITY OF SNOHOMISH

FINANCIAL MANAGEMENT POLICY

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Ordinance 2311**

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Resolution 1386**

CITY OF SNOHOMISH FINANCIAL MANAGEMENT POLICY

1.0 INTRODUCTION AND OBJECTIVES

The financial management policy of the City of Snohomish is established by the City Council. The policy is designed to provide guidance to all stakeholders whether they be directly involved in financial processes, internal control oversight, or any financial transaction. The financial management policy is intended to serve as a blueprint to achieve fiscal stability required to accomplish the City's Strategic Plan, Comp Plan and all master plans and goals. The City Council sets forth the authorities, responsibilities, and accountability requirements of those participating in the operations of Snohomish City government at all levels of the organization and endeavors to:

- Set forth financial principles which minimize the cost of government
- Reduce financial risk
- Maintain appropriate financial capacity for present and future needs
- Ensure the legal use of financial resources through an effective system of internal controls
- Provide financial transparency to the public

2.0 RESERVES AND FUND BALANCE

Fund balance is an approximate measure of liquidity. Reserves are a cornerstone of financial flexibility and provide the City of Snohomish with options to respond to unexpended issues and provide a buffer against minor fiscal challenges. This section defines thresholds and descriptions for fund balances, reserves, and retained earnings of all funds of the City of Snohomish. It is the intent of the City to provide a stable financial environment for which its citizens can depend on a consistent and quality level of service and for planned future expenditures. The Finance Director and City Manager are responsible for monitoring reserve levels and reporting current and projected reserves during each budget development cycle.

2.1 Fund Balance Definitions

As defined by GASB Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, the City will reserve funds according to the following:

2.1.1 Non-spendable Fund Balance

Inherently non-spendable portions of net resources that cannot be spent because of their form or portions of net resources that cannot be spent because they must be maintained intact.

2.1.2 Restricted Fund Balance

Externally enforceable limitations, on the use of funds, that are imposed by creditors, grantors, contributors, or laws and regulations of other governments or limitations imposed by law through constitutional provisions or enabling legislation. Debt Service fund balance will be designated as restricted.

2.1.3 Committed Fund Balance

Self-imposed limitations, on the use of funds, that are set in place prior to the end of a period. Limitations imposed at highest level of local decision making that requires formal action at the same level to remove. Capital Project fund balances typically will consist of funds designated by City Council for future capital improvement projects.

2.1.4 Assigned Fund Balance

Limitations resulting from intended use that is established by the highest level of decision making or intended use established by the City Council for a specific purpose. The resources for these funds may be acquired through the budgeting process or funds that are deposited with the city for specific purposes. Special Revenue fund balances typically consist of funds assigned by other governmental agency for specific use or by the City Council specific use.

2.1.5 Unassigned Fund Balance

Residual net resources that make up the fund balance in the general fund in excess of non-spendable, restricted, committed, and assigned fund balance (i.e., surplus) or excess of non-spendable, restricted, and committed fund balance over total fund balance (i.e., deficit). The General operating fund balance typically will consist of unassigned funds for use by the City Council.

2.2 Reserve Level Target – General Fund

A healthy unassigned fund balance is needed to provide cash flow to pay expenditures when due. The City receives a majority of its tax collections two times per year. A fund balance reserve target allows for cash flow while the city waits to receive its shared revenues and taxes. The unassigned fund balance is also a security against unforeseen changes or needs, i.e. natural disasters, loss of state shared revenues, etc.

The general fund unassigned fund balance should be approximately 15-20% of expenditures of the general fund, less annual transfers-out to the fund. The unassigned fund balance of the general fund should never fall below 15% of operating expenditures.

2.3 Conditions for Using Reserves

The City will avoid the appropriation of fund balance for recurring operating expenditures. If at any time the utilization of a fund balance to pay for operating expenditures is necessary to maintain the quality or level of current services, an explanation of the circumstances of the utilization of fund balance and the strategy to arrest the future use of fund balance will be included in the budget transmittal letter.

Reserves may be used at the discretion of the City Council to:

- Provide resources to make up for temporarily decreased revenues, such as state shared revenues
- Provide temporary resources in the event of an economic downturn while expenditure reductions are implemented
- Provide resources to meet emergency expenditures in case of flood, fire, earthquake, landslides or other catastrophic failures.

2.4 Reserve Level Target - Enterprise Funds

It is the goal of the enterprise funds to cover the cost of operations, debt obligations and capital infrastructure improvements and annual maintenance, so as to maintain a financially healthy enterprise. Enterprise fund balance is a product of revenues over expenditures over time and consists of the net result of assets minus liabilities. The City will establish utility rates and capital connection fees that are

structured to meet several financial requirements. The Enterprise fund balance financial indicators are as follows:

2.4.1 Capital funding obligations-as defined through the 6-Year Capital Improvement Plan (CIP) - Utility Sections.

2.4.2 Debt coverage ratio – a ratio 1.5 of net revenues to total debt service.

2.4.3 Operating reserves-90 days of operating expenses reserved for water, wastewater and storm water.

2.4.4 Debt service-the amount needed to pay for current and future debt (125% or as per bond covenants).

2.4.5 System replacement-amounts required to pay for annual system replacement as defined through the CIP-Utility Sections.

2.4.6 Emergency capital repairs-amounts required to pay for cost overruns and unanticipated capital costs.

2.5 Reserve Level Target – Special Revenue, Capital Project and Other Fund Types

The main purpose of special revenue, capital project and debt funds is to account for resources and track spending that is specific to the funds purpose and it is presumed that all fund resources will eventually be spent. Capital Project Funds will reflect items represented in the CIP approved during the capital budget adoption process. It is the intent of the City of Snohomish to set aside funds, when operations allow, for large capital projects to help minimize the debt service needs for these projects. Current commitments for Capital Project fund reserves are transportation, parks, sidewalks and trails, utilities, and civic facilities as defined in the Comprehensive Plan – Capital Facilities Plan element.

Special revenue funds by their nature are funds used for specific purposes, and by definition, the corresponding fund balance will be used to solely support that purpose. Fund balances in special revenue funds will be monitored to stay consistent with the need and use of the specific purpose of that fund.

2.5.1 Seizure Funds

As defined by Ch. 69.50.505 RCW and inter-local agreement, between the City and Snohomish County Drug Task Force, law enforcement asset seizure funds shall be used for payment of all expenses of the investigation that led to the seizure, including the proceedings for forfeiture and sale, expenses of seizure, maintenance of custody, advertising, actual costs of prosecuting, city attorney and court costs.

2.5.2 REET Funds

As defined by Ch. 84.46.035 RCW, the City of Snohomish is authorized to levy REET funds and use in accordance to State Law. REET sources are allocated towards various Capital Improvement projects as defined in the 5-year adopted CIP and may be leveraged towards debt service obligations – see Section 6.3.1 of this policy. REET Fund reserves will be maintained at a level sufficient to ensure viability of future CIP funded projects with a minimum reserve balance of 15% of the fund annual operating revenues.

2.6 Reserve Level Target – Internal Service Funds

Reserve targets established for internal service funds shall ensure that the fund continues to provide service without interruption including self-insurance and equipment replacement plans. Internal service fund reserves are funded through the City of Snohomish Cost Allocation Plan (CAP). 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. If CAP charges are sufficient to cover internal service operations, maintenance and equipment replacement expenditures then the minimum reserve balance may be 30% of the funds operating budget expenditures.

2.7 Replenishment of Reserves

Should assigned fund balance targets fall below a 15% threshold, **the City will strive toward regaining the minimum threshold during the next budget cycle** and forecast the timing of the unassigned fund balance improvement within the long-term financial plan.

2.8 Excess Reserves

Reserves above the targeted reserve levels may be used for new expenditures, with emphasis on one-time uses that achieve future operating cost reductions, capital expenditures or prepaying existing debt. **Use of excess reserves will be determined by the City Council through the next available budget cycle.**

3.0 REVENUES

3.1 Revenue Objectives

The City will maintain a diversified and stable revenue system to shelter it from short-term fluctuations. To protect and better develop future tax base, revenue guidelines will emphasize preserving the City's ability to grow and expand. The following are revenue objectives based on type of revenue:

3.1.1 Revenues That Align with Cost Recovery

Fees or tax are based on an objective of recovering a stated percentage of a given program's expenses.

3.1.2 Revenues Related to Economic Development

Fees or tax are based on objectives that foster growth related activity. The City's overall revenue structure should be designed to recapture some of the financial benefits resulting from City economic and community development investments. The City will strive to keep a total revenue mix that encourages growth and keeps Snohomish economically competitive and a city of choice for people to live in and do business.

3.1.3 Revenues with a Relationship to the Value of Money and Market Forces

Fees are based on maintaining a logical relationship with local market forces. Fees that are subject to ongoing inflationary or other indexes may be adjusted.

3.1.4 Revenues that Enforce Compliance

Fines and Infraction are set at a level that assists with enforcing compliance with City rules and regulations.

3.1.5 Revenue that is Self-Supporting

Fees and charges usually associated with a governmental "business" enterprise. Fees are based on a formal rate model for factoring in relevant operational, capital, and debt service cost components.

3.1.5.1 All utility enterprise funds shall be self-supporting; that is, they should generate enough revenue to pay for all costs without a subsidy from the general fund, from each other or from other sources. Utility rates should divide costs equitably among customer

classes according to benefit and cost of service. If rates are set that subsidizes one class of customer at the expense of another, this action should be taken in support of explicit City policy. Because of the vital importance of water, sewer and storm water as public services, a minimum level of service should be available at a relatively low cost to all utility customers.

3.2 Fee Schedule

Charges and fees, including utility rates, should be reviewed and updated periodically based on factors such as impact of inflation, other cost increases, adequacy of coverage of costs, and current competitive rates. On a periodic basis, the Fee Schedule, as adopted by City Resolution, may be amended in conjunction with the budget development cycle.

3.3 Revenue Receipting & Processing

Deposits and cash receipting procedures, as defined in administrative procedures, will be adhered to for revenue collected at all City facilities per Ch. 43.09.240 RCW. Only authorized personnel are allowed to take cash receipts from customers. Administrative procedures provide guidance and enforcement of internal control, deposit of collections and oversight on all changes to revenue items in the financial system.

3.4 Bad Debt and Collections

Revenue collection guidelines, as defined in administrative procedures, will provide processes for the recognition of bad debt and the computation of an allowance of doubtful accounts, define procedures for determining refunds and discounts as allowed in City Code and provide for the administration of escrow accounts used for land use projects.

3.5 Grants

Grant funding can significantly leverage City resources to provide services, equipment and capital projects that would otherwise be unaffordable. The City is committed to pursuing grant funding as an appropriate funding source. Any grant programs must be consistent with the City's mission and Strategic Plan goals. City staff will seek out, apply for, and effectively administer federal, state and other grants that address the City's policy objectives and provide a positive benefit. Before any grant above \$50,000 is pursued, staff shall provide a detailed pro-forma to the City Manager and Finance Director that addresses the immediate and long-term costs and benefits to the City.

If grants are pursued for an on-going service and/or staff position(s) the City Council must:

- Pre-approve staff identified source of long-term funding to supplant the grant at the end of the grant program.
- Matching fund requirements must have an identified and available funding source prior to the acceptance of the grant award.

Responsibility for the administration of grants is the joint responsibility of the applying department, finance department and City Manager. Administrative procedures define the requirements for grant administration and compliance.

3.6 Donations & Gifts

All donations, as per Ch. 35.21.100 RCW, provided to the City shall be presented to the City Council for approval. If no terms or conditions are attached to the donation, the city staff will prepare a summary of the funding source and recommended use of proceeds for City Council approval.

3.6.1 Substantial Gifts

The City of Snohomish seeks to recognize donors who, through a distinguished effort or substantial financial gift, wish to support a City facility or structure. For example, structures may include pavilions, shelters, plazas, real estate to be used for parks, trails or open space, interpretive areas, or active recreation; or other large-scale projects as discussed with the Advisory Boards and City Council. The following guideline will be used for recognizing donations for amenities or projects, in addition to defining the period of time in which the donation or gift will be received by the City.

For the purposes of this policy, "Substantial Financial Gift" is defined as at least 50% of the estimated cost of:

- 1) New construction, remodeling, or renovation
- 2) Developing a new real property, such as park buildings, structures, or real estate
- 3) Replacement of an existing, unnamed facility or landmark that requires substantial renovation at the time of the gift

3.6.2 Donation Funded Projects

The City of Snohomish will review projects that are proposed by private individuals or groups, where the project funding source will come from donations collected by the individual or group, (e.g. trees, park benches and other equipment or fixtures) on a case-by-case basis. City staff will review the donation project with the City Manager prior to City Council acceptance and oversee the donation funded projects according to administrative procedures.

3.7 Gifts to City Officials

With a few exceptions, no city official or city employee shall accept any gift as per Ch. 42.52.140 RCW.

4.0 EXPENDITURES

4.1 Expenditure Objectives

The City of Snohomish endeavors to connect expenditures to a fundamental level of stewardship by committing to a level of expenditures that are sufficient to ensure the on-going health, safety, and welfare of its' citizens. Operating expenditures, within particular funds, must be supported by the operating revenues generated by that fund. Expenditures will not expand beyond the City's ability to pay for them with current revenues.

The objectives of the expenditure guidelines are:

- To support the local firms and merchants within the community whenever possible subject to meeting other expenditure guideline objectives.
- To obtain supplies, equipment, and services as economically as possible and that are best suited to the specific departmental needs.
- To maintain compensation packages which are competitive with other public sector employers and that are sufficient to attract and retain quality employees.
- To enhance service methods that increase efficiency and effectiveness of the delivery of city services through technology improvements.
- To improve the speed of delivery to departments by predetermining, through contracts or other appropriate means the sources of supply before the actual needs.
- To ensure compliance with all applicable policies and regulations of the City, the State, and Federal Government.

4.2 Local Purchasing Objectives

Purchasing from local business and merchants is a high priority to support the economic vitality of the Snohomish business community. Whenever economically possible, local vendors will be included in the Purchase Contract Process, as per Ch. 39.04.190 RCW.

4.3 Procurement Standards

All employees of the City shall comply with all City, State, and Federal statutory requirements regarding purchase of materials or services. The following practices are specifically forbidden so as not to create a conflict of interest:

- Using information available to an employee solely because of their position for personal profit, gain, or advantage.
- Directly or indirectly furnishing estimating services, or any other services or information not available to all prospective bidders, to any person bidding on, or who may reasonably be expected to bid on, a contract.
- Using their position or status in the City to directly or indirectly solicit business of any kind for private use or to obtain supplies and equipment at special discounts or with special concessions from any vendor who sells or solicits sales to the City.

4.4 Procurement Authorization & Accountability

Department Directors will be accountable for procurement within their departmental budgets. Purchases that exceed a departmental annual budget are not allowed. Failure to follow procedures for procurement may result in disciplinary action, loss of purchasing privileges and a personal liability for purchases.

Pursuant to Ch. 42.24.080 RCW, warrants presented for payment to the City Council must be in writing, itemized and audited by the Auditing Officer. The Finance Director is designated as the City of Snohomish Auditing Officer. Department directors and managers will be responsible for ensuring invoices meet this requirement and provide them to the Finance department for prompt payment and audit review as defined in the administrative procedures.

4.5 Level of Procurement Authority

The Mayor shall have the authority to authorize general purchases, execute Professional Service Agreements (PSA) and minor contracts for a dollar amount up to \$100,000 and a term not to exceed five years for recurring on-call contracts. All purchases are subject to compliance with the Revised Code of Washington (RCW) and the Washington Administrative Code (WAC).

All significant purchases should be made according to the Purchasing Matrix and further defined in RCW or WAC and include requirements for acquiring quotes, estimates and competitive bidding. The Mayor has the sole authority to waive purchasing procedures, but only to the extent as authorized by State Law.

Note: All limits include appropriate freight, handling, set-up and sales/use tax costs.

PURCHASING MATRIX			
All authority levels assume there is budget capacity. If no budget capacity available, purchase must have City Council approval (with concurrent budget amendment).			
Contract Type	Dollar Limit	Process	Approval Authority
Materials, Equipment, and Supplies			
Materials, Supplies, & Equipment	Up to \$5,000	No competitive process required	<\$1,500 Authorized Staff OR >\$1,500 Manager Approval
	\$5,000 - \$7,500	Obtain three quotes, or Cooperative Purchasing	Manager
	\$7,500 - \$15,000	Vendor List, bid, or Cooperative Purchasing	Department Director
	\$15,000 - \$100,000	Competitive bid or Cooperative Purchasing	Mayor
	Over \$100,000	Competitive bid or Cooperative Purchasing	City Council
Capital Equipment Included in Adopted Budget	Under \$300,000	Per Materials, Supplies, & Equipment process(es)	Mayor
	Over \$300,000	Competitive bid or Cooperative Purchasing	City Council
Professional Services			
Architectural & Engineering (A&E) Services	Up to \$15,000	Consultant Services	Department Director
	\$15,000 - \$100,000	Roster/On-Call Contract	Mayor
	Above \$100,000	RFQ/Roster	City Council
General or Purchased Services	Up to \$10,000	No competitive process required	Department Director
	\$10,000 - \$15,000	Obtain three quotes, or Cooperative Purchasing	Department Director
	\$15,000 - \$100,000	Request for Proposal, or Cooperative Purchasing	Mayor
	Above \$100,000	Request for Proposal, or Cooperative Purchasing	City Council
Technology			
Technology Systems & Services	Up to \$5,000	No competitive process required	Authorized Staff with Manager Approval
	\$5,000 - \$15,000	Obtain three quotes, Vendor List, bid or Cooperative Purchasing	Department Director
	Over \$15,000	Competitive Negotiation (RCW 39.04.270), Competitive bid or Cooperative Purchasing	Mayor

	Over \$100,000	Competitive Negotiation (RCW 39.04.270), Competitive bid or Cooperative Purchasing	City Council
Public Works			
In House	\$40,000 or less – Single Craft	May construct with city labor without calling for bids or quotes.	
	\$65,000 or less – Multi Craft		
Public Works	< \$7,500	Minimal Competition Process	Manager
	\$35,000 or less	Small Works Roster Limited Public Works Process	Department Director
	\$40,000 or less – Single Craft	Small Works Roster or Sealed competitive bid	Department Director
	\$65,000 or less – Multi Craft		Department Director
	\$40,000 to \$300,000 – Single Craft		Mayor if <\$100,000 OR City Council if >\$100,000
	\$65,000 to \$300,000 – Multi Craft		Mayor if <\$100,000 OR City Council if >\$100,000
Over \$300,000	Sealed competitive bid		City Council
Amendments and Change Orders			
Contract Amendments (Services)	Amendments that do not change the value of the contract		Department Director
	Up to \$75,000 or 5% of the original contract, whichever is less		Mayor
	Over \$75,000 or 5% of the original contract		City Council
Change Orders (Public Works Contracts)	5% of the original contract award, or an accumulated total of \$35,000, whichever is less		Department Director
	Up to \$75,000 or 5% of the original contract, whichever is less		Mayor
	Over \$75,000 or 10% of the original contract		City Council

4.6 Purchasing Controls & Methods

Primary responsibility and authority for the expenditure of monies according to the adopted budget will be vested by the Mayor in the Department Directors. In addition to the primary responsibilities, the Finance Director shall exercise a secondary oversight responsibility for all budget expenditures.

A commercial purchase card program may be used for all purchases as allowed by the purchase card policy. Open accounts shall not be allowed unless approved by the Mayor or Finance Director.

In general, each department shall make purchases for the requirements of the City. Purchases will not be separated into smaller purchasing components in order to eliminate a threshold authorization requirement. To facilitate a sound and cost effective purchasing operation, authorized personnel shall follow procurement methods as set forth in the Revised Code of Washington (RCW) and the Washington Administrative Code (WAC), in addition to any applicable federal laws and regulations.

4.7 Cooperative Purchasing

Bids and/or contracts by municipalities and cooperative organizations can be used to acquire goods and services. When using a cooperative option we are, in essence, “piggybacking” off of the original entity’s competitive process thus eliminating the need to perform our own. Examples include the [Washington State Department of General Administration](#) and the [Department of Information Services \(DIS\)](#), which both offer existing contracts for goods and services that the City may use. The City pays an annual fee to the state for the ability to piggyback off of their contracts and encourages the use of these contracts whenever possible.

Other cooperating purchase options include the Sourcwell (formally National Joint Powers Alliance (NJPA)), U.S. Communities, and Interlocal agreements with other governmental agencies.

The Competitive Process

#	Task	Action
1	Confirm the City has a signed Cooperative Purchasing Agreement/Interlocal Agreement with the municipality or agency.	Work with Finance. Execute agreement if necessary.
2	Review cooperative contract/ website for piggyback requirements	Work with cooperative agent.
3	Contact vendor to verify if vendor will honor the cooperative organization’s contract pricing	Obtain details regarding all aspects of purchasing including invoicing, availability, delivery, etc.
4	Contact vendor to place order	Place order and process invoice for payment.
5	Compile all bid, award, contract documents and save electronically for future audit	Documentation of compliance with State and City procurement policies

Completing the Purchase

- State contracts include standard terms and conditions. When piggybacking off of a state contract, all of the state contract terms and conditions apply.
- Occasionally, the City may opt to change the state’s contract requirements which will require the City to utilize its own Contract identifying those requirements that are unique to the City’s purchase.
- The City must maintain copies of the lead entity’s bid documents to ensure the City’s own bid laws are satisfied. Examples of bid documents include advertisements, bid tabulation (summary of bids received), governing body approval of the contract in meeting minutes, etc.

[Approval Process](#)

The use of a cooperative purchase allows the City to utilize another entity's competitive process, it does not change the authorized levels for procurement and approvals. The procurement and approval process will be determined by the purchase type, as defined in this manual.

4.8 Emergency Purchases

Emergency purchases are those made by the Mayor or authorized designee, such as a Department Director or Manager, where an immediate purchase is necessary to correct a situation, which would adversely affect the life, health, or safety of the citizens.

Competitive bidding is not required when an emergency exists; however, in making emergency purchases, the City shall endeavor to include the level of competition that is practical under the circumstances. Every effort shall be made to contact the Mayor, City Administrator or Finance Director whether the emergency occurs during or after normal working hours.

In the event where emergency purchasing is related to natural disaster events, a Declaration of Emergency Resolution shall be considered by the City Council according to State Law at the first opportunity available. The Finance Director shall review and approve of account coding for all emergency purchases and maintain a tracking system according to FEMA requirements, Emergency Management Plan, BARS and GFOA recommended practices for emergency management recordkeeping.

4.9 Personnel Compensation

Because personnel costs are the largest expenditure area of the annual budget, compensation guidelines are defined in the Employee Handbook and Local Union Agreements which establish salary ranges, performance evaluation requirements and total compensation costs as the basis for all compensation planning and bargaining.

4.10 Efficiency

The City will make efficient use of limited resources and will continually look for and implement the most cost effective and reliable methods of delivering services. City Management will develop service level changes that are needed to respond to budget shortfalls using system-wide and productivity measures that have been approved by the City Council. Opportunities may be found to improve efficiencies by pursuing a range of productivity-enhancing techniques such as:

- Analyzing systems and procedures to remove unnecessary requirements
- Evaluating new technologies and capital investments
- Establishing a systematic, ongoing process for periodic formal reviews of operations
- Maintaining the right balance between centralization and decentralization in managing the City support functions

4.11 Outsourcing

Contracting with other public agencies or the private sector for the delivery of services may provide the City with opportunities for cost containment and productivity service enhancement. As such, the City is committed to using outside resources for delivering municipal services as a key element in our continuing effort to provide effective and efficient programs while minimizing costs. In the event the City is contracting out all or part of bargaining unit work which would result in the displacement of bargaining unit employee(s), the City agrees to meet with the Union, upon request, to discuss the decision and effect(s) of outsourcing, if any.

5.0 BUDGET

5.1 Budget Objective

The formal operating and capital budget development process provides the primary mechanism by which key decisions are made regarding the levels and types of services to be provided, given the anticipated level of available resources.

5.2 Budget Principles

5.2.1 Link the budget to long-term, strategic financial plans

The City's budget will be developed in accordance with the policies and priorities set forth in the five-year Strategic Plan, Comprehensive Plan, City Council goals, the needs of the community and federal and state laws.

5.2.2 Critically examine past spending patterns

The City seeks to maximize the value the public receives through its spending. Accordingly, management should develop budget tools and methods to measure and maximize value, particularly by critically examining existing spending patterns to make sure they continue to provide value.

5.2.3 Prioritize services

The City will prioritize services based on a hierarchy from essential to discretionary, their relative importance to preserving the community's health, safety, and welfare, mandates, risk assessments, long-term costs, and evidence of their effectiveness in meeting strategic plan initiatives, comprehensive plan elements, annual goals and required mandates. Essential services will receive first priority for funding. The City will attempt to maintain current service levels for all essential services. The City will identify low-priority services for reduction or elimination, if necessary, before essential services. New services shall be evaluated for long-term sustainability.

5.2.4 Maintain existing services over providing new services

The City will ensure that it maintains the quality of existing core services before it adds new services unless there is an explicit decision to lower the quality of existing services in favor of providing a new service based on strategic goals and objectives.

5.2.5 Risk management and mitigation of liabilities

The City intends to fund the current portion of liabilities within the budget so as to maintain trust of creditors and to avoid or mitigate accumulating an unmanageable liability.

5.2.6 Establish preferences for budget balancing strategies

The City's preferred strategy for balancing the budget is to reduce expenditures through improved productivity. Except during dire economic circumstances, service and program elimination is preferable. At no time, will the annual budget be balanced at the expense of long-term financial health.

5.3 Budget Scope & Basis

The City will adopt budgets for all funds on a biennial basis. A budget calendar will be prepared by city staff and include all required public hearings. Proposed budgets will be viewed and discussed by the City Council and the public at the department and object code levels. The final budget will be adopted by ordinance of the City Council at the fund level. To encourage synchronization between the budget document and financial reporting, the City will establish the budget based on the cash plus encumbrances basis of accounting which is the same as the cash basis of financial reporting.

5.4 Balanced Budget

The objective of the operating budget is to pay for all current expenditures with current revenues. The budgets for all city funds should be structurally balanced throughout the budget development process.

Recurring revenue should equal or exceed recurring expenditures in both the proposed and adopted budgets. If a structural imbalance occurs, then a plan will be developed and implemented to bring the budget back into structural balance. The City will endeavor to avoid budgetary allocations that balance current expenditures at the expense of meeting future years' expenses. Beginning fund balance sources may be used to fund capital improvement projects or other one-time, non-recurring expenditures as long as the fund reserve targets are met.

5.5 Performance Measurement

The City will present a budget that furthers the short-term and long-term goals of the Strategic Plan and Comprehensive Plan. Where appropriate and instructive, performance measurements shall be used to offer insight into how efficiently money is being spent and the workload that is driving the need for service. The City will monitor progress by establishing objectives for strategic and policy intents and measures will illustrate trends, targets and other criteria by which the City's efforts on a given program can be evaluated. This evaluation is intended to inform organizational learning, repeating what works, discontinuing what isn't working and fostering continuous improvement.

5.6 Cost Allocation

The Cost Allocation Plan (CAP) is a method used to determine and assign the cost of indirect services to the internal government users of those services or direct operating funds.

5.6.1 References

OMB Circular A-87, "Cost Principles for State, Local, and Indian Tribe Governments."

RCW 43.09.210 states in part, "all service rendered by...from, one department...to another, shall be paid for at its true and full value by the department...receiving the same, and no department...shall benefit in any financial manner whatsoever by an appropriation or fund made for the support of another..."

5.6.2 Definitions

- Indirect Costs are incurred for a common purpose benefitting more than one cost function or organizational unit. They cannot be directly assigned without effort disproportionate to the benefit received.
- Indirect Services are activities that support the departments that provide direct service to the public. Examples include accounting, purchasing, human resources, engineering, and fleet and information technology.
- Direct Services are activities that provide services directly to or for the public and are supported by indirect services. Examples include parks, streets and utilities (water, sewer, storm water).

5.6.3 Costs to be allocated

Costs shall only be allocated to departments that receive indirect support services. Only costs allowable for allocation in accordance with the requirements of OMB Circular A-87 shall be included in the cost allocation plan. This means that the City's resulting allocation plan will meet federal grant cost allocation requirements. It is the responsibility of staff creating the department's indirect cost allocation plan to review OMB Circular A-87 and ensure that only allocable costs are included.

As part of the annual budget development process, costs will be allocated based on the projected year budget forecast. Annually, a year-end adjustment or true up will be completed for the previous year's difference between budget-to-actual results or allocated based on actual costs. The true up will occur as part of the year-end financial reconciliations in preparation for the annual audit.

5.6.4 Basis of Allocation

Indirect cost allocation methods, as defined in administrative procedures, shall be reasonable, consistent, and equitable to distribute shared costs across funds and departments. Different factors are necessary to equitably allocate the various overhead costs. The Finance Director is responsible for preparing and determining which factor(s) will best accomplish this based on input from Direct Service Department Directors.

5.7 Budget Amendments

All budget amendments, such as shifting budget allocations from a) one fund to another fund; b) personnel and benefits and c) capital outlay or capital project expenditures must be approved by the City Council.

5.7.1 Administrative Budget Amendments

Department managers may, upon approval by the City Manager, request inter-departmental line item budget amendments for operating purposes only. These administrative budget amendments, authorized as per Ch. 35A.33.120 RCW, may be for contractual, supplies and materials and other miscellaneous line items within the department. No administrative amendments are allowed for personnel and capital outlay items. The process for requesting an administrative budget amendment is defined in administrative procedures.

5.8 Service Levels and Funding

The City will endeavor to maintain its present service levels for priority and essential services subject to available revenues. The objective is to maximize the benefit of available resources. The results or outcomes that matter most to citizens should be defined by the City Council. New services or programs will be considered for funding within available resources.

Department managers will be given the opportunity to request personnel, goods, and capital items needed to carry out the department responsibilities. Department requests must include supporting documentation and justification of needs for operating requests. Requests should integrate strategic plan priorities and departmental objectives into the budget.

5.9 Maintenance and Replacement

Maintenance and replacement funding will be prioritized each year to ensure that capital facilities and equipment are sufficiently maintained to avoid service disruptions. Non-current liabilities have important implications for a local government's fiscal health. The City will maintain its capital assets in a manner adequate to protect the City's capital investment and to minimize future liabilities for maintenance and replacement costs. Administrative procedures will identify the processes to include:

- Complete inventory and periodic measurement of physical condition
- Establish condition/functional standards by asset class
- Evaluate infrastructure and other assets and then set priorities
- Monitor and communicate progress

5.9.1 Capital Asset Management

The City inventories and assesses the condition of its buildings, equipment and vehicles on a periodic basis. The budget process includes a multi-year projection of facilities, equipment and vehicle replacement requirements. The budget will provide sufficient funding for adequate maintenance and orderly replacement of capital plant and equipment. Future maintenance needs and repairs will be cost out and included as budgetary decision criteria through the Internal Service Fund designated for Fleet and Facility maintenance.

5.10 Enterprise Fund Budgets

Enterprise operations are to be self-supporting, including capital improvements and depreciation. Enterprise operations are to be reviewed annually for self-sufficiency and proper cash-flow needs. Utility Rate studies, which occur every three years, will be included in the budget development process in the year for which new rates are established. Enterprise operating budgets will incorporate year one capital projects as identified within the Capital Improvement Plan (CIP).

5.11 Budget Reporting

The recommended and adopted budget documents will be available on the City website and at City Hall. The City will maintain an internal control system to help adhere to the budget allocations. Regular reports comparing actual revenues and expenditures to budgeted amounts will be provided to department managers on a monthly basis. The City Council will review quarterly budget versus actual reports.

6.0 CAPITAL IMPROVEMENT PLAN (CIP)

6.0 CIP Objective

The City of Snohomish Capital Improvement Plan (CIP) will describe the capital investments the City intends to make over a period of five years. Capital projects shall link to and identify the relationship to the Comprehensive Plan – Capital Facilities Plan (CFP) section that incorporates all master and functional plans where projects are identified with that plan. The CIP will serve as a comprehensive list of all capital project types where the City Council will address capital infrastructure improvements, capital equipment needs, and the affect on the City's resources.

6.1 CIP Criteria and Ranking

As adopted within the City of Snohomish Comprehensive Plan – CFP: Elements Goals and Policies, CIP projects shall be evaluated and prioritized using criteria adopted within the CFP.

6.2 CIP Budget

The City will coordinate development of the CIP with the development of the operating budget. As resources are available, the most current year of the CIP will be recommended for incorporation into the current year operating budget as capital project fund budget line items. Years two through six of the CIP are for planning purposes only. Details regarding the CIP development process will be found in administrative procedures.

6.3 Project Source and Use Identification

Capital project submissions shall include multi-year funding sources, including grants, applicable impact fees, special funding and other outside sources. Multi-year project costs, including acquisitions, right-of-way, design, construction, in-house staff time, permitting, inflationary costs and contingency must be included in the project identification. Capital projects shall be identified as unfunded, partially funded or fully funded. Each capital improvement project will be reviewed by department managers for its long-term impact on the operating budget in terms of:

- future year revenue generation
- additional personnel requirements
- future operating and maintenance expenditures

6.3.1 Project Sources

Capital funding for general government, transportation and enterprise (utility) projects comes from operating revenues, grants, local improvement districts, impact fees and user fees. Washington State law limits the City of Snohomish ability to raise funds for capital improvements such as tax rate limits and amount of debt capacity. Given the extensive number of capital improvement projects and lack of funding available, the following are capital financing strategies used by the Snohomish City Council when preparing or updating the Capital Improvement Plan:

- Non “brick & mortar” solutions will be utilized wherever possible
- Similar departmental capital projects will be combined for efficiencies and cost savings such as street improvements combined with utility improvements to minimize impact to the community
- Existing resources be fully utilized prior to purchase or construction of new infrastructure
- Stretch REET funding utilizing councilmanic bonds
 - Total debt service financed by REET sources should amount to no more than 75% of total annual REET revenues. See Reserve Section 2.5.2 regarding Fund reserve requirement.
- Enterprise (utility) fund projects shall be paid for by user rates and capital connection charges

6.3.2 Project Costs

For the purpose of the CIP, capital outlay is distinguished from capital projects. Capital outlay includes expenditures for equipment, technology and professional services between \$5,000 and \$29,999 and having less than an estimated three years of useful life. Capital outlay type expenditures will be included in the operating budget, as well as, master planning or professional services of any size and scope, adopted by the City Council, shall be budgeted for within the operating budget as a separate line item.

All capital projects or capital equipment purchases at least \$30,000 or over and having a useful life of three years or more are included in the CIP budget process. These projects include large capital maintenance items that extend the useful life of the capital asset. Projects may not be combined to meet the minimum standard unless they are dependent upon each other. Projects may not be separated to forego the maximum standard. Items that are operating expenditures (such as professional services, master plan updates, maintenance agreements, technology items, etc.) will not be considered within the CIP.

6.5 Capital Improvement Plan Review

Department managers will present the CIP to the City Council for approval prior to the year-one CIP projects being included within the annual operating budget. Any substantive change to the CIP after approval must be approved by the City Council.

7.0 DEBT MANAGEMENT

7.1 Debt Purpose

Debt financing is primarily used for capital project expenditures. Use of long-term debt financing for operations and maintenance costs are forbidden. Debt financing will be considered if the City is able to repay debt without causing financial distress. It is the City’s objective to:

- Only obtain financing when necessary
- Identify the timing and amount of debt required as specifically as possible
- Achieve the most favorable interest rates and other related financing costs
- Ensure that future financial flexibility be maintained
- Utilize inter-fund loans from one fund to another as a first source of debt financing

7.2 Debt Practices

The City Council may authorize the following types of debt financing only for those purposes as provided by Ch. 39 RCW:

- Utilization of the Public Works Loan Fund, per WAC 399.30 for allowable purposes, if available
- Utilization of Inter-Fund Loans as per the BARS Manual Part 3, Chapter 4, Interfund Transactions, Section 1
- Issuance of Councilmatic Bonds to fund proprietary capital infrastructure projects such as water, sewer and storm water
- Issuance of Councilmatic Bonds for capital projects that generate adequate revenues from user fees to support operations and debt service requirements.

Utility System replacements, due to age or the need to upgrade to meet minimum standards, should be financed by a combination of:

- Reserving portions of the Enterprise fund balance for capital improvement projects
- Borrowing and repaying on a schedule that matches the useful life of the capital improvement

The City of Snohomish will never issue debt in excess of limitations as prescribed in Ch. 39.36.020 RCW based on percentage of its total market value. Additionally, no more than 10% of the annual operating budget may be spent on debt service annual obligations.

7.3 Bond Rating

Strong financial management is a key credit rating factor. In order for the City of Snohomish to respond quickly to economic and financial demands, the City will seek to maintain or continually improve its bond rating so as to seek the lowest possible interest rate available OR maintain its AA Bond Rating. The City will also maintain a “strong” Financial Management Practice (FMA) score – as defined by Standard & Poor Financial Management rating criteria - to provide transparent and consistent information about financial management practices.

7.4 Financial Guarantees

Should financial guarantees be utilized to defer public improvements required of development projects or to ensure that disturbed public facilities will be restored, the developer or property owner shall provide an irrevocable letter of credit, issued by a banking institution approved by the Finance Director, a bond, an assignment of savings, or a cash deposit. The form of the financial guarantee shall be at the discretion of the Finance Director and City Engineer. The amount of any approved financial guarantee shall be at least 150% of the estimated improvement cost and may be increased to reduce risk to City resources based on the professional judgment of the City Engineer.

8.0 INVESTMENTS

8.1 Policy and Scope

It is the policy of the City of Snohomish to invest public funds in a manner which will provide the highest investment return with the maximum security while meeting the daily cash flow demands of the City and conforming to State law governing the investment of public funds.

The investment policy applies to all financial assets of the City of Snohomish. These funds are accounted for in the City of Snohomish’s Annual Financial Report and include all operating, special revenue, capital project, enterprise, debt service and trust funds.

8.2 Prudence

Investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived.

The standard of prudence to be used by investment officials shall be the “prudent person” and/or “prudent investor” standard and shall be applied in the context of managing an overall portfolio. Investment officers acting in accordance with this policy and with Ch. 35.39 RCW and exercising due diligence, shall be relieved of personal responsibility for an individual security’s credit risk or market price changes, provided deviations from expectations are reported in a timely fashion and appropriate action is taken to control adverse developments.

8.3 Objective

The primary objectives, in priority order, of the City of Snohomish investment activities shall be:

8.3.1 Safety: Safety of principal is the foremost objective of the investment program. Investments of the City of Snohomish shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. To attain this objective, the City of Snohomish will diversify its investments by investing funds among a variety of securities offering independent returns and financial institutions.

8.3.2 Liquidity: The City of Snohomish investment portfolio will remain sufficiently liquid to enable the City to meet all operating requirements, which might be reasonably anticipated.

8.3.3 Return: The City of Snohomish investment portfolio shall be designed with the objective of attaining a benchmark rate of return throughout budgetary and economic cycles, commensurate with the City’s investment risk constraints and the cash flow characteristics of the portfolio. Short-term investment returns should attain a return rate of at least equal to the Washington Local Government Investment Pool (LGIP).

8.4 Delegation of Authority

Management responsibility for the investment program is hereby delegated to the Finance Director and City Manager who shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate personnel and their procedures in the absence of the Finance Director and City Manager.

8.5 Investment Procedures

The Finance Director shall establish written administrative procedures for the operation of the investment program consistent with this policy. The procedures should include reference to safekeeping, repurchase agreements, wire transfer agreements, banking service contracts and collateral/depository agreements. Such procedures shall include explicit delegation of authority to persons responsible for investment transactions. No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the Finance Director.

8.6 Ethics and Conflicts of Interest

Public officials and city employees involved in the investment process shall refrain from personal business activity that could conflict with proper execution of the investment program, or which could impair their ability to make impartial investment decisions. Employees and investment officials shall disclose to the City Council any material financial interest in financial institutions that conduct business within their jurisdiction, and they shall further disclose any large personal financial/investment positions that could be related to the performance of the City of Snohomish.

8.7 Authorized Financial Dealers and Institutions

The Finance Director will maintain a list of financial institutions authorized to provide investment services. In addition, a list will also be maintained of approved security broker/dealers selected by credit worthiness who are authorized to provide investment services in the State of Washington. These may include "primary" dealers or regional dealers that qualify under Securities & Exchange Commission Rule 15C3-1 (Uniform Net Capital Rule). No public deposit shall be made except in a qualified public depository as established by Washington State laws.

All financial institutions and broker/dealers who desire to become qualified bidders for investment transactions must supply the Finance Director, upon request, with annual audited financial statements, proof of National Association of Security Dealers (NASD) certification, and proof of State of Washington registration. Annual completion of Notification to Broker and Certification by Broker will be done.

8.8 Authorized and Suitable Investments

From the governing body perspective, special care must be taken to ensure that the list of instruments includes only those allowed by law and those that local investment managers are trained and competent to handle. Interest-bearing deposits in authorized depositories must be fully insured or collateralized.

The following is a list of investments which the City of Snohomish will be authorized to invest in as per Ch. 39.58 and 39.59 RCW:

Government Securities: Instruments such as bonds, notes, bills, mortgages and other securities which are direct obligations of the federal government or its agencies, with the principal fully guaranteed by the U.S. Government or its agencies.

Certificate of Deposit: A negotiable or nonnegotiable instrument issued by commercial banks, located in the State of Washington and insured up to \$100,000 by the Federal Deposit Insurance Corporation (FDIC), or, if exceeding \$100,000 FDIC coverage, is fully insured or collateralized.

Prime Commercial Paper: An investment used by corporations to finance receivables. A short-term (matures in 270 days or less) unsecured promissory note is issued for a maturity specified by the purchaser. Corporations market their paper through dealers who in turn market the paper to investors.

State of Washington Securities and Pools: Any security which is a general obligation of the State of Washington or any of its municipalities. Statewide investment pools which invest in authorized instruments.

Money Markets: Money market mutual funds which invest in authorized instruments.

8.9 Safekeeping and Custody

When a broker dealer holds investments purchased by the City of Snohomish in safekeeping, the broker-dealer must provide asset protection of \$500,000 through the Securities Investor Protector Corporation (SIPC) and at least another \$49.5 million supplemental insurance protection.

8.10 Diversification

The City will attempt to diversify its investments according to type and maturity. The portfolio, as much as possible, will contain both short-term and long-term investments. The City will attempt to match its investments with anticipated cash flow requirements, as per the long-range financial plan. Extended maturities may be utilized to take advantage of higher yields and to match investment maturities with debt obligations; however, no more than 20% of the total investments should extend beyond 5 years.

Unless prior City Council approval is received, no investment with a maturity exceeding 10 years will be purchased.

- The City will attempt to diversify its investment portfolio according to broker-dealer or financial institutions. No more than 50% of the entire investment portfolio shall be held with one broker.

8.11 Reporting

Periodic required investment reports to policymakers and elected officials provide necessary written communication regarding investment performance, risk analysis, adherence to policy provisions, as well as other information. The Finance Director shall provide the City Council periodic investment reports, which provide a clear picture of the status of the current investment portfolio. The management report should include a summary of securities held at the end of the reporting period by authorized investment category, percentage of portfolio represented by each investment category, percentage of portfolio represented by each financial institution, and overall portfolio values.

9.0 LONG-TERM FINANCIAL PLANNING

A 5-year Financial Management Plan with an integrated 5- year Capital Improvement Plan (CIP) is utilized to assist the City Council and department managers in strategizing and aligning financial capacity with the City Council Strategic Plan and objectives. The long-term financial plan serves as a foundation for conversations regarding purchases and project planning.

The plan will include an analysis of the current and future year's financial environment, revenue, operating and capital expenditure forecasts, debt positions and affordability analysis. The financial plan will be updated as needed in order to provide direction to the budget process.

The City's budget process involves incorporating the goals and strategies identified by the City Council's five-year Strategic Plan to provide for the community's highest priority needs. Strategic planning begins with determining the City's fiscal capacity based upon long-term financial forecasts of recurring available resources.

10.0 AUDITING, ACCOUNTING & INTERNAL CONTROL

The City of Snohomish will establish and maintain a high standard of accounting practices and procedures. Accounting standards will conform to Generally Accepted Accounting Principles (GAAP) as outlined by the Governmental Accounting Standards Board (GASB). Accounting standards will reflect Best Practices recommended by the Government Finance Officers Association (GFOA) and chart of accounts required by the Washington Office of the State Auditor (SAO) BARS manual.

After each fiscal year, the Washington SAO will conduct an audit of the City financial transactions, contract management and internal control. The report will include a financial opinion and a management and compliance report on internal controls. Annually, a comprehensive annual financial report will be prepared by the City. This report shall be made available to elected officials, city management, bond-rating agencies, and the general public.

10.1 Internal Control

The City Council and City Management is responsible for ensuring and maintaining a system of internal control to safeguard its assets against loss, check the accuracy and reliability of its accounting data promote operational efficiency and encourage adherence to prescribed administrative procedures.

The Finance Director shall develop internal control processes or administrative procedures to ensure and maintain a strong internal control function. Periodic updates and new recommended practices set forward by the SAO and GFOA are communicated and addressed with the City Council. Any weakness in internal control and accounting procedures shall be addressed immediately by the City Manager or Finance Director so a timeline to remedy improvement can be established.

10.2 Accounting Write-offs

The Finance Director shall make every effort to collect all receivables owed to the City. The following is criteria that must be met before a receivable is allowed for write-off:

- Standardized collection procedures have been exhausted
- A determination has been made that the debt is uncollectible or that further measures to collect the debt are inappropriate and deemed to exceed the cost of collection
- The characteristics of the debt are such that write-off is appropriate - If funds are uncollectible, the Finance Director would make a determination for write offs to a bad debt expenditure up to \$5,000. City Council approval is required for balances above this threshold and must accompany the write off to the bad debt expenditure.
- The reason for the write-off is documented adequately and is made available for audit.

10.3 Petty Cash and Bank Account Controls

The Finance Director shall establish processes for control and handling of petty cash funds, which include investigative buy funds. The Finance Director will oversee and manage all City of Snohomish Banking Accounts such as Imprest accounts, Claims accounts, and Payroll accounts within administrative procedures. Bank accounts will be reconciled on a monthly basis.

10.3 Capital Asset Threshold

Real property, titled vehicles and utility system components shall be considered capital assets. All other property, with a value of \$5,000 or more and a useful life of three years or more shall be considered capital. For purposes of asset disposition and equipment replacement planning, the City shall depreciate capital assets under a straight-line method, based on the assets useful life to a book value of \$1.00 or salvageable value.

10.4 Inventory of Small and Attractive Items

Operating departments shall be responsible for conducting regular inventory of their small and attractive items (i.e. cell phones, tablet, hand tools and power equipment) and submit a physical inventory to the Finance Director. Asset management and inventory procedures are defined in administrative procedures

10.5 Surplus Assets

The City Manager may administratively surplus non-public utility office equipment, computer equipment, small tools, computer software and minor equipment with a value of less than \$5,000. Titled vehicles, real property, and any City property with a value of greater than \$5,000 will be surpluses by the City Council by resolution. The process for surplus assets is defined in administrative procedures. The Finance Director shall be responsible for the accounting of all surplus property transactions.

10.5.1 Surplus or Inter-governmental Disposition of Public Utility Assets

As per Ch. 35.94.040 RCW, titled vehicles, real property, and equipment originally acquired for public utility purposes and which no longer required for providing continued public utility service may be surplus after a public hearing and subsequent City Council resolution.

FINANCIAL MANAGEMENT POLICY ADOPTION

The City of Snohomish Financial Management Policy shall be adopted and amended by action of the City Council. The Snohomish City Council shall review the policy periodically and any modifications made thereto must be approved by the City Council.

Policy Approved on: June 21, 2016 – Ordinance 2311

This policy replaces separate, previously adopted policies and procedures regarding revenue management, procurement, fund reserves, purchasing or commercial credit cards, asset management policies or any other policy regarding financial management and administrative procedures.