

RESOLUTION

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF KALAMA REPEALING RESOLUTION NO 572 AND ADOPTING AN UPDATED FINANCIAL POLICY FOR THE CITY OF KALAMA

WHEREAS, the City Council of the City of Kalama finds the adoption of written financial policies are in the best interest of the City to provide sufficient guidance to the staff and provide a framework for future Council actions on decisions which have financial consequence;

WHEREAS, the City Council adopted Financial Polices under Resolutions No. 572 on February 12, 2012

WHEREAS, the policies have been reviewed and updated by City management and legal council and presented for review by the City Council;

WHEREAS, the City Council affirms that the purpose and objectives stated in the attached Financial Policies are in the best interest of the City of Kalama;

NOW THEREFORE BE IT RESOLVED by the City Council of the City of Kalama that the City of Kalama adopts the following:

SECTION 1: Resolution No. 527 is repealed and the updated City of Kalama Financial Policies attached to and incorporated by reference herein as Exhibit A are hereby adopted.

Be it further resolved this resolution will take effect upon its passage.

Passed by the City Council of the City of Kalama at a regular meeting held on May 17, 2018.

Mike Reuter, Mayor

ATTEST:

Coni McMaster, Clerk/Treasurer

Approved as to form

City Attorney

City of Kalama
Financial Polices

Adopted May 17, 2018

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Table of Contents

Purpose.....	5
Goals.....	5
General Policies.....	6
Revenue Policies.....	7
Expenditure Policies.....	10
Operating Budget Policies.....	11
Capital Management Policies	12
Accounting Policies.....	12
Debt Policies.....	14
Communications Policy.....	17
Compliance Policy.....	17
Investments.....	18
Cash Management Policies.....	19
Reserve Policies.....	19
Appendix A.....	23
Cash Receipts & Cash Handling Polices & Procedures.....	25
Cash Disbursement Policy	29
Donation Policy.....	31
Public Works Projects Policy & Procedures.....	33

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.

X. 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.

XI. 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.

XII. 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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City of Kalama

Financial Polices

Appendix A

Attachments

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CITY OF KALAMA

CASH RECEIPTS AND CASH HANDLING POLICY AND PROCEDURES

PURPOSE: This policy is established to ensure the internal control over and the proper, efficient and accurate receipting of all funds received by the City. These policies are for compliance with all applicable regulations regarding the various tax revenues and other funds received by the City.

SCOPE: This policy applies to all revenues including payment of funds due the City or any department thereof, fees for services, tax revenues, grant or loan proceeds, donations, and any and all monies paid to the City or any department thereof.

GENERAL GUIDELINES: All money received by the City must be receipted in by the Finance Department. Payments should be directly received either through direct mail or in person at the front counter in the Finance Department. When not possible for funds to be directly received by the Finance Department, then the appropriate receipting procedures are to be followed and the numbered receipts are to be used. All receipts should be input into the budget line items as accurately as possible. Receipts will be balanced and deposited on a daily basis.

Payments to the City should be sent to:

City of Kalama
Finance Department
P.O Box 1007
Kalama, WA 98625

RESPONSIBILITIES:

A. The clerks in the Finance Department are responsible to receipt and input all revenues into the accounting system of the City. This includes accurately recording the revenues to the appropriated fund and line items of the budget. Any backup documentation for the revenue should be provided for the monthly file. All cash transactions should have a hard copy treasurer's receipt printed.

B. Utility payments are receipted in using the pay stub. Cash transactions require a treasurer's receipt be printed. Utility payments received through the mail or in the drop box are opened and totaled by the clerk handling the mail. The payments are then provided to another clerk for input into the receipting system and verification of totals. Any cash payment found in the drop box needs to be verified by two clerks.

C. It is the responsibility of the Finance Department to provide numbered receipt books to those departments that on occasion must receipt in money. Voided receipts are to be retained in the receipt books. The Finance Department will audit the department receipt books on at least a quarterly basis.

D. Customers should be directed to make payments at City Hall during office hours (9 am to 5 pm Monday through Friday) whenever possible. When payments are taken directly by another department, the transaction requires a department receipt be completed whether payment is in cash or check. The payment and a copy of the receipt are to be taken as soon as possible but no later than the next business day to the Finance Department to be officially receipted in. The Finance Department will provide a copy of the treasurer's receipt for that transaction to be attached to the department receipt kept on file.

E. All receipts should contain the date of the transaction, the customer's name, the amount of the transaction, and the purpose of the transaction. A transaction from another department in which a receipt book receipt was issued should include that receipt number on the treasurer's receipt as well.

F. The till is balanced on a daily basis for deposit by one of the Finance Clerks other than those in the front office. It is balanced against the computer printout. The change in the till is balanced and an initialed tape is put in the drawer. The deposit should be taken to the bank daily.

G. The deposit is to be kept in the vault until taken to the bank. The till is to be stored in the vault overnight.

H. When the front office is unoccupied for periods more than a few minutes, the till is to be locked and the key secured.

Receipting Procedures for Money not Receipted at City Hall

Each Department of the City should have carbonized triplicate receipts imprinted with the Department name and pre-numbered. Customers should be sent to make payments at the City Hall Finance Department office during business hours. When payments are taken directly by the department a receipt should be completed. The original is for the customer, the second YELLOW copy is sent with the payment to the Finance Department and the third PINK copy is retained in the book by the Department.

1. A customer may be sent to the Finance Department to make the payment and receive a City receipt prior to a transaction being completed and no department receipt is required. Any payment received through the mail may be sent **unopened** to the Finance Department for receipt without a department receipt being completed. All monies received directly by the department must have a receipt written whether the payment is in cash or check.

2. The receipt must contain the date, the customer's name, the amount of the transaction and the reason for the transaction (ex: library card or fingerprinting). The customer address and any additional information would be optional.

3. The money and the yellow receipt are then taken as soon as possible, no later than the next business day, to the Finance Department to be officially receipted in. A City receipt will be returned to be attached to the department's pink copy in the receipt book or other department

documentation. The Finance Department will note the department receipt number in the City receipting system for reference and on the City receipt. If a yellow receipt copy is not sent with the payment, a copy of the receipt needs to be attached with an explanation of what happened to the yellow receipt copy.

4. The Finance Department will conduct periodic reconciliations of the City's receipting records with the department receipt books to verify all transactions have been turned in to the City.

5. All copies of any voided receipt must be retained in the receipt book by the department.

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CITY OF KALAMA DISBURSEMENT POLICY

PURPOSE:

This policy is established in order to ensure internal control and timely, accurate payments.

SCOPE:

This policy applies to all disbursements including, but not limited to, payment to suppliers of goods and services, payments to employees for payroll or reimbursement of expenses, payments for debt service, issuing refunds, etc. These requirements are in addition to policies concerning travel, use of credit cards, issue of payments prior to council approval and payroll policies contained in the personnel manual.

GENERAL GUIDELINES

When ordering from vendors, tell the vendor to send the invoice to:

City of Kalama
Accounts Payable
P.O. Box 1007
Kalama WA 98625

All questions regarding payments should be directed to Accounts Payable (360) 673-4908

Invoices received by accounts payable via the US Postal Service will be date-stamped and routed to department heads the day that they are received or as soon thereafter as possible. Certain invoices may be received directly by the department head or other staff, such as when items are picked up at will-call or services are performed on-site, with these invoices being forwarded within 24-hours to the accounts payable clerk.

Payments of claims will be made on the First and Third Thursdays of each month. All approved invoices must be returned to the Finance Department by the Tuesday prior to the payment date.

RESPONSIBILITIES:

- A. It is the responsibility of accounts payable clerk to verify all invoices to receiving documents to ensure accuracy and to process all invoices for department head approval. Any discrepancy must be resolved with the vendor prior to processing for payment.
- B. The person receiving the goods or services must sign the receiving documents and transmit the documents to the accounts payable clerk on the date of receipt or as soon thereafter as possible. Payment cannot be issued if goods or services have not been received by the City.
- C. Upon receipt of the invoices for approval, the department head is responsible to verify the expenditures, the account number for distribution, and identify the expense for reference.

- D. Vouchers are to be prepared by the accounts payable clerk, a file list or register is run and totals verified. The file list or register should be reviewed and certified by the clerk/treasurer for accuracy of vendors, coding etc. The warrants are then prepared by the accounts payable clerk.
- E. Responsibility for review and approval of time cards will be as follows:

Employees: By their supervisor/department head
Department heads: By the mayor
- F. A voucher listings for claims and payroll will be presented to council for approval. If the city council disapproves a claim, the clerk/treasurer will pursue collection diligently until the amounts disapproved are collected or until the city council is satisfied and approves the claim.
- G. All warrants will be reviewed and signed by the mayor.
- H. A copy of the warrant will be attached to the vouchers and original invoices upon issuing of the payment by the accounts payable clerk.
- I. Warrant stock will be kept in a locked security file cabinet with limited access. Warrants shall be used in consecutive number order with spoiled or voided warrants marked "void" on the face.

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CITY OF KALAMA DONATION POLICY

1. Purpose: To provide direction on the handling of monetary donations or gifts to the City of Kalama

2. Scope: Applies to all donations and gifts of materials, cash, and other tangible property.

3. Policy:

- A. The City of Kalama welcomes all donations reserving the right to accept or not accept items offered and to decide the disposition of all items that are accepted provided that all items become the property of the City of Kalama.
- B. The City of Kalama accepts monetary gifts as long as any conditions set on the donation do not conflict with any standard practices and policies of the City. Any conditions on a cash donation need to be submitted in writing at the time of the donation.
- C. Gifts of tangible property will be determined on a case by case basis based on the ability of the City to use the property or convert the property to cash for the City's benefit.
- D. All gifts and donations will be acknowledged and donors will be recognized in an appropriate manner which may include but is not limited to recognition in news releases, social media pages, special plaques, "naming opportunities" and donor recognition events. Personal or financial information about donors or prospective donors will not be released to the public, except to the extent required by law, unless the donor grants permission to the City.
- E. The City of Kalama is not able to provide a valuation or estimate of value on any donation of tangible property.
- F. Final Decision on any donation or gift of property will be made after a meeting of the following:

City Administrator or Mayor
City Clerk/Treasurer
City Councilmember – Finance or Applicable Committee member
Department Head of the Department to which the donation is made

If consensus cannot be reached of a majority of these members, the decision will be referred to the City Council for final decision.

PUBLIC WORKS PROJECT PROCEDURES

Step 1 Project Development – The scope of work and the budget for the project is determined. Per RCW 35.23.352(5) in determining the cost of a public works project, all amounts for materials, supplies, equipment, and labor on the construction of that project must be included. This can be done either through the City Engineers, contracted engineers or through staff for smaller projects. The cost estimate of the project will determine how to proceed with bidding the project or whether it can be done in-house. Per RCW 35.23.352(1) second class cities with a population of less than 20,000 must call for bids whenever the cost of a public work will exceed \$65,000 if more than one craft or trade is involved or \$40,000 if only one craft or trade is involved. This RCW also prohibits the division of a project into units of work or classes of work to keep costs below the bidding threshold. How the project is to be funded may also be a factor in how the project is to be bid or completed. Small projects, including “in-house” projects not required to be bid, should have a project worksheet completed and provided to the Finance Department so a file can be started for the project. The cost limitations included within this document are current as of July 26, 2009, but may be revised by State Laws thereafter.

Step 2 Bidding - Bids are requested either by formal advertisements or through the small works roster process. Formal bids require a full set of specifications and engineered drawings. The larger small works projects may also require the same specifications and drawings. A small works bid invitation shall include an estimate of the scope and nature of the work to be performed as well as materials and equipment to be furnished, but detailed plans and specifications are not required to be included in the invitation. This would be the same for bids under the limited public works process. All bid invitations must specify the work will be completed under prevailing wage laws plus all bonding and retainage requirements. The City can choose to waive the bonding and retainage requirements on smaller projects under \$35,000 but the City takes on the liability for any non-payment of wages and taxes by the contractor. See below for additional information on the small works roster process and exceptions to the bidding laws.

Step 3 Bid Opening – Upon receipt of all bids and at the time of bid closing the bids are to be opened. Bids should in most cases be submitted to the City Hall offices to be kept in the City vault. A formal bid opening on advertised bids is usually held in the Council Chambers and the preliminary results announced. Small works roster bids should be opened/or reviewed by the Department Head in charge of the project and the Clerk/Treasurer and a record of the bids made. A list of the bid results is to be made available for public review.

Step 4 Award of Bid – The bid list is presented to the City Council for review. All bids for projects over \$20,000 must be awarded by the City Council. Projects under \$20,000 may be awarded by the Department Head in charge of the project, but that award must be ratified by the City Council at its next regular meeting.

Step 5 Construction Phase – Once the project is awarded, the work can begin. It depends upon the size and scope of the work to be done on how the project actually proceeds. Larger projects involving construction management will usually have a pre-construction meeting where all parties discuss the details of the projects and the paperwork requirements. Smaller projects being managed by City department heads would proceed under their direction. The Clerk/Treasurer will contact the contractor to verify all the paperwork and official documentation requirements they will need to meet. No payment can be issued to a contractor until the minimum paperwork – a list of any and all subcontractors to be used, and the L&I statement of intent to pay

prevailing wages – has been received by the City.

Step 6 Project Completion – Once the contractor has completed the work on the project, and all necessary paperwork is in place, the project can be accepted by the City. This can be done either by the Department Head on small projects or officially by the City Council. Once the City accepts the project, the 45 day period for releasing the retainage begins. Upon project acceptance the Clerk/Treasurer will immediately submit the request to the State agencies for the required releases. Upon the end of the 45 days AND the receipt of all required releases, the City will release the retainage and close the project file.

SMALL WORKS ROSTER BIDS

The City now uses MRSC Rosters when soliciting bids for small works. When eligible to use the small works roster, the City would obtain bids under the following as adopted by City Ordinance:

1. The City of Kalama shall obtain telephone, written or electronic quotations for public works contracts from contractors on the appropriate small works roster to assure that a competitive price is established and to award contracts to a contractor who meets the mandatory bidder responsibility criteria in RCW 39.04.350(1) and may establish supplementary bidder criteria under RCW 39.04.350 (2)

a) A contract awarded from a small works roster need not be advertised. Invitations for quotations shall include an estimate of the scope and nature of the work to be performed as well as materials and equipment to be furnished. However, detailed plans and specifications need not be included in the invitation.

b) Quotations may be invited from all appropriate contractors on the appropriate small works roster. As an alternative, quotations may be invited from at least five contractors on the appropriate small works roster who have indicated the capability of performing the kind of work being contracted, in a manner that will equitably distribute the opportunity among the contractors on the appropriate roster. "Equitably distribute" means that the City of Kalama may not favor certain contractors on the appropriate small works roster over other contractors on the appropriate small works roster who perform similar services.

If the estimated cost of the work is from one hundred fifty thousand dollars (\$150,000) to three hundred thousand dollars (\$300,000) (or limits as revised by State Law), the City of Kalama may choose to solicit bids from less than all the appropriate contractors on the appropriate small works roster but must notify the remaining contractors on the appropriate small works roster that quotations on the work are being sought. The City of Kalama has the sole option of determining whether this notice to the remaining contractors is made by:

(i) publishing notice in a legal newspaper in general circulation in the area where the work is to be done;

(ii) mailing a notice to these contractors; or

(iii) sending a notice to these contractors by facsimile or email.

c) At the time bids are solicited, the City of Kalama representative shall not inform a contractor of the terms or amount of any other contractor's bid for the same project;

d) A written record shall be made by the City of Kalama representative of each contractor's bid

on the project and of any conditions imposed on the bid. Immediately after an award is made, the bid quotations obtained shall be recorded, open to public inspection, and available by telephone inquiry.

4. **Limited Public Works Process.** If a work, construction, alteration, repair, or improvement project is estimated to cost less than thirty-five thousand dollars (\$35,000) (or limits as revised by State Law), the City of Kalama may award such a contract using the limited public works process provided under RCW 39.04.155 (3). For a limited public works project, the City of Kalama will solicit electronic or written quotations from a minimum of three contractors from the appropriate small works roster and shall award the contract to the lowest responsible bidder as defined under RCW 39.04.010. After an award is made, the quotations shall be open to public inspection and available by electronic request.

For limited public works projects, the City of Kalama may waive the payment and performance bond requirements of chapter 39.08 RCW and the retainage requirements of chapter 60.28 RCW, thereby assuming the liability for the contractor's nonpayment of laborers, mechanics, subcontractors, material men, suppliers, and taxes imposed under Title 82 RCW that may be due from the contractor for the limited public works project. However, the City of Kalama shall have the right of recovery against the contractor for any payments made on the contractor's behalf.

The City of Kalama shall maintain a list of the contractors contacted and the contracts awarded during the previous 24 months under the limited public works process, including the name of the contractor, the contractor's registration number, the amount of the contract, a brief description of the type of work performed, and the date the contract was awarded.

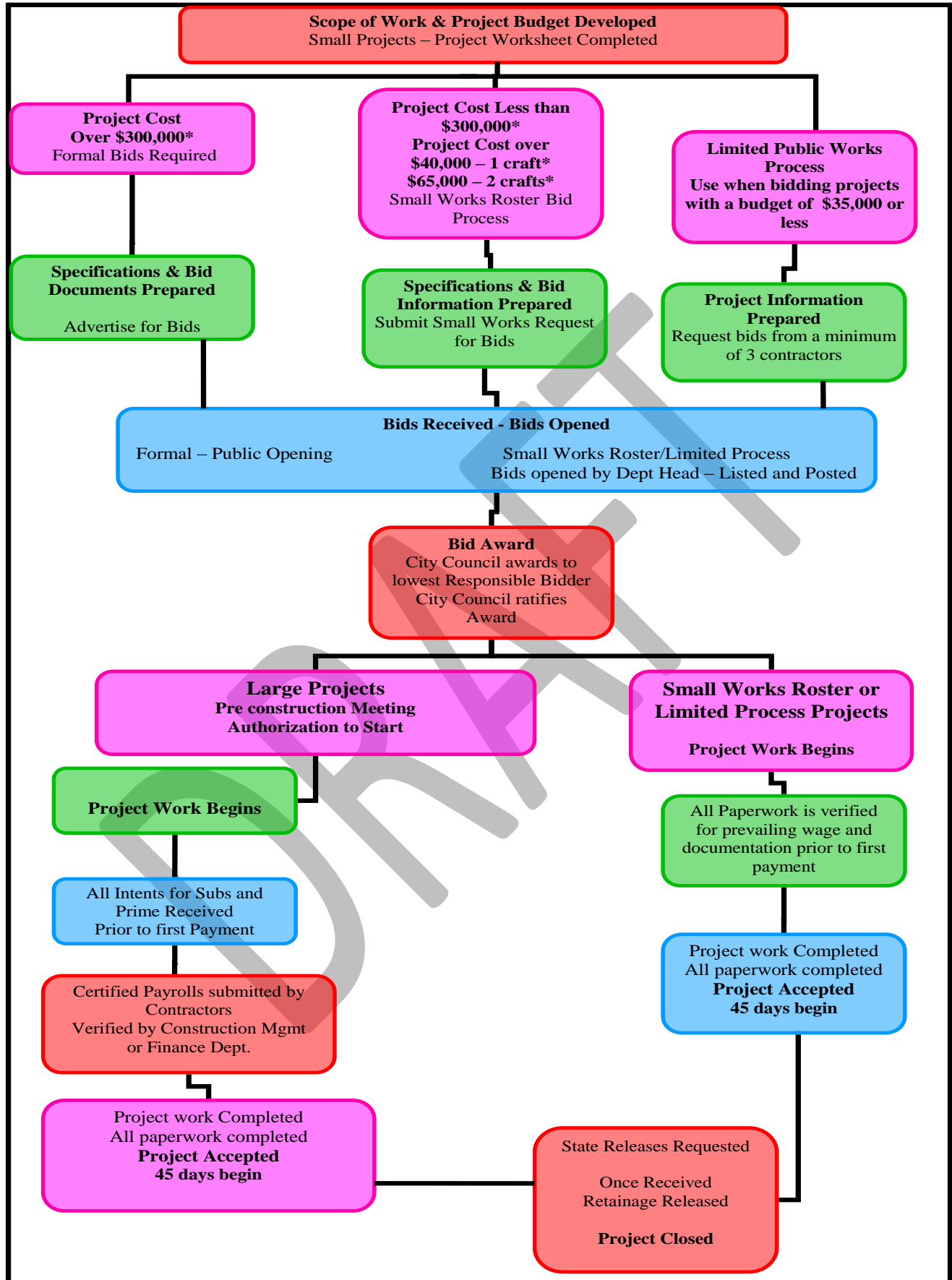
EXCEPTIONS TO THE BIDDING LAWS – Taken from the MRSC Bidding Book, 2006 Edition

The statutes contain exceptions to the previously discussed bidding requirements.

- Cities are not required to advertise for bids when the desired product is clearly and legitimately limited to a single source of supply.
- Bids are not necessary in the event of an emergency.
- Cities may not be required to seek bids if there are “special facilities or market conditions.”
- Pollution control facilities and some neighborhood “self-help” projects may be exempt from bidding requirements.
- Cities may hire the county to do road projects without going out for bids.

If you think your project or purchase falls under one of the exceptions to the bid law, think again. The bid laws are there for a reason – to try to ensure that cities get the best buy for their money. **Many of the projects or purchases that a city might consider to fall within exceptions are in the “gray” area of the law. If there is any doubt, your city should check with its auditor.** See the RCW’s and/or MRSC Bidding Book for additional details.

CITY OF KALAMA PUBLIC WORKS PROJECT PROCEDURES



* Limitations as set by State Laws

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