

RESOLUTION NO. R-4313

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF KIRKLAND ENDORSING FISCAL POLICY GUIDELINES FOR THE CITY OF KIRKLAND.

WHEREAS, articulation of financial practices and current fiscal policies can serve to provide progressive direction and assistance to the City Council, City Manager, and the general public in establishing the City's fundamental fiscal goals and responsibilities;

NOW, THEREFORE, BE IT RESOLVED by the City Council of the City of Kirkland as follows:

Section 1. The City Council hereby endorses that certain document entitled "City of Kirkland Fiscal Policies," copy of which is attached to the original of this resolution and by this reference incorporated herein.

Section 2. Said document shall serve as a fiscal policy guideline for the City of Kirkland. Said document shall be used by the City Manager and the City administration in the conduct of the City's financial operations, except as the City Council may from time to time hereafter direct.

PASSED by majority vote of the Kirkland City Council in regular, open meeting this 7<sup>th</sup> day of November, 2001.

SIGNED IN AUTHENTICATION THEREOF on the 7th day of November, 2001.

  
\_\_\_\_\_  
Mayor

Attest:

  
\_\_\_\_\_  
City Clerk

**CITY OF KIRKLAND*****FISCAL POLICIES*****BACKGROUND AND PURPOSE**

The stewardship of public funds is one of the greatest responsibilities given to the officials and managers of the City of Kirkland. Therefore, the establishment and maintenance of wise fiscal policies enables City officials to protect public interests and ensure public trust.

This document incorporates past financial practices in defining the current policies to be used by the City to meet its obligations and operate in a financially prudent manner. These policies have been established to provide general fiscal guidelines and are intended to provide sound direction in the management of the City's financial affairs.

**OPERATING BUDGET POLICIES**

The Municipal Budget is the central financial planning document that embodies all operating revenue and expenditure decisions. It establishes the level of services to be provided by each department within the confines of anticipated municipal revenues.

- The City Council will establish municipal service levels and priorities for the ensuing year prior to and during the development of the preliminary budget.
- The City Manager shall incorporate the Council's priorities in the formulation of the preliminary and final budget proposal.
- Adequate maintenance and replacement of the City's capital plant and equipment will be provided for in the annual budget.
- The current fiscal year budget will be balanced with current year resources.

**REVENUE AND EXPENDITURE POLICIES**

Annual revenues are conservatively estimated as a basis for preparation of the annual budget and City service programs.

Expenditures approved by the City Council in the annual budget define the City's spending limits for the upcoming fiscal year. Beyond the requirements of law, the City will maintain an operating philosophy of cost control and responsible financial management.

- The City will maintain revenue and expenditure categories according to state statute and administrative regulation.
- Current revenues will be sufficient to support current expenditures.
- All revenue forecasts will be performed utilizing accepted analytical techniques.
- All fees for services shall be reviewed and adjusted (where necessary) at least every three years to ensure that rates are equitable and cover the total cost of service, or that percentage of total service cost deemed appropriate by the City.
- Revenues of a limited or indefinite term will be used for capital projects or one-time operating expenditures to ensure that no ongoing service program is lost when such revenues are reduced or discontinued.
- Grant applications to fund new service programs with state or federal funds will be reviewed by the City, as they become available, with due consideration being given to whether locally generated revenues will be required to support these programs when outside funding is no longer available.
- The City of Kirkland will establish and maintain Special Revenue Funds which will be used to account for proceeds from

specific revenue sources to finance designated activities which are required by statute, ordinance, resolution or executive order.

- Annual expenditures will be maintained within the limitations of annual revenues. The City will not use short-term borrowing to finance current operating needs without full financial analysis and prior approval of the City Council.
- In order to ensure the continuity of services, the City will budget no more sales tax revenue than was received in the prior year as a hedge against possible future economic events.
- Interest income revenue will be used to finance one-time capital or time-limited goods or services including debt service on councilmanic bond issues.
- All authorized positions will be budgeted for a full year unless specifically designated by the City Council as a partial-year position.
- The annual budget will be formally amended by the City Council as needed to acknowledge unforeseen expenditures. All requests for funding will be analyzed by Finance. The Council will be provided with a discussion of the legality and/or policy basis of the expenditure, the recommended funding source, an analysis of the fiscal impact and a review of all reserves and previously approved amendments since budget adoption.
- A request will not be approved at the same meeting at which it is introduced unless it is deemed an urgent community issue by a supermajority vote of the City Council. Requests made to Council outside of the formal budget adjustment process will be analyzed and presented to the Council for approval at the next regular Council meeting that allows sufficient time for staff to prepare an analysis and recommendation.

### ENTERPRISE FUND POLICIES

The City will establish enterprise funds for City services when 1) the intent of the City is that all costs of providing the service should be financed primarily through user charges; and/or 2) the City Council determines that it is appropriate to conduct a periodic review of net income for capital maintenance, accountability, or other public policy purposes.

- Enterprise funds will be established for City-operated utility services.
- Enterprise fund expenditures will be established at a level sufficient to properly maintain the fund's infrastructure and provide for necessary capital development.
- Each enterprise fund will maintain an adequate rate structure to cover the costs of all operations, including maintenance, depreciation, capital and debt service requirements, reserves (as established by fiscal policy or bond covenant), and any other cost deemed necessary.
- Rates may be offset from available fund cash after requirements are met for cash flow and scheduled reserve contributions.
- Enterprise fund services will establish and maintain reserves for general contingency and capital purposes consistent with those maintained for general governmental services.
- Revenue bonds shall be issued only when projected operating revenues are insufficient for the enterprise's capital financing needs.
- The City will insure that net operating revenues of the enterprise constitute a minimum of 1.5 times the annual debt service requirements.
- The City will limit the maturities of all utility revenue bond issues to 25 years or less.

### CASH MANAGEMENT AND INVESTMENT POLICIES

Careful financial control of the City's daily operations is an important part of Kirkland's overall fiscal management program. Achieving adequate cash

management and investment control requires sound financial planning to ensure that sufficient revenues are available to meet the current expenditures of any one operating period. Once steps are taken to ensure that the City maintains a protected cash position in its daily operations, it is to the municipality's advantage to prudently invest idle funds until such time as they are required to make expenditures.

- The City's idle cash will be invested on a continuous basis in accordance with the City's adopted investment policies.
- The City will maintain a formal investment policy which is reviewed and endorsed by state and national professional organizations.
- The City will invest all funds (in excess of current requirements) based upon the following order of priority: 1) legality; 2) safety; 3) liquidity; and 4) yield.
- Investments with City funds shall not be made for purposes of speculation.
- The City is prohibited from investing in derivative financial instruments for the City's managed investment portfolio.
- Proper security measures will be taken to safeguard investments. The City's designated banking institution will provide adequate collateral to insure City funds.
- The City's investment portfolio will be reviewed every two years by a qualified portfolio valuation service to assess the portfolio's degree of risk and compliance with the adopted investment policies.
- An analysis of the City's cash position will be prepared at regular intervals throughout the fiscal year.
- The City Council will be provided with quarterly reports on the City's investment strategy and performance.
- Sufficient cash shall be maintained to provide adequate funds for current operating expenditures.

- Where permitted, the City will pool its cash resources from various funds ("Treasurer's Cash") for investment purposes.
- Net investment income from Treasurer's Cash will be allocated in accordance with RCW 5.24.060 considering 1) average cash balance of the participating fund and 2) the minimum cash balance needs of each fund as determined by the Finance Director. Net investment income is the amount of annual investment proceeds after an allocation is made to any enterprise funds and Council-directed obligations are met for General Fund purposes.
- The City of Kirkland will select its official banking institution through a formal bidding process in order to provide the City with the most comprehensive, flexible, and cost-effective banking services available.

#### **ACCOUNTING, FINANCIAL REPORTING AND AUDITING POLICIES**

The City of Kirkland will establish and maintain a high standard of accounting practices. Accounting and budgetary systems will, at all times, conform to Generally Accepted Accounting Principles, the State of Washington Budgeting Accounting Reporting System (BARS) and local regulations.

- A comprehensive accounting system will be maintained to provide all financial information necessary to effectively operate the City.
- The City will meet the financial reporting standards set by the Governmental Accounting Standards Board.
- Full disclosure will be provided in all City financial reports and bond representations.
- An annual audit will be performed by the State Auditor's Office and include the issuance of a financial opinion.

#### **RESERVE AND FUND BALANCE POLICIES**

Adequate fund balance and reserve levels are a necessary component of the City's overall financial

management strategy and a key factor in external agencies' measurement of the City's financial strength.

Maintenance of fund balance for each accounting fund assures adequate resources for cash flow and to mitigate short-term effects of revenue shortages.

City and State regulations have been established to allow the City of Kirkland to create and maintain specific reserve funds. Prudent use of reserve funds enables the City to defray future costs, take advantage of matching funds, and beneficial (but limited) opportunities. Reserve funds provide the City with the ability to exercise flexible financial planning in developing future capital projects. Reserve funds are necessary to enable the City to deal with unforeseen emergencies or changes in condition.

- The City will establish minimum fund balance targets for each fund based on the cash flow requirements of the fund. The City will include all fund balances in the annual budget.
- The minimum fund balance will be attained and maintained through expenditure management, revenue management and/or contributions from the General Fund.
- All expenditures drawn from reserve accounts shall require prior Council approval unless previously authorized by the City Council for expenditure in the annual budget.
- A Contingency Reserve Fund shall be maintained in accordance with RCW 35A.33.145 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 target balance will be consistent with State law at \$.375 per \$1,000 of Assessed Valuation. Annual contributions to the Contingency Fund will be budgeted from interest income and General Fund resources.
- The City will maintain a General Operating Reserve to serve as a "Rainy Day Fund" to address temporary revenue shortfalls in an

amount equivalent to twelve percent of the operating budget, less proprietary funds. Annual contributions will be budgeted from General Fund resources as available to attain and maintain an established reserve level.

- The City will maintain a General Capital Reserve to address unforeseen project expenditures or external revenue shortfalls in an amount equivalent to ten percent of the funded six-year CIP, less proprietary fund projects. Contributions will be made from General Fund resources as they are available.
- The City Manager may authorize the use of the General Capital Reserve up to an aggregate total of \$100,000 per year in increments not to exceed \$25,000. The City Manager will provide regular reports to the City Council at a regular Council meeting if this authorization is used.
- The City will maintain a Capital Improvement Project Grant Match Reserve as a means of assuring the availability of cash resources to leverage external funding when the opportunity arises. The reserve will be maintained in the Real Estate Excise Tax Capital Reserve Fund and maintained through excise tax revenue received over and above the annual allocation to the Capital Improvement Plan.
- The City will maintain fully funded reserves for the replacement of vehicles and personal computers. Contributions will be made through assessments to the using funds and maintained on a per asset basis.
- Additional reserve accounts may be created by Council to account for monies for future known expenditures, special projects, or other specific purposes.
- All reserves will be presented in the annual budget.

## DEBT MANAGEMENT POLICIES

The amount of debt issued by the City is an important factor in measuring its financial performance and condition. Proper use and management of borrowing can yield significant advantages. From a policy perspective, the City of Kirkland uses debt in two ways: (1) as a mechanism to equalize the costs of needed improvements to both present and future citizens; and (2) as a mechanism to reduce the costs of substantial public improvements.

- City Council approval is required prior to the issuance of debt.
- An analytical review shall be conducted prior to the issuance of debt.
- The City will use the services of a legally certified and credible bond counsel in the preparation of all bond representations.
- The City of Kirkland will not use long-term debt to support current operations.
- Long-term borrowing will only be used for capital improvements that cannot be financed from current revenues.
- Short-term borrowing will only be used to meet the immediate financing needs of a project for which long-term financing has been secured but not yet received.
- The issuance of bonds shall be financed for a period not to exceed a conservative estimate of the asset's useful life.
- Non-capital furnishings, supplies, and personnel will not be financed from bond proceeds.
- The City will use refunding bonds where appropriate, when restructuring its current outstanding debt.
- Reserves, interest costs, operating costs, and/or maintenance expenses will be capitalized only for enterprise activities; capitalized operating expenses will be strictly limited to those expenses incurred prior to actual operation of the facilities.

- The City will maintain a good credit rating at all times.
- Assessment bonds will be issued in place of general obligation bonds, where possible, to assure the greatest degree of public equity.
- Under most circumstances, the maturity of all assessment bonds shall not exceed 12 years.
- General Obligation bonds will be issued with maturities of 20 years or less.
- The voter approved general obligation debt of Kirkland will not exceed an aggregated total of 7.5% of the assessed valuation of the taxable property within the City.
- The following individual percentages shall not be exceeded in any specific debt category:
  - General Debt - 2.5% of assessed valuation
  - Utility Debt - 2.5% of assessed valuation
  - Open Space and Park Facilities - 2.5% of assessed valuation
- Limited-tax general obligation bonds will not exceed one and one-half percent of the City's current assessed property valuation.
- Limited-tax general obligation bonds will be issued only if:
  - A project requires funding not available from alternative sources;
  - Matching fund monies are available which may be lost if not applied for in a timely manner; or
  - Emergency conditions exist.

## CAPITAL IMPROVEMENT POLICIES

Kirkland's city government is accountable for a considerable investment in buildings, parks, roads, sewers, equipment and other capital investments. The preservation, maintenance, and future improvement of these facilities are a primary responsibility of the City. Planning and implementing sound capital improvement policies and programs

today will help the City avoid emergencies and major costs in the future, therefore:

- The City will establish and implement a comprehensive multi-year Capital Improvement Program.
- The Capital Improvement Program will be prepared and updated biennially.
- The City Council will designate annual ongoing funding levels for each of the major project categories within the Capital Improvement Program.
- Financial analysis of funding sources will be conducted for all proposed capital improvement projects.
- An annual Capital Improvement Budget will be developed and adopted by the City Council as part of the annual budget.
- The Capital Improvement Program will be consistent with the Capital Facilities Element of the Comprehensive Plan.