

**Draft Financial Management Policies**

**(As of May 11, 2018)**

Statement of Purpose

The financial integrity of the City of Kalama, Washington is of utmost importance. To discuss, write, and adopt a set of financial policies is a key element to maintaining this integrity. The set of policies within this document serve as a central reference point of the most important of our policies, which are critical to the continued financial health of our local government.

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

Financial Goals

Our financial goals seek to:

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

## Financial Policies

The City of Kalama's financial policies address the following major areas:

- General Policies
- Revenue Policies
- Expenditure Policies
- Operating Budget Policies
- Capital Management Policies
- Accounting Policies
- Debt Policies
- Communication Policies
- Compliance Policies
- Investment & Cash Management Policies
- Reserve Policies

These policies may be addressed in this policy or separate policies, including but not limited to a Post-Issuance Compliance Policy.

### **I. General Policies**

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

## II. Revenue Policies

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

### General Revenues

1. Current expenditures will be funded by current revenues. The City will try to maintain a diversified and stable revenue system to protect programs from short-term fluctuations in any single source.
2. Budgeted revenues will be estimated conservatively using accepted standards and estimates provided by the state, other governmental agencies or reliable economic forecasters when available.
3. General Fund and other unrestricted revenues will not be earmarked for specific purposes, activities or services unless otherwise authorized by City Council or required by law, or generally accepted accounting practices (GAAP). All nonrestricted revenues will be deposited into the General Fund and appropriated by the budget process.
4. If revenues from "one-time" or limited duration sources are used to balance the annual operating budget, it is to be fully disclosed and explained at the time the budget is presented. It is the City's goal to not rely on these types of revenues to balance the operating budget.
5. The City will not use deficit financing and borrowing to support on-going operations in the case of long-term (greater than one year) revenue downturns. Revenue forecasts will be revised and expenses will be reduced to conform to the revised long-term revenue forecast or revenue increases will be considered.
6. The City will follow an aggressive and professional policy of collecting revenues. When necessary, discontinuing service, small claims court, collection agencies, foreclosure, liens and other methods of collection, such as imposing penalties, collection and late charges, may be used.

### Fees and Charges

7. Enterprise and Internal Service operations will be self-supporting.
8. The City will maximize the use of service users' charges in lieu of ad valorem (property) taxes and subsidies from other City funds, for services that can be identified and where costs are directly related to the level of service provided.
  - a. Charges for providing utility services shall be sufficient to finance all operating, capital outlay, and debt service expenses of the City's enterprise funds, including operating contingency, planned capital improvements, and reserve requirements.
  - b. User charges shall fund 100% of the direct cost of development review and building activities. User charges include, but are not limited to, land use, engineering inspection, building permit and building inspection fees.
  - c. Utility Systems, Enterprise Systems, Pool/Park programs shall be funded by a users' charge. User charges shall be comparable to other neighboring cities where practical.

- d. Other reimbursable work performed by the City (labor, meals, contracted services, equipment and other indirect expenses) shall be billed at actual or estimated actual cost.
- e. Charges for services shall accurately reflect the actual or estimated cost of providing a specific service. The cost of providing specific services shall be recalculated periodically, and the fee adjusted accordingly. The City shall maintain a current schedule of fees and charges, showing when the fees were last reviewed and/or recalculated. Fees and charges, and utility rates will be reviewed every three years at a minimum.
- f. The City will consider market rates and charges levied by other municipalities for like services in establishing rates, fees, and charges.
- g. Certain fees, such as rental fees, will be based upon market conditions and are not subject to the limitations of cost recovery.

#### Grants and Gifts

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

#### General Funds

The General fund is the primary operating account, and is used for the payment of operating and maintenance expenses, including labor costs related to the day-to-day operation of the City.

#### Capital Project Funds

The Construction, Capital, & PWTF, are used for purchase or construction of capital projects and may be used for debt payments if approved by the Council.

### Debt Service Funds

Bond Accounts are maintained to pay the principal and interest payments associated with bond issues. For General Obligation Bonds, monies are transferred, on a monthly basis, from the General and Capital Funds in the amount of the monthly portion of the semi-annual debt service payment(s) to the related General Obligation Bond Account. For Revenue Bonds, monies are transferred, on a monthly basis, from the Water & Sewer System Fund in the amount of the monthly portion of the semi-annual debt service payment(s) to the related General Obligation Bond Account.

### Bond Reserve

The Bond Reserve Fund is maintained to meet bond covenants and to provide an additional source to draw upon if unforeseen revenue decrease occurs.

### Cash Drawer

The City's Cash Drawer shall be balanced daily and funds deposited to the Bank no less than once a week, provided that all funds are held under proper safekeeping; at no time will the City hold more than \$25,000 for over 24 hours prior to deposit. Any out-of-balance conditions (Cash Over/Short) shall be immediately reported to the Fiscal Manager, reviewed, and posted. Cash over/short conditions of more than \$100 shall be reported to the City Administrator immediately. The City shall provide a numerically sequential receipt and a unique transaction batch number for all financial transactions.

### Depository Account

All monies collected shall be transferred/deposited at the City's bank (which is currently Heritage Bank by the City's Treasurer. All City funds received shall be deposited at the City's bank no less than once a week, provided that all funds are held under proper safekeeping; at no time will the City hold more than \$25,000 for over 24 hours prior to deposit. The City Administrator and Treasurer are authorized to transfer funds from the bank account.

### Petty Cash Fund

The city maintains a Petty Cash Fund in the amount of \$200.00, as established by ordinance. The Petty Cash Fund is reimbursed through the City's voucher process. Reimbursements to the Petty Cash Fund may be made from all funds with the exception of the restricted funds depending on the nature of the expense. The City Administrator or Treasurer or designee, shall act as custodian of the Petty Cash Fund. Petty Cash vouchers shall be limited to the purchase of: minor office supplies, small tools and equipment, postage, and other de minimis operating expenses.

### Use of General Accepted Rate Setting Methods

The analysis associated with "generally accepted" rate-setting techniques includes the following analyses:

Revenue Requirement Analysis – Establishes the overall level of financial and rate needs of the City.

Cost of Service Analysis – Design rates to collect the appropriate level of revenue and to meet the goals and policies of the City.

The City shall track and maintain asset records for all new additions, replacements or retirement of assets on a yearly basis.

### **III. Expenditure Policies**

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

1. The City will strive to adopt an annual General Fund budget in which current expenditures do not exceed current projected revenues. Capital expenditures may be funded from one-time revenues.
2. Department Directors are responsible for managing their budgets within the total appropriation for their department.
3. The City will take immediate corrective actions if at any time during the fiscal year expenditure and revenue re-estimates are such that an operating deficit is projected at year-end. Corrective actions can include a hiring freeze, expenditure reductions, fee increases, or use of contingencies. The City may approve a short-term interfund loan or use of one-time revenue sources to address temporary gaps in cash flow, although this will be avoided if possible.
4. Long-term debt or bond financing shall not be used to finance current operating expenditures.
5. The City will assess funds for services provided internally by other funds. Interfund service fees charged to recover these costs will be recognized as revenue to the providing fund.
6. Emphasis will be placed on improving individual and work group productivity rather than adding to the work force. The City will invest in technology and other efficiency tools to maximize productivity. The City will hire additional staff only after the need for such positions has been demonstrated and documented.
7. All compensation planning and collective bargaining will focus on the total costs of compensation (TCC) which includes direct salary, health care benefits, pension contributions, and other benefits which are a cost to the City. The rate of increase of TCC of negotiated labor contracts will be the same or less than the growth rate in revenues projected in the 6-year Forecast so as not to add to the structural gap. Contracts presented for approval by the Mayor or City Administrator that do not meet these requirements will have specific operational, legal or other compulsory items identified and discussed before ratification by the City Council will be considered.
8. Periodic comparisons of service delivery will be made to ensure that quality services are provided to our citizens at the most competitive and economical cost. Privatization and contracting with other governmental agencies will be evaluated as alternatives to

- service delivery where appropriate. Programs that are determined to be inefficient and/or ineffective shall be reduced in scope or eliminated.
9. Whenever feasible, government activities will be considered enterprises if so doing will increase efficiency of service delivery or recover the cost of providing the service from the benefiting entity by user fees.
  10. The City will make every effort to maximize any discounts offered by creditors/vendors.
  11. The City shall follow the Disbursement Policy as adopted herein included in Appendix A.

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

1. The City Council will adopt and maintain a balanced annual operating budget.
2. The City will strive to adopt a budget where current annual operating revenues will be equal to or greater than current operating expenditures.
3. Balanced revenue and expenditure forecasts will be prepared to examine the City's ability to absorb operating costs due to changes in the economy, service demands, contractual obligations, and capital improvements. The forecast will encompass ± six years and will be updated annually.
4. In the event a balanced budget is not attainable, and the cause of the imbalance is expected to last for no more than one year, the planned use of reserves to balance the budget is permitted. In the event that a budget shortfall is expected to continue beyond one year, the planned use of reserves must be developed as part of a corresponding strategic financial plan to close the gap through revenue increases or expenditure decreases.
5. Any year-end operating surpluses will revert to unappropriated balances for use in maintaining reserve levels set by policy and will be available for capital expenditures and/or "one-time" only General Fund expenditures.
6. The City will provide for adequate maintenance and the orderly replacement of capital assets and equipment. Fleet and equipment replacement will be accomplished through the use of a "rental" rate structure. The rates will be revised annually to ensure that charges to operating departments are sufficient for the replacement of the vehicles and equipment.
7. The operating budget shall serve as the annual financial plan for the City. It will serve as the policy document of the City Council for implementing Council's goals and objectives. The budget will provide the staff the resources necessary to accomplish the determined service levels.
8. The Mayor or City Administrator shall annually present a proposed operating budget to the City Council on or before the first Monday in October. The City Council must adopt by resolution/ordinance a final balanced budget no later than December 31 of each year.
9. Funds may not be expended or encumbered for the following fiscal year until the budget has been adopted by the City.

10. Budget control and accountability is maintained at the Fund level.
11. The City Administrator has the authority to approve appropriation transfers between programs or departments within a fund. In no case may total expenditures of a particular fund exceed that which is appropriated by the City Council without a budget amendment. Amendments to the budget are approved by the City Council.

## **V. Capital Management Policies**

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

### Capital Facilities Plan

1. The City may develop a Capital Facilities Plan (CFP) which is consistent with the City's Comprehensive Plan. The plan shall be for a period of 6 ~~six~~ years.
2. The CFP will include all projects to maintain public capital facilities required to maintain service levels at standards established by the City Council. It may also include for consideration such other projects as requested by the City Administrator, Department Heads or the City Council.
3. The CFP will provide details on each capital project plan including estimated costs, sources of financing and description of the project.
4. The City will finance only those capital improvements that are consistent with the adopted CFP and City priorities. All capital improvement operating and maintenance costs will be included in operating budget forecasts.
5. A status review of the CFP will be conducted annually and a report will be presented by the City Administrator or his/her designee, to the City Council.

### Capital Asset Management

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

## **VI. Accounting Policies**

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



1. The City uses the cash basis of accounting which is a departure from generally accepted accounting principles (GAAP).
2. The City will maintain expenditure categories according to state statute and administrative regulation. The City will use the "Budgeting, Accounting & Reporting System" (BARS) prescribed by the State Auditor for its revenue and expenditure classification.
3. **Monthly budget reports** showing the current status of revenues and expenditures will be prepared and distributed to appropriate legislative, staff and management personnel in a timely manner and made available for public inspection.
4. **Monthly and Quarterly financial updates** will be presented to the City Council.
5. Electronic financial systems will be maintained to monitor revenues, expenditures, and program performance on an ongoing basis.
6. The Annual Financial Report will be prepared and submitted to the State Auditor's Office no later than 150 days from the end of the preceding fiscal year.
7. The Annual Financial Report will be prepared on the basis of accounting that demonstrates compliance with Washington State statutes and the BARS manual prescribed by the State Auditor, which is a comprehensive basis of accounting other than generally accepted accounting principles. The report will provide full disclosure of all financial activities and related matters.
8. A 3-year financial audit shall be performed by the Washington State Auditor's Office, which will issue an official opinion on the annual financial statements. The accountability audit (i.e., accountability for public resources and compliance with state laws and regulations and its own policies and procedures) shall be performed every 3 years by the Washington State Auditor's Office.
9. The City's budget should satisfy criteria as a financial and programmatic policy document, as a comprehensive financial plan, as an operations guide for all organizational units, and as a communications device for all significant budgetary issues, trends and resources. It should be a goal of the Finance Department to submit the budget document to the Washington Finance Officers Association (WFOA) or Government Finance Officers Association (GFOA) Distinguished Budget Presentation program.

## **VII. Debt Policies**

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

### **Purpose and Overview**

The Debt Policy for the City is established to help ensure that all debt is issued both prudently and cost effectively. The Debt Policy sets forth comprehensive guidelines for the issuance and management of all financings of the City. Adherence to the policy is essential to maintain a sound debt position and protect the credit quality of its obligations.

### **Capital Planning:**

The City shall integrate its debt issuance with its Capital Improvement Program (CIP) spending to ensure that planned financing conforms to policy targets regarding the level and composition of outstanding debt. This planning considers the long-term horizon, paying particular attention to financing priorities, capital outlays and competing projects. Long term borrowing shall be confined to the acquisition and/or construction of capital improvements and shall not be used to fund operating or maintenance costs. For all capital projects under consideration, the City shall set aside sufficient revenue from operations to fund ongoing normal maintenance needs and to provide reserves for periodic replacement and renewal. The issuance of debt to fund operating deficits is not permitted.

### **Legal Governing Principles**

In the issuance and management of debt, the City shall comply with the state constitution and with all other legal requirements imposed by federal, state, and local rules and regulations, as applicable.

1. State Statutes – The City may contract indebtedness as provided for by State law, subject to the statutory and constitutional limitations on indebtedness.
2. Federal Rules and Regulations – The City shall issue and manage debt in accordance with the limitations and constraints imposed by federal rules and regulations including the Internal Revenue Code of 1986, as amended; the Treasury Department regulations there under; and the Securities Acts of 1933 and 1934.
3. Local Rules and Regulations – The City shall issue and manage debt in accordance with the limitations and constraints imposed by local rules, policies, and regulations.

### **Roles & Responsibilities**

The City/City Council:

- Approve indebtedness;
- Approve appointment of the bond underwriter and bond counsel;
- Approve the Financial Policy, including the section on the Debt Policy;

- Approve budgets sufficient to provide for the timely payment of principal and interest on all debt; and

The City Administrator in consultation with the Clerk/Treasurer and the City Council:

1. Assume primary responsibility for debt management
2. Provide for the issuance of debt at the lowest possible cost and risk;
3. Determine the available debt capacity;
4. Provide for the issuance of debt at appropriate intervals and in reasonable amounts as required to fund approved capital expenditures;
5. Recommend to the City Council the manner of sale of debt;
6. Monitor opportunities to refund debt and recommend such refunding as appropriate.
7. Comply with all Internal Revenue Service (IRS), Securities and Exchange (SEC), and Municipal Securities Rulemaking Board (MSRB) rules and regulations governing the issuance of debt.
8. Provide for the timely payment of principal and interest on all debt and ensure that the fiscal agent receives funds for payment of debt service on or before the payment date;
9. Provide for and participate in the preparation and review of offering documents;
10. Comply with all terms, conditions and disclosure required by the legal documents governing the debt issued;
11. Submit to the City Council all recommendations to issue debt;
12. Provide for the distribution of pertinent information to rating agencies;
13. Comply with undertakings for ongoing disclosure pursuant to SEC Rule 15c2-
14. Apply and promote prudent fiscal practices.

### **Ethical Standards Governing Conduct**

The members of the City's staff will adhere to the standards of conduct as stipulated by the Public Disclosure Act, RCW 42.17 and Ethics in Public Service, RCW 42.52.

### **Types of Debt Instruments:**

The City may utilize several types of municipal debt obligations to finance long-term capital projects. Subject to the approval of the City Council, the City is authorized to sell:

1. **Unlimited Tax General Obligation Bonds** – The City shall use Unlimited Tax General Obligation Bonds (UTGO), also known as “Voted General Obligation Bonds” for general purposes, parks and open space purposes, and utility purposes. Voted Bond issues are limited to capital purposes only.

Every project proposed for financing through general obligation debt should be accompanied by a full analysis of the future operating and maintenance costs associated with the project. UTGO Bonds are payable from excess tax levies and are subject to the

assent of 60% of the voters at an election to be held for that purpose, plus validation requirements.

2. **Limited Tax General Obligation Bonds** – A Limited-Tax General Obligation debt (LTGO), also known as “Non-Voted General Obligation Debt”, requires the City to levy a property tax sufficient to meet its debt service obligations but only up to a statutory limit. The City shall use LTGO Bonds as permitted under State law for lawful purposes only. General Obligation debt is backed by the full faith and credit of the City and is payable from non-voter approved property taxes and other money lawfully available. LTGO Bonds will only be issued if:
  - a. A project requires funding not available from alternative sources;
  - b. Matching fund monies are available which may be lost if not applied for in a timely manner; or,
  - c. Emergency conditions exist.
3. **Revenue Bonds** – The City shall use Revenue Bonds as permitted under State law for the purpose of financing construction or improvements to facilities of enterprise systems operated by the City in accordance with the Capital Improvement Plan.
4. **Short Term Debt** – The City shall use short term debt as permitted by State law for the purpose of meeting any lawful purpose of the municipal corporation, including the immediate financing needs of a project for which long term funding has been secured but not yet received. The City may use inter-fund loans rather than outside debt instruments to meet short-term cash flow needs for the project. Inter-fund loans will be permitted only if an analysis of the affected fund indicates excess funds are available and the use of the funds will not impact the fund’s current operations. All inter-fund loans will be subject to the City Council approval and will bear interest at prevailing rates.
5. **Leases** – The City is authorized to enter into capital leases under State law, subject to the approval of the City Council.

### **General Requirements**

1. The City will not use long-term debt to pay for current operations. The use of bonds or certificates of participation will only be considered for significant capital and infrastructure improvements.
2. The term of the debt shall never extend beyond the useful life of the improvements to be financed.
3. General obligation debt will not be used for self-supporting enterprise activity. The general policy of the City is to fund general-purpose public improvements and capital projects that cannot be financed from current revenues with voter-approved general obligation debt. Non-voter approved debt may be utilized when a dedicated revenue source other than general revenue can be identified to pay debt service expenses.
4. The general policy of the City is to establish debt repayment schedules that use level annual principal and interest payments.
5. Interest earnings on bond proceeds will be limited to 1) funding the improvements specified in the authorizing bond resolution, or 2) payment of debt service on the bonds.

Proceeds from debt will be used in accordance with the purpose of the debt issue. Funds remaining after the project is completed will be used in accordance with the provisions stated in the bond resolution that authorized the issuance of the debt.

6. The City will use the most prudent methods of acquiring capital outlay items, including the use of lease-purchase agreements. In no case will the City lease-purchase equipment whose useful life is less than the term of the lease.
7. The City will maintain its bond rating at the highest level fiscally prudent, so that future borrowing costs are minimized and access to the credit market is preserved. The City will encourage and maintain good relations with financial bond rating agencies and will follow a policy of full and open disclosure.
8. The City shall use refunding bonds in accordance with the Refunding Bond Act. Unless otherwise justified, the City will refinance debt to achieve true savings as market opportunities arise. Refunding debt shall never be used for the purpose of avoiding debt service obligations. A target 5% cost savings (discounted to its present value) over the remainder of the debt must be demonstrated for any “current refunding”, unless otherwise justified.
9. With City Council approval, interim financing of capital projects may be secured from the debt financing marketplace or from other funds through an inter-fund loan as appropriate in the circumstances.
10. When issuing debt, the City shall strive to use special assessment, revenue or other self-supporting bonds in lieu of general obligation bonds.

### **Limitations on Debt Issuance**

Debt payments shall not extend beyond the estimated useful life of the project being financed.

### **VIII. Communication Policy**

1. It is the policy of the City to remain as transparent as possible.
2. The City shall manage relationships with the rating analysts assigned to the City’s credit, using both informal and formal methods to disseminate information.
3. The City’s Basic Financial Statements and Notes shall be a vehicle for compliance with continuing disclosure requirements. The Notes to the Financial Statements may be supplemented with additional documentation as required. Each year included in the Notes to the Financial Statements, the City will report its compliance with debt targets and the goals of the Debt Policies.
4. The City shall seek to maintain and improve its current bond rating.

### **IX. Compliance Policy**

#### **Investment of Proceeds**

The City shall comply with all applicable Federal, State and contractual restrictions regarding the investment of bond proceeds. This includes compliance with restrictions on the types of investment securities allowed, restrictions on the allowable yield of invested funds as well as

restrictions on the time period over which some of the proceeds may be invested.

### **Legal Covenants**

The City shall comply with all covenants and conditions contained in governing law and any legal documents entered into at the time of a bond offering.

### **Periodic Policy Review**

At a minimum, the Debt Policy and the City's Post Issuance Compliance Policy will be reviewed and updated every five years.

### **Investments**

It is the policy of the City of Kalama to invest its public funds in a manner which will provide the highest investment return consistent with a high degree of security while meeting the daily cash flow demands of the City and conforming to all state statutes and local ordinances governing the investment of public funds. This policy on investment applies to the investment of all City funds excluding pension funds or trust accounts. The primary objective of investment activities shall be:

- 1) Safety of principal that seeks to minimize potential losses;
- 2) Liquidity of cash to sufficiently meet all operating requirements; and
- 3) Return on Investment that allows for the highest market rate of return throughout budgetary and economic cycles.

The City of Kalama's authorized investment officers will perform their duties in a manner consistent with the standard of a "prudent person," as defined in RCW 43.250.040. A prudent person is defined as "exercising the judgment and care under the circumstances then prevailing which persons of prudence, discretion, and intelligence exercise in the management of their own affairs, not in regard to speculation but in regard to the permanent disposition of the funds considering the probable income as well as the probable safety of the capital." Investment officers include the Mayor, Clerk-Treasurer and the Deputy Clerk-Treasurer.

Officers and employees involved in the investment process shall refrain from personal business activity that could conflict with the proper execution of the investment program, or which could impair their ability to make impartial investment decisions.

The City may invest in any of the securities identified as eligible investments as defined by RCWs: 35.59.020, 39.59.030, 35.39.030 and 43.84.080. These include: Certificates of Deposit, United States Securities, Bankers' Acceptances, Repurchase Agreements and Certificates, and Notes and Bonds of the State of Washington. The City may also create investment accounts with the Local Government Investment Pool per RCW 43.250.040. Speculative investments are not allowed.

Investment transactions shall be conducted with approved broker/dealers selected by credit worthiness and other selection criteria. Broker/dealers must be registered to provide investment services in the State of Washington.

## **X. Cash Management Policies**

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

1. Cash and Investment programs will be maintained in accordance with City's regulations and will ensure that proper controls and safeguards are maintained. City funds will be managed in a prudent and diligent manner with an emphasis on safety of principal, liquidity, and financial return on principal, in that order.
2. Currently the Local Government Investment Pool (LGIP), which is an investment vehicle maintained by the State Treasurer's Office to help local governmental entities achieve higher rates of return by pooling local funds for economies of scale, is an authorized investment vehicle available to the City.
3. The City will maintain written guidelines on cash handling, accounting, segregation of duties, and other financial matters.
4. **Monthly cash and investment reports** will be prepared and distributed to all departments and the City Council showing cash position, and year-to-date budgeted and actual expenditures.
5. The City will conduct annual reviews of its internal controls and cash handling procedures
6. Internal controls will be tested on a {quarterly} basis at a minimum.

## **XI. Reserve Policies**

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

1. At each fiscal year end the remaining dollars left in each fund that are undesignated and unencumbered constitute available reserves of the City.
2. The City will include all fund balances in the annual budget in accordance with the rules and guidance of the State Auditor

### Fund Balance and Maintenance of Minimum Reserve Levels

The City shall strive to maintain adequate fund balances (reserves) in order to provide sufficient cash flows to meet operating and capital expenses, while also providing the financial ability to address economic downturn and system emergencies. Operating expenditures shall include salaries, benefits, supplies, professional services, intergovernmental and interfund expenses, capital outlays and transfers.

1. General Fund Balance – Operating reserves are composed of active working capital cash that supports ongoing City operations. The need for these reserves is based on timing differences between billing for revenues and payment of expenses. The operating reserve can also be used to cover unanticipated cash operating expenses or lower than expected revenue collections. The basis used for establishing the target goal operating reserve level will be 25% of Annual Expenditures of the General Fund. The City shall strive to maintain an

operating reserve that meets the target minimum level. The purpose of the target minimum level is to help management gauge when action needs to be taken to ensure that the operating reserve balance does not continue to decline.

2. Capital Fund Balance – Capital Fund Balance for capital purposes are established to fulfill cash flow requirements of capital infrastructure construction costs. These reserves can increase and decrease significantly depending on funding sources available and the capital projects that are planned during the year. The Capital Fund Balance target should be sufficient to meet the annual budgeted capital infrastructure construction costs. Additional reserve funds shall be maintained at a level sufficient to provide funding for unanticipated capital expenditures caused by emergency events.
3. Bond Reserve Fund – The Bond Reserve Fund is a restricted fund and may be legally required for specific debt issues. Bond Reserve Funds may be established in accordance with the legal covenants of the debt issue. The Bond Reserve Fund may be funded from bond proceeds, purchase of a Surety Policy from a bond insurance company, or available cash.
4. Unrestricted Cash Reserve for the Water & Sewer System – The City’s goal is to maintain a cash reserve that is equivalent to at least **4 months of Operating Expenditures of the Water & Sewer System**.

#### Rate Funded Capital Financing and the Use of Long-Term Debt

The City shall minimize dependency on debt financing capital projects. In order to avoid major periodic rate increases, the City shall strive to fund renewal and replacement projects at a minimum level of annual depreciation expense. This will aid in providing adequate debt service coverage ratio for Revenue Bonds.

The City has established an amount of not less than 20%-of the City’s operating expenditures of the Water & Sewer System as a target goal to be set aside each year to fund capital projects.

#### Parity Debt Service Coverage of 1.75X or higher (for Revenue Bonds)

The City shall strive to maintain minimum target goal for “parity debt service coverage ratio” (gross revenue of the utilities less operating and maintenance expenses (not including depreciation, taxes and debt payments) of **1.75 times or higher** on the combined parity annual debt service payments for Revenue Bonds (if any).

#### Contingency Reserve

1. A contingency account in an amount of **5 percent** of the General Fund expenditure budget may be maintained annually in the City’s budget as resources allow. The contingency account will be reestablished annually as part of the budget process
2. The Contingency account will be maintained in accordance with RCW 35A.33. to meet any municipal expense, the necessity or extent of which could not have been reasonably foreseen at the time of adopting the annual budget. The account provides some flexibility for unforeseen events without the necessity to appropriate additional funds from the City's reserves.
3. All transfers from the Contingency account will require the City Council approval.



### Equipment Rental & Replacement Fund

1. Sufficient reserves will be maintained to provide for the scheduled replacement of City's vehicles and capital equipment at the end of their useful lives.
2. Contributions will be made through assessments to the operating departments and maintained on a per asset basis.

### Additional Reserves

1. Additional reserve accounts may be created by the City Council to be set aside for specific purposes or special projects, for known significant future expenditures, or as general operational reserves.

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