

City of Wenatchee

Financial Management Policies

General Financial Goals

1. Ensure delivery of an adequate level of municipal services by relying on ongoing resources and by maintaining an adequate financial base to withstand changes in volatile revenue sources.
2. Ensure that the City is in a position to respond to changes in the economy or new service requirements without an undue amount of financial stress.
3. Maintain a good credit rating in the financial community and assure taxpayers that City Government is well managed financially and maintained in sound fiscal condition.
4. Maintain City facilities, infrastructure, equipment and fleets in a well-planned and efficient manner to minimize unexpected and preventable expenditures.

Finance Committee

A standing Finance Committee will be formed with regularly scheduled meetings, at least monthly. The committee members are: Mayor, 3 Councilmembers, Finance Director, Public Works Director Operations, and Executive Services Director. The Finance Committee will review the budget, quarterly financial updates, personnel increases, grant agreements with extended commitments and unbudgeted match requirements, all forms of debt commitments and contracts and other items as they occur.

Primary Budget Responsibility

1. The City Council has final responsibility for approving the annual Operating Budget and appropriating funding for the capital needs of the City. The City's budget is approved at the Fund level except for the General Fund which will be approved at the department level.
2. The Mayor and the Finance Department have the primary responsibility for bringing the budget forward for Council consideration. Department Directors, will have the primary responsibility for formulating budget proposals, proposing programs, recommending funding levels, and formulating budget proposals for implementing service programs in accordance with established City Council goals and directives. The Mayor and Department Directors are responsible for the overall management of their respective budgets through monitoring, identifying and correcting any budgetary problems as they arise. The Finance Department will assist the Department Directors if needed.
3. At the direction of the Mayor, the Finance Department coordinates the overall preparation and administration of the City's budget in compliance with applicable State of Washington statutes. The Finance Department provides the budget calendar and revenue budget estimates, assists department staff in identifying budget problems and formulating alternative solutions, and prepares and distributes the final budget document.
4. Annually at the February Council work session the Finance Department and the Department Directors will present to Council the preliminary results of the prior year's budget.

Operating Budget Policies

1. Ongoing or recurring revenues should be equal to or exceed ongoing expenditures. Each City fund budget shall identify ongoing resources that at least match expected ongoing annual expenditure requirements. One-time cash transfers and non-recurring ending fund balances will be applied to reserves or to fund one-time expenditures; they will not be used to fund ongoing programs without the City Council's specific approval.
2. The Finance Department will provide budget status reports to the Mayor, City Council and Department Directors at least quarterly. Department Directors are expected to monitor revenue and expenditures on a more frequent basis through the use of the City's accounting reporting system.
3. Expenditure budget adjustments will only be allowed for unanticipated circumstances which are greater than .5% of the annual departmental (for General Fund) or fund budget, excluding one-time grant funded activity. Multiple unanticipated circumstances that do not meet the .5% threshold may be combined but must be greater than 1% of the departmental or fund annual budget. The Director responsible for the department or fund must adjust their spending to stay within the authorized budget for unanticipated circumstances that do not meet either of these conditions. Grant matching requirements will be accommodated in the department or fund budget unless the match meets one of the thresholds above.
4. To ensure all possible revenues are received and billed properly and all contractual payments are made on a timely basis, a copy of all contracts and agreements will be given to the Finance Department for review and to schedule billings/payments. The Department Director signing the agreement will ensure a copy of the contract is provided to the Finance Department.

Revenue Policies

1. To the extent possible, a diversified and stable revenue system will be maintained to shelter public services from short-term fluctuations in any one or combination of multiple revenue sources. Trends analyzing the dependence on distinct revenue sources shall be included in the budget presentations for consideration by the Council.
2. Revenue forecasts shall be realistically estimated and based on the best information available.
3. The City will follow best practices to collect revenues.
4. Revenue forecasts will assess the full spectrum of resources that can be allocated for public services. Each year the Council shall review potential sources of revenue as part of the annual budget development process. Retail Sales and Use tax revenue will be reviewed for projects greater than \$5 million. The revenue from these projects will be considered one-time revenues and should not be used to support recurring operations.
5. In order to adequately deal with short-term (anticipated duration of less than one year) economic downturns and temporary gaps in cash flow, expenditure reductions or restrictions may be imposed by the Mayor and/or the City Council. Alternately, the Council may approve a one-time drawdown of the Rainy Day Reserve to address temporary downturns in City revenues. Interfund loans authorized by the Council and paying interest, may be utilized to cover temporary gaps in cash flow.
6. To address long-term (greater than one year) revenue downturns, revenue forecasts will be revised and expenses will be reduced to conform to the revised long-term revenue forecast, and new sources of revenue or revenue increases will be considered. Deficit financing and borrowing to support ongoing operations will not be considered as an acceptable policy of the City as a response to long-term revenue shortfalls.
7. All potential grants shall be carefully examined for matching requirements. Some grants may not be accepted if the local matching funds cannot be readily identified or justified. Grants may also

be rejected if the financial obligation of the programs must be continued with local resources after grant funds are exhausted.

8. 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 the "Enterprise Funds"), or the service may be subsidized as Council deems appropriate. The City will systematically 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. Based on a market analysis, fees for similar services in other communities may also be considered. The criteria used to evaluate recommended target rates (equity, cost recovery policy, market demand, etc) shall be included in the staff report during the review. Such review should be scheduled every 4 years, at a minimum, and be incorporated into the budget process for possible action by the City Council.
9. 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.
10. Recurring or ongoing revenues are defined as sustainable funding sources received over multiple years from which ongoing services can be funded. Recurring revenues do not include grant awards or other one-time revenues. Recurring revenues are tracked and reported on a regular basis to the Finance Committee and any fluctuations or deviations are noted for the purposes of adjusting impacted ongoing City operations.

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. As a part of the Capital Facilities Plan development, capital expenditures may be funded from one-time revenues, however, the operating budget expenditure impacts of capital expenditures will be reviewed for compliance with this policy provision.
2. The City will review funds, for services provided internally by other funds. The estimated direct and indirect costs of service will be budgeted and charged to the fund receiving the service. Interfund service fees charged to recover these costs will be recognized as revenue to the providing fund. A review of the method for determining the amount of the interfund assessment will be conducted periodically. When possible, expenditures will be made from the fund receiving the benefit rather than relying on interfund billing to recover these costs.
3. 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.
4. The creation of new employee positions must be documented and approved by the Council. This will normally be done during the budget process with the documentation supporting the new position included in the Council budget packets.
5. All compensation planning and collective bargaining will focus on the total cost of compensation, which includes direct salary, payroll taxes, health care benefits, pension

contributions, training allowance, and other benefits of a non-salary nature, which are a cost to the City.

6. One-time revenues will not be used to support ongoing expenditures.
7. Facility maintenance expenditures will be budgeted for annually in the appropriate funds using the facilities and transferred into the Facility Maintenance Fund. The annual rate will include the costs for routine maintenance and a reasonable amount to create a Capital Reserve to cover a 10 year maintenance program as developed by the Public Works Director of Operations.
8. Insurance costs will be allocated to each department or facility based on actuarial cost allocation conducted every two years. This allocation will utilize both the experience factors of the department coupled with their anticipated exposure to determine the portion of the City's Property and Liability coverage for which each department is responsible.
9. Recurring or ongoing expenditures/expenses are defined as costs incurred for the daily activities needed to provide services to the citizens of Wenatchee. Recurring expenditures do not include one-time grant expenses but do include the matching requirements. Recurring expenses include all debt obligations unless the debt is short-term (3 years or less) and has an independent funding source.

Reserve Fund Policies (reserve balances evaluated at 12/31)

1. The operating funds excluding the General Fund, the utility funds, Self-Insurance Fund, Equipment Rental Fund and the Information Services Fund will maintain an unrestricted fund balance of two months or 17% of recurring expenditures to ensure adequate cash flow. The General Fund will maintain an unrestricted fund balance of 15% of recurring expenditures to ensure adequate cash flow. The utility funds will meet reserve requirements indicated in the appropriate rate studies and bond covenants and will meet the financial policies presented to the City Council in March of 2011. The Self Insurance Fund will maintain an unrestricted fund balance \$500,000 greater than the annual insurance premium. The Equipment Rental and Replacement Fund will maintain a reserve balance adequate to replace equipment on an established schedule. The Information Services Fund will maintain a reserve fund balance sufficient to annually replace equipment and software and cover operations.
2. The General Fund will also maintain a \$1,000,000 Rainy Day restricted fund balance to be used only with Council approval. The reserve will be established and replenished from one-time revenues not committed for other purposes, excess operating reserves or by budgetary action. The Street Fund will maintain a \$250,000 contingency reserve in addition to the operating reserve to cover the costs of unexpected street repairs and the additional costs to snow plow in unusually harsh winters. The reserves will be established over a four year period and if subsequently drawn down will be replenished in no more than two years.
3. A Capital Reserve will be established for the governmental funds facilities in the Facility Maintenance Fund based on a maintenance plan approved by the Finance Committee.

Debt Policies (to be expanded on at a later date)

No new debt will be committed to or issued without a known and verified revenue source.