

**CITY OF WOODLAND, WASHINGTON**

**ORDINANCE NO. 1211**

**AN ORDINANCE ADOPTING A FINANCIAL POLICY FOR THE CITY OF WOODLAND**

**Recitals**

**WHEREAS**, the City Council is responsible for setting financial policy for the City of Woodland;

**WHEREAS**, the Finance Committee has reviewed current Woodland financial management policies and compared them to the policies of other Washington cities. After examination of the current Woodland policy and the policies of other cities, the Finance Committee recommended that that City of Woodland adopt the policies set forth in this Ordinance;

**WHEREAS**, the Council, upon the recommendation of the Finance Committee, wishes to rescind prior financial and budgetary policies adopted by the City, including but not limited to Resolution No. 543 and Resolution 445;

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

**AND, WHEREAS**, the Council finds that these policies are in the best interest of the City because the adoption of the policies improves the financial management of the City, provides sufficient guidance to staff and provides a framework for future Council action on decisions which have a financial consequence.

**Ordinance**

**NOW, THEREFORE**, the City Council of the City of Woodland hereby ordains as follows:

1. Repeal of Prior Policies. Prior City of Woodland financial policies and Resolutions 543 and 445 are hereby repealed and superseded in their entirety.

2. Adoption of Financial Management Policy. The Financial Management Policy for the City of Woodland, attached hereto and incorporated by reference herein as Attachment "A," is hereby adopted.

3. Severability. If any one or more sections, subsections, or sentences of this Ordinance are held to be unconstitutional or invalid, such decision shall not affect the validity of the remaining portion of this Ordinance and the same shall remain in full force and effect.

4. Effective Date. This Order shall take effect five days after its publication in the City's newspaper of record.

ADOPTED in an Open Public Meeting this 18<sup>th</sup> day of July, 2011.

**CITY OF WOODLAND,  
WASHINGTON**

Approved:

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Charles E. Blum, Mayor

Attest:

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Mari E. Ripp, Clerk-Treasurer

Approved as to form only:

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William J. Eling, City Attorney

# **CITY OF WOODLAND FINANCIAL MANAGEMENT POLICIES**

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## **PURPOSE**

To provide the necessary tools to ensure the City is capable of meeting its immediate and long-term financial and service objectives. These policies serve as guidelines for both financial planning and internal financial management of the City.

The City of Woodland is accountable to its citizens for the use of public dollars. Resources must be wisely used to ensure adequate funding for the services, public facilities, and infrastructure necessary to meet the community's present and future needs.

## **OBJECTIVES**

1. To guide City Council in management policy decisions that have significant fiscal impact.
  2. To set forth operating principles that minimize the cost of government and financial risk.
  3. To implement balanced and fair revenue policies that provide adequate funding for desired programs.
  4. To maintain appropriate financial capacity for present and future needs.
  5. To promote sound financial management by providing accurate and timely information on the City's financial condition.
  6. To protect the City's credit rating and provide for adequate resources to meet the provisions of the City's obligations on all municipal debt.
  7. To ensure the legal use of financial resources through an effective system of internal controls.
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**OUTLINE**

- I. General Information
  - Funds
- II. Budget Management
  - Adjustments
  - Monitoring
- III. Revenue Policies
- IV. Expenditure Policies
- V. Fixed Assets
- VI. Fund Balance
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- IX. Local Improvement Districts
- X. Latecomer Agreements
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- XIII. Investments
- XIV. Accounting, Auditing and Financial Reporting

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**I. GENERAL INFORMATION**

The City of Woodland uses the Washington State Auditor's Office prescribed budgetary, accounting and reporting system (BARS) for local governments.

**Funds**

Funds are used to account and record designated information. A fund is a fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations.

**Fund Types:**

**General Government:**

General Government funds are accounted for on a modified accrual basis of accounting. Following are the General Government funds used by the City.

*General Fund:* The General fund is used to account for revenues that are not designated for specific activities or programs.

*Special Revenue:* The City will establish and maintain Special Revenue Funds used to account for the proceeds of specific revenue sources to finance specific activities which are required by statute, ordinance, resolution, or executive order.

*Debt Service:* The Debt Service fund accounts for the payment of principal and interest on general long-term debt associated with the general government. It does not include the payment of principal and interest on debt created by an enterprise fund.

*Capital Projects:* This fund is used to account for financial resources and expenditures incurred for the purchase of land, purchasing or constructing buildings and structures used for general purposes, acquisition or construction of street improvements, park development, and cemetery improvements. It also includes the development and updating of capital improvement plans associated with these projects. This fund does not include capital projects associated with an enterprise fund.

**Proprietary/Enterprise Funds**

Enterprise funds account for operations that are financed and operated in a manner similar to private businesses, where the cost for providing services to the general public are recovered primarily through user fees. Enterprise funds are used for Water, Sewer and Storm Water facilities. Debt service is accounted for in the appropriate operating fund and capital projects are accounted for in the Utility Capital Projects Fund. Enterprise funds are maintained on a full accrual basis of accounting.

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**II. BUDGET MANAGEMENT**

**General**

Department directors have primary responsibility for formulating budget proposals in accordance with City Council and Mayor priority direction, and for implementing the budget once they are adopted.

The Clerk-Treasurer Department is responsible for conducting the overall preparation and administration of the City's budget. This includes providing information on revenues and expenditures, updating costs and revenues, organizing data in an understandable fashion, and creating and providing tools for budget development.

The Clerk-Treasurer Department assists department management in identifying budget problems, formulating solutions and alternatives, and implementing any necessary corrective actions.

The budget is prepared and implemented on an annual basis in accordance with RCW 35A.33.

Budgets are developed and used for the General, Special Revenue and Enterprise funds of the City. Budgets are also used in the Debt Service fund to account for principal and interest payments and in the Capital Project fund to account for capital expenditures and associated capital funding sources.

**Adjustments and Amendment Process**

Budget adjustments are needed when:

- Total expenditures in a fund will exceed the total budget for that fund, or
- Revenue sources increase or decrease for a fund, and if revenues are projected to be less than budget, the corresponding expenditures for the fund must also be adjusted accordingly, or
- Departments request authorization to allocate funds for an item or activity that was not included in the original budget.

Adjustments or amendments to the budget proceed as follows:

- The Clerk-Treasurer Department receives a request for a budget adjustment from a department or through Council action. Budget changes can also occur based on new information or documentation that the Clerk-Treasurer Department receives.
- The Clerk-Treasurer Department can process changes, with the approval of the Mayor or Clerk-Treasurer, if the requested adjustment does not change the total budget for the fund.
- Council approval is required if the requested adjustment changes the total budget for a fund. The Clerk-Treasurer Department will verify whether

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there are sufficient resources for the adjustment, and prepare a budget adjustment and ordinance for Council approval.

**Monitoring**

Budgets are developed and monitored at the line item level, but are managed at the fund level. A manager can overspend on one line item as long as it is balanced out by an under expenditure on another line item. The total expenditures for a fund cannot exceed the total budget for the fund.

Department heads are responsible and accountable for their department budget.

Monthly reports that compare budget to actual will be created by the Clerk-Treasurer Department and provided to the appropriate manager for review and response if large discrepancies are identified.

**III. REVENUES**

The City will strive to maintain a diversified and stable revenue system to shelter it from short-term fluctuations in any one revenue source.

The City will work to develop and maintain sustainable revenue sources to ensure its viability over the long term.

Revenue estimates adopted by City Council should be made with consideration to the sensitivity of both local and regional economic activities.

The City will establish all user charges at a level associated with the cost of providing the service.

The City will set fees and user charges for each enterprise fund, such as Water, Sewer and Garbage, at a level that fully supports the total direct and indirect cost of the activity.

Grant sources of revenue will be acquired and used whenever possible.

**IV. EXPENDITURES**

The City will only propose operating expenditures that can be supported by ongoing operating revenues.

The City will maintain a level of expenditures consistent with the level of services that will meet the goals and mission of the City.

Expenditures funded by one-time only sources, such as grants, must be identified and noted as such. Expenditures funded by these sources will be eliminated once the funding source no longer exists.

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The City will maintain expenditure categories according to State statute and administrative regulation.

Expenditures associated with a grant source of revenue will be identified and recorded against the corresponding grant.

**V. FIXED ASSETS** *(see Resolution No. 543 or any successor resolution)*

It is the policy of the City to maintain accountability over all tangible fixed assets having a life expectancy exceeding one year and costing \$5,000 or more. This policy also includes those assets of a lesser value that may be attractive to theft. The Clerk/Treasurer shall maintain the asset records. The asset records shall be verified by a physical inventory at least once a year.

This policy applies to all land improvements, all buildings and building renovations, equipment purchased and additions to existing equipment that increases its useful value and all donated items.

The City of Woodland reports on a cash basis which is a departure from Generally Accepted Accounting Principles (GAAP) The City is not required to account for depreciation.

A fixed asset system will be maintained to identify all City assets and their condition per city policy.

Fixed assets are maintained for both the General Government and Enterprise funds.

**VI. FUND BALANCE**

Fund balances are created and maintained to provide capacity to:

- 1) Offset significant downturns in the economy.
- 2) Provide sufficient cash flow to meet daily financial needs at all times.
- 3) Meet all statutorily required reserve funds to guarantee debt service.
- 4) Maintain ability to meet scheduled equipment repair and replacement that sustains city services at an acceptable level and prevents physical deterioration of city assets, as budget allows.
- 5) Provide the capacity to pay large unanticipated expenses, such as the payment of vacation and sick leave balances for employees that retire or leave employment with the City.

Fund Balance is defined as the amount of total resources that exceed total expenditures that results from the activity associated with the operations and functions of a fund. A positive fund balance should be maintained to properly manage a fund.

Reserves are a portion of the fund balance that is restricted or categorized to use for a designated purpose. The following definitions (though the City may not use

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all of these categories at one time) are published by the Government Accounting Standards Board – Pronouncement No. 54:

- Non-spendable:
  - Amounts that cannot be spent due to form; for example, inventories, prepaid amounts, long-term and notes receivables, and other restricted items. Also includes amounts that must be maintained intact legally or contractually.
- Restricted:
  - Amounts constrained for a specific purpose by external parties, or constitutional provision, such as a requirement for revenue bonds to set aside funds in a debt service reserve account.
- Committed:
  - Amounts constrained or restricted for a specific purpose by a government using its highest level of decision-making authority. Action by the legislative authority is required to remove or change this amount.
- Assigned:
  - Used for funds to classify any remaining positive amounts not identified as non-spendable, restricted or committed. These amounts should not result in a deficit in unassigned fund balance.
- Unassigned (remaining fund balance that is not reserved):
  - This is the excess or residual amount of resources that exceed the amount expended, less amounts identified as non-spendable, restricted, committed or assigned. If the residual amount is negative, the assigned amount should be reduced accordingly.

The City has determined the need to create the following reserves and fund balances with the priority identified:

*Priority #1:*

*General Unassigned Fund Balance: (001-General fund)*

*Purpose:* This is the fund balance that remains after allocating to a reserve account and is used by any fund that budgets operating expense activities in the fund. The purpose of this account is to create the financial ability to cover operating expenses during short term revenue shortfalls or temporary downturns in the economy. Revenue receipts are cyclical in nature, such as the first major receipt of property taxes comes in April, some utility taxes are paid quarterly, and water usage and consequent receipt of these revenues is higher during the summer, however, expenses are normally more evenly disbursed throughout the year.

*Amount:* The goal is to maintain an amount equal to [3 months] of the annual operating expenses incurred for a fund.

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The allocation will come from the amount of annual operating revenue that exceeds the annual operating expenses for a fund.

*Category:* Identified as "Unassigned" fund balance.

*Priority #2:*

*General Assigned Reserve: (Fund 001- General )*

*Purpose:* This reserve sub-account will be used by any fund that budgets operating expense activities in the fund. The purpose of this account is to create the financial ability to pay for large "one-time" expenses, such as the payout of vacation and sick time for employees that leave city service, cover major unexpected police investigations, or to pay for large building repairs. This reserve can also be used to cover operating expenses during temporary, yet more long-term, economic downturns.

*Amount:* The amount allocated will be based upon the annual financial forecast model and/or during the annual budget process. Efforts will be made to build this fund up to the established amount through the annual budget development process. The amount will come from a portion of the annual operating revenue generated in the fund that pays for these types of expenses.

*Category:* Identified as "Assigned" reserve portion of fund balance.

*Priority #3:*

*Equipment Repair and Replacement Reserve: (Fund 304-Equipment Acquisition Reserve)*

*Purpose:* This reserve account will be used by any General fund department that budgets equipment repair and replacement as an expense item in its fund, or uses a capital projects fund to budget these expenses or uses a designated equipment, repair and replacement fund. The purpose of this account is to create the financial ability to pay for these types of expenses that include computer systems, vehicles, roads, parks, building maintenance, and general facilities, as they occur and deemed necessary to properly manage city equipment.

*Amount:* The amount allocated will be 1% of annual sales tax or as determined by the need identified in an updated financial forecast model and/or during the annual budget process.

*Category:* Identified as a "Committed" reserve portion of fund balance.

*Priority #4:*

*Capital Project Reserve: General: (Fund 301)*

*Purpose:* This reserve account will be used by General fund departments that budget capital and/or large maintenance projects as an expense item in the fund or uses a capital projects fund to budget and pay for these expenses. The purpose of this account is to create the financial ability to pay for these types of projects, identified in the Capital Facilities Plan, as deemed appropriate to meet community needs and properly manage city infrastructure.

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*Amount:* The amount allocated is 10% of Annual Sales tax and Real Estate Excise tax 1Q% & 2Q% pursuant to RCW 35.43.040, 82.46.010(2), 35.43.040 or will be determined by the need identified in an updated financial forecast model and/or by the department director.

*Category:* Identified as a "Committed" reserve portion of fund balance.

*Priority #5:*

*Capital Project Reserve: Utilities: (Fund 302)*

*Purpose:* This reserve account will be used by Proprietary/Enterprise Funds that budget capital and/or large maintenance projects as an expense item in the fund or uses a capital projects fund to budget and pay for these expenses. The purpose of this account is to create the financial ability to pay for these types of projects, identified in the Capital Facilities Plan, as deemed appropriate to meet community needs and properly manage city infrastructure.

*Amount:* The amount allocated is through Water and Sewer Assessments and transfers in from the Water and/or Sewer fund or will be determined by the need identified in an updated financial forecast model and/or by the department director.

*Category:* Identified as a "Committed" reserve portion of fund balance.

The City will make every effort to create and maintain the fund balances and reserves identified above and based on the priorities established. The City is aware that needs may change over time and fund balance reserve amounts may be redistributed within a fund to meet the needs that occur at a given time. If it is determined that funds need to be redistributed within a fund, the fund balance with the lowest priority will be redistributed first to allow the ability to meet the need of a higher priority fund balance. In all cases, council approval or budget enactment is required before changing or redistributing the amounts allocated to a reserve account.

**VII. PURCHASING** – *(See Ordinance No. 1178 adopted 7/5/2010 or any ordinance which supersedes this ordinance.)*

The City shall commit to the following guidelines:

- Comply with all federal, state, and local laws, adopted codes, ordinances, and stated policies in its procurement process.
- Buy competitively and wisely to obtain maximum value for the community's dollars spent.
- Afford all bidders an equal opportunity to quote and compete on equal terms.
- Initiate and promote good, continuous vendor relations, as well as, reliable alternate sources of supply.

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- o Buy from suppliers who maintain adequate financial strength, high ethical standards, a record of adhering to specifications and who will maintain integrity in payment terms, delivery and service.

**VIII. CAPITAL IMPROVEMENTS**

The City will make capital improvements in accordance with an adopted capital improvement plan.

The capital investment program and the base operating budget will be reviewed at the same time. This will insure that the City's capital and operating needs are balanced with each other.

The City will develop a multi-year plan for capital improvements including operations and maintenance costs and update it every two years or sooner if needed. Future capital expenditures necessitated by changes in population, changes in real estate development, or changes in the economic base will be calculated and included in the capital budget projections.

The City will identify the estimated costs and potential funding sources for each capital project proposal before it is submitted to Council for approval. The City will use intergovernmental grants, loans and other outside resources whenever possible.

**IX. LOCAL IMPROVEMENT DISTRICTS (LID):**

LID's are formed to provide an alternative means of financing for property owners, within a defined geographical area, to make improvements benefiting their property.

Improvements financed by the Local Improvement District (LID) may include street and sidewalk construction, and construction of water distribution and sewer and stormwater collection facilities. Assessments are determined by the size and location of each property in relation to the improvement and the benefit to the property.

An LID may be initiated by City Council resolution or by petition of the majority of property owners along the frontage of the improvement, within the boundaries of the district. Refer to RCW 35.43 for authority.

The formation of a Local Improvement District is limited to specific instances and can apply as follows:

- When a group of property owners wish to accelerate development of a certain improvement; or
- When a group of property owners desire a higher standard of improvement than the City's project contemplates; or

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- When a group of property owners request City assistance in LID formation to fund internal neighborhood transportation facilities improvements.

LID projects may or may not have City funding involved. If City funding is proposed by the project sponsors (property owners), they shall request it from the City Council (through the City Clerk-Treasurer) in writing before the LID promotion activity begins.

**X. LATECOMER AGREEMENTS**

As a source of financing capital improvements, the City shall work with private developers to construct projects identified in the capital facilities plan.

The City shall collect a connection or impact fee from future developers that utilize the capital improvement and reimburse the developer that built the initial capital improvement.

Construction projects considered under this agreement:

- The project must be a project identified in the adopted capital facilities plan
- The project extension must serve anticipated future development lots.
- Project requires prior approval by the Public Works Director.

Approval of the latecomer provisions for any extension shall be made by the Public Works Director in advance of construction.

Payment of any latecomer fee shall occur within 15 years of final acceptance of construction.

Documentation of the actual project costs and the agreement with current participants must be made prior to any reimbursements.

The reimbursements shall not exceed that amount which brings participant costs equal to zero.

**XI. SHORT TERM DEBT**

Short-term debt covers a period of two years or less.

The City may use short-term debt to cover temporary cash flow shortages that may be caused by a delay in receipting revenues or issuing long-term debt.

The City may issue Interfund loans rather than outside debt instruments to meet short-term cash flow needs. Interfund loans will be permitted only if an analysis of the affected fund indicates excess funds are available and the use of those funds will not impact the fund's current operations. All short-term borrowing will be subject to Council approval by ordinance or resolution, and will bear interest based upon the current bank rates.

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**XII. LONG TERM DEBT**

Debt financing will not be undertaken without identification of a cash stream sufficient to repay the debt.

The City will confine long-term borrowing to capital improvements that cannot be financed from current revenue sources.

Acceptable uses of bond and loan proceeds can be viewed as items which can be capitalized and depreciated.

The City will not use long-term debt for current operations.

The City will maintain communications with bond rating agencies about its financial condition. The City will follow a policy of full disclosure on every financial report and bond prospectus.

Bonds cannot be issued for a longer maturity schedule than a conservative estimate of the useful life of the asset to be financed.

Loans may be obtained to fund capital projects identified in the Capital Improvement Plan.

**XIII. INVESTMENTS**

The 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 Woodland 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 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 RCW's: 35.59.020, 39.59.030, 35.39.030 and 43.84.080. These include: Certificates of Deposit, United States Securities, Bankers' Acceptances,

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Repurchase Agreements and Certificates, and Notes and Bonds of the State of Washington. The City may also create investment accounts with the Clark County Treasurer's Office per RCW 36.29.020, and 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.

The policy shall be to assure no single institution or security is invested into, to such an extent that a delay of liquidation at maturity is likely to cause a current cash flow emergency.

**XIV. ACCOUNTING, AUDITING AND FINANCIAL REPORTING**

The City will establish and maintain a high standard of accounting practices.

The accounting system will maintain records on a basis consistent with accepted standards for local government accounting and the State of Washington Budgeting, Accounting, and Reporting Systems.

Regular monthly and annual financial reports will present a summary of financial activity by major types of funds. Monthly reports will also include a summary of the investment activities by type of investment.

Where feasible, the reporting system will also provide monthly information on the total cost of specific services by type of expenditure and, if necessary, by fund.

The State Auditor's Office will audit City records annually or biannually, depending upon audit requirements, and will issue a financial opinion.