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|  | CITY OF GIG HARBOR – POLICIES AND PROCEDURES | |
| | TITLE: Budget and Financial Policies | |
| POLICY MANUAL SECTION & NO. F-17-01 | EFFECTIVE DATE: 10-09-17 REVISED DATE: | APPROVED: |

PURPOSE

In order to address best management practices for budgeting purposes.

POLICY

Fund Balances

- The City will maintain General Fund and Street Operating Fund undesignated balances equal to 60 days of average daily operating expenditures.
- Because budgeted capital projects are established with a contingency amount, non-enterprise capital project funds (street capital and park capital, for example) are not required to maintain an undesignated fund balance. However, pro-rata contributions from developers for future public projects must be identified and accounted for either as reserved fund balance or a current year expense in the affected capital fund.
- Fund balances in enterprise funds shall be maintained at levels established through rate studies or at levels equal to a target of 60 days of operations and maintenance expenses that are necessary to meet operating, capital, and contingency requirements.
- Balances in other funds will comply with State law and/or debt service requirements.

Reserve Fund Contributions

Reserve Funds

The City has three distinct reserve funds (aside from reserve funds required for bond issues): Civic Center Debt Reserve Fund, Strategic Reserve Fund, and Equipment Replacement Reserve Fund. The Civic Center Debt Reserve Fund has been in place and accumulating since 2002, and the other two were newly established in 2011. The purposes and policies of these three reserve funds are described as follows:

Civic Center Debt Reserve Fund. The purpose of this fund is to build up a balance large enough to retire all or a significant portion of the Civic Center debt several years prior to maturity in 2026. The Civic Center bonds will be callable in 2020, at which time the City Council may wish to retire all or a portion of the bonds, depending on the accumulated balance in the reserve fund, cost of money at the time, and/or other priorities.

Strategic Reserve Fund. The Strategic Reserve fund was established to 1) take advantage of strategic opportunities as they arise (key land purchases or matching funds for capital grants, for example); and 2) insulate the City from revenue fluctuations, economic downturns (i.e., “rainy days”), and other contingencies such as:

- Emergencies and disasters
- Uninsured losses
- Tax refunds

The “rainy day” portion of the Strategic Reserve fund is limited by RCW 35A.33.145 to \$0.375 per \$1,000 of assessed valuation.

The target balance for the “strategic” portion of this fund is \$3,000,000.

The City may use General Fund operating revenues and undesignated fund balances to build up this fund. Each budget cycle, the City Council will establish a target amount for this fund based on a percentage of operating expenditures or some other method at the City Council’s discretion.

If drawn down, the Strategic Reserve Fund rainy day balance should be replenished back to the targeted amount within three years. Spending from this fund shall not be done without City Council authorization.

Equipment Replacement Reserve Fund. This fund is intended to establish a reserve that will fund at least a portion of vehicles and equipment as they are replaced, thereby reducing the expenditure spikes that can otherwise occur. Only the General Fund will contribute to this Fund. Enterprise Funds will pay for their share of equipment and vehicles on a pay-as-you-go basis, as established and planned for in the utility rate studies. As part of the City’s multi-year financial forecasting, the City Administrator will recommend a target amount for this Fund over multiple years, based on projected equipment and vehicle needs and life spans. Each year the City Council, at its discretion, will add to and/or spend from this fund, based on the needs of the City. No spending from this fund will be authorized without City Council approval. In extenuating and difficult financial times, the City Council may delay vehicle and equipment purchases and transfer money from this fund back into the General Fund.

Multi-Year Forecast

Each year the City will update expenditure and revenue forecasts for the next six years. The purpose of this forecast is to determine the long-term sustainability of operational and capital programs given limited revenue streams and resources. A multi-year forecast also facilitates budget decisions and strategic planning that go beyond biennial budget horizon.

The six year forecast shall be presented to the Council Finance & Safety Committee prior to September each year. The forecast shall include General, Street Operating and Capital, Park Development, Water, Sewer and Storm funds.

Revenue Estimates

Generally revenue estimates shall not assume growth rates in excess of inflation and scheduled rate increases. Actual revenues that are over estimates will be recognized through budgetary adjustments only after it takes place. This minimizes the likelihood of either a reduction in force or service level in the event revenues would be less than anticipated.

Budget Calendar

Cities and towns that have adopted a biennial (two-year) budget have the same statutory deadlines (see chapters 35.34 RCW and 35A.34 RCW), with the addition of a budget review and adjustment eight to 12 months into the first year. By law, the biennium must begin on January 1 of an odd-numbered year. The odd year procedures are listed below and are followed by procedures for the mid-year of the biennial budget.

First week in May - The City Administrator submits notice to department directors to file budget narratives (functions, goals, objectives, performance measures, and staffing requests). Department directors solicit suggestions from and conduct discussions with their staff. Completed narratives and forms are returned to Finance Department.

First week in June - The City Administrator submits notice to department directors to file budget requests and forms for funding levels and requests.

First week in August - Department directors return appropriation requests, revenue estimates, and forms, and meet with City Administrator to discuss budget requests and review department objectives/programs.

First week in September - City Administrator provides the Mayor with the proposed preliminary budget. The Mayor and City Council may hold a retreat to establish priorities for the upcoming budget.

September 30 - The Mayor submits the proposed budget to the City Council. This budget is based on priorities established by the Council and estimates provided by city departments during the preceding months, prioritized and balanced with revenue estimates made by the finance director.

October (third Monday and Tuesday) - The Council holds budget study sessions.

November (regular Council meetings) - The Council conducts public hearings on the proposed budget.

Prior to December 31 - The Council makes its adjustments to the proposed budget and adopts by ordinance a final balanced budget.

The mid-biennium review must:

- Consist of any proposed modifications to the adopted biennial budget

- Be advertised and published in a manner similar to other ordinances of the city (if it results in an ordinance)
- Include procedures for notice to the members of the council and public
- Be in the form of an ordinance (if any changes are proposed)

Guild Negotiations

In recognition of the fact that employee compensation is a significant and ever increasing portion of the City's annual expenditures, the City Administrator shall meet with the City Council, or a designated representative thereof, prior to initiating negotiations with the employee guilds. The City Council, or Council Representative, shall be included in all subsequent negotiations.