

The Purpose of Financial Policies

- To ensure core services are maintained for the community when funds are short.
- To ensure tax dollars are being used legally, openly, efficiently and effectively
- To ensure funds are used a manner that achieves the community vision outlined in the Council's Goals.

What Financial Policies Do

- Ensure the City maintains a financial base to sustain a consistent level of municipal services.
- Ensure the City is able to withstand local and regional economic variations.
- Direct attention to the total financial picture of the City rather than single-issue areas.
- Adjust to changes in the service requirements of the community.
- Maintain a good credit rating in the financial community, which assures taxpayers and ratepayers that City government is well managed financially and is in sound fiscal condition.

Setting Priorities and Practices for City Services

Mountlake Terrace has limited revenue sources. Setting service priorities can help to ensure that the most important services are maintained if funds become short. The City's financial policies call for the following priorities in order of importance, together with the Council's goals and objectives:

1. Public Life, Health and Safety: police, fire, emergency medical services; building inspections; and traffic control; water, sewer, and storm drainage service and infrastructure maintenance.
2. Legal Mandates: Accounting/auditing/financial reporting; land-use planning.
3. City facilities and property: maintenance of park land, buildings, streets, right of way, utility infrastructure and equipment.

City Practices

To ensure the community's dollars are being used efficiently and effectively, the City practices the following::

- Include all potential stakeholders in evaluating proposed alternate services.
- Form partnerships with other local governments for the provision of services to achieve economies of scale. Examples include contracting for jail services, and partnering on home detention methods.
- Review partnerships with local governments on a biennial basis during the preparation of the biennial budget to evaluate impact and benefits.
- Explore the privatization of services on a biennial basis during the preparation of the biennial budget.
- Citizen involvement will be encouraged in the budget decision-making process to receive input from the Mountlake Terrace community on the level of services desired.

Fund Balances

It's normal - in fact necessary - for a city to have money left over at the end of the year. The money left over is known as the "Fund Balance," and it is the result of projects or purchases costing less than expected, or revenues coming in more than anticipated. Either way, a Fund Balance is good news.

However, the Fund Balance shouldn't be too high. This is because if the City is ending each year with too much money it means the City is collecting more money from taxpayers on an annual basis than it needs to deliver services.

A policy on Fund Balances helps to ensure that the City maintains an adequate balance to cover unanticipated expenses, while at the same time avoiding the accumulation of funds for no reason.

Fund Balances (cont.)

- The City will not use the General Fund Balance to finance recurring operating expenditures. Instead, the Fund Balance will be placed into an account for one-time projects and programs. This means that on average annual General Fund revenues will equal annual General Fund operating expenses.
- General Fund revenues will be used for general government, street and recreation programs only. General Fund revenues will not be used to subsidize utility operations, which will be self-supporting through user rates.
- The City will maintain a minimum General Fund Balance equal to 5% of General Fund expenditures.

Fund Balances (cont.)

- Enterprise funds will be operated in a manner that maintains a minimum ending fund balance that is not be less than 15% of total operating appropriations.
- To assure ratepayers that utility funds are being readily used for the maintenance of the system, the maximum ending fund balance will not exceed 25% of total fund appropriations.
- Enterprise funds will be self-supporting through user rates and fees.

Reserves

Reserve funds enable the City to deal with unforeseen emergencies (contingencies), changes in economic conditions, and to set aside small amounts over time to pay for large capital expenses in future years (reserves).

- A Strategic Reserve Fund is used to offset revenue fluctuations from catastrophic events. The Strategic Reserve Fund will be budgeted at an amount equal to 5% of the prior year's operating expenses.
- An Accumulated Leave Reserve Fund is maintained to cover the financial liability of employee accrued leave, which would be paid at the employee's separation from the City.

Reserves (cont.)

- A reserve of 5% will be maintained in the General Fund.
- A contingency reserve of 2% will be maintained in the General Fund.
- The City will maintain a reserve for the replacement of fleet vehicles and similar equipment.
- For each utility, an operating reserve will be maintained in the amount equivalent to 15% of total annual operations and maintenance expenses.
- A contingency amount of \$250,000 will be maintained for the Water and Wastewater utilities.

Charges and Fees for Service

- Where direct beneficiaries of a city program or services can be identified, fees will be established to recover the costs of that service or program.
- Where a service provides some benefit to the larger community (and not just an individual) the City may choose to subsidize, either whole or in part, such service.
- Rental fees will comparable to commercial rates and recover full costs of use of the property or facility.
- As a whole, fees charged for Development Services (Building, Engineering and Land Use) will recover at least 85% of the cost of the program.

Charges and Fees for Service (cont.)

- As a whole, Recreation programs will recover at least 85% of the overall Recreation budget. City residents, who own Recreation facilities and support programs through general taxes, will pay less for programs than non-residents
- Fees for services will be reviewed as part of the biennial budget to ensure that fees are equitable and cover the cost of service.
- Utility rates will be reviewed as part of the biennial budget. A detailed rate study will be conducted at least every five years to ensure utility revenue is meeting, and not exceeding, need and to ensure rates remain within legal requirements.

Cash Management and Investments

Funds will be invested in only those investments permitted by Federal and State law relating to public funds. All of the City's funds will be invested with the following objectives (listed in the order of priority):

- **Safety:** The City will seek to avoid loss through the sale an investment, while selling-off underperforming investments.
- **Liquidity:** The City's investment portfolio will remain sufficiently liquid to meet all cash requirements that may be reasonably anticipated.
- **Yield:** The City's investments will be designed with the objective of maximizing a fair rate of return consistent with the safety and liquidity noted above.

Capital Projects and Purchases

Mountlake Terrace is accountable for a number of buildings, parks, roads, water/sewer/storm lines, equipment and other capital items. The maintenance and 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.

- A Capital Improvement Program (CIP) will be maintained and updated prior to each budget.
- The CIP will list capital items to be pursued over the next six years, as well as the funding source for each item, will be prepared and updated biennially.
- The CIP will be consistent with the Comprehensive Plan covering transportation, water, sewer, stormwater, parks and recreation.

Budgeting & Forecasting

- As required by State law the City Council will adopt a balanced budget.
- To allow for public involvement, the budget process will be scheduled over at least a four month period.
- The Vision, Goals and Strategic Plan of the City Council, as well as the Comprehensive Plan will serve as the framework for the budget proposed by the City Manager to the City Council.
- One-time revenues will be used for one-time expenditures only.
- The City Manager will present to the City Council quarterly financial reports identifying trends in revenues and expenditures for each of the City's operating funds.
- The City will maintain a 6-year financial forecast.