

CITY OF LYNNWOOD

RESOLUTION NO. 2011 - 06

A RESOLUTION OF THE CITY OF LYNNWOOD, WASHINGTON REVISING FINANCIAL MANAGEMENT POLICIES AND ADOPTING A LONG TERM COMPREHENSIVE FINANCIAL PLAN FOR THE CITY.

WHEREAS the Lynnwood City Council adopted Resolution 2000-03 defining recommended budget practices, including Section 2.1 which recommend the development of a series of financial policies; and

WHEREAS Resolution 2000-12 of the Lynnwood City Council adopted "Financial Policies" for the City; and

WHEREAS Resolution 2003-06 of the Lynnwood City Council amended "Financial Policies" for the City;

WHEREAS Resolution 2005-04 of the Lynnwood City Council amended "Financial Policies" for the City; and

WHEREAS it is intended that these policies would be reviewed and revised periodically; and

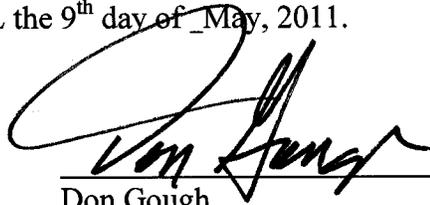
WHEREAS the Lynnwood City Council has reviewed and deliberated on the recommended revisions to the financial policies and finds that it is in the best interest of the city to revise its financial policies;

NOW, THEREFORE, THE CITY COUNCIL OF THE CITY OF LYNNWOOD DOES HEREBY RESOLVE THAT;

The "Financial Management Policies" dated April 12, 2005 and adopted by Resolution 2005-04 are hereby amended by this resolution as indicated in "Attachment A," as though it is fully set forth herein. In addition, the Long Term Comprehensive Financial Plan indicated in "Attachment B" shall also be adopted as part of this revision. The Mayor and Finance Director shall utilize these policies and plan in preparation of city budgets and amendments thereto. The city budget and proposed amendments shall include as appropriate reference to, and the extent to which the preliminary budget and amendments complies with the policies.

Section 1. Effective Date. This resolution shall take effect immediately upon passage thereof.

PASSED BY THE CITY COUNCIL the 9th day of May, 2011.



Don Gough
Mayor

ATTEST/AUTHENTICATE:



Lorenzo Hines
Finance Director

APPROVED AS TO FORM:



Rosemary Larson
City Attorney

PASSED BY THE CITY COUNCIL: 5-9-11
RESOLUTION NUMBER: 2011-06

Attachment A

Financial Management Policies
Adopted August 14, 2000 (Resolution 2000- 12)
Revised April 15, 2003 (Resolution 2003-06)
Last Revised April 11, 2005 (Resolution 2005-04)

The safekeeping, proper use and management of City resources are very serious responsibilities. This task shall be conducted within the City of Lynnwood in such a way that the City shall be fully accountable to the public for its fiscal activities. A spirit of openness and transparency shall be the context of the City’s financial management program policies.

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Application and Use of Financial Management Policies

It is the intent of the City Council to utilize and reference these policies in decisions and other actions with financial ramifications for the City. Also, these policies shall be put into effect by adherence to the Long Term Financial Plan. And, it is anticipated that good financial management will include regular review, amendment, and adjustment of

1 the Long Term Financial Plan. This section outlines examples of when and how these
2 policies will be specifically utilized.

3
4 1. Review of Financial Management Policies:

5
6 A. A Mid-Year Financial Review will be held each year in accordance with LMC
7 2.72.050.

8
9 B. The Financial Management Policies shall be reviewed as part of the Mid-Year
10 Financial Review. This review shall provide for any recommended changes to
11 the policies by the Mayor or members of the Lynnwood City Council.

12
13 2. Preliminary Budget to include reference to Financial Management Policies.

14
15 A. The City shall prepare a Preliminary Budget in accordance with LMC 2.72.110.

16
17 B. The Preliminary Budget shall include an assessment of its conformance to the
18 Financial Management Policies and an explanation if there are areas of non-
19 conformance.

20
21 C. The budget message shall include references as to how the Financial
22 Management Policies were used to develop recommendations for balancing the
23 budget.

24
25 3. Budget Amendments should include reference to Financial Management Policies as
26 is appropriate.

27
28
29 **General Financial Policies and City Programs and Services**

30
31 The City will maintain the fiscal integrity of its operating, debt service, and capital
32 improvement budgets which provide services and maintain certain public facilities,
33 streets and utilities. It is the City's intent to maintain fiscal integrity while providing a
34 level of public goods and services that is within the city's fiscal capacity.

35
36
37 **Reserve Fund Policies**

38
39 Adequate reserve levels are a necessary component of the City's overall financial
40 management strategy and key factor in external agencies' measurement of the City's
41 financial strength. The City's available reserves are made up of an amount which is not
42 expected to be expended (reserve funds) and an amount that is intended to be invested
43 for the betterment of the community (development funds).

44
45 1. Reserve Funds

City of Lynnwood Financial Policies

1 A. It is the policy of the City to maintain general governmental reserves and cash
2 balances for general government at two levels and shall be made up of two
3 components; the Revenue Stabilization Fund #198 and the General Fund
4 Unencumbered Fund Balance (Cash Flow Balance):

5
6 1) General Fund Unencumbered Fund Balance to provide for adequate operating
7 cash and cover substantial receivables until they are collected:

8
9 a. The City's General Fund shall maintain an unencumbered fund balance
10 of at least \$4,000,000, or the amount of net receivables posted in the
11 annual financial report, which ever is greater.

12
13 b. Achieving and maintaining this balance is the highest priority over
14 developing and maintaining other general fund reserves.

15
16 c. The restricted reserves are intended to protect the city from major
17 economic downturns and similar adverse financial conditions.

18
19 i. It will be the goal of the City to maintain a Revenue Stabilization
20 Fund at a level to cover at least two months operations in the
21 General Fund which is equivalent to \$9,000,000 in 2011.

22
23 ii. Since these reserves are not currently available, the city will seek
24 to build gradually to this goal reaching an interim target level of
25 \$5,000,000 by 2016.

26
27 iii. Any general fund unencumbered ending balance by the end of
28 the biennium in excess of \$4,000,000 shall be transferred by the
29 City Council to the Revenue Stabilization fund #198 until the
30 target in policy in (c)(ii) above is achieved.

31
32 d. The City will review the unrestricted General Fund balance and Revenue
33 Stabilization Fund #198 balance each July. To the extent that the City's
34 audited financial statements identify a General Fund balance in excess
35 of the target, the excess shall be allocated by the City Council, pursuant
36 to these policies.

37 38 2. Development Funds

39
40 A. The City shall maintain a Program Development Fund as defined in LMC 3.51.
41 The use of any funds within the Program Development Fund shall be as defined
42 by the Lynnwood Municipal Code.

43
44 B. The City will maintain a Capital Development Fund #333 to provide funding for
45 the six year Capital Facilities Plan, less proprietary fund projects as defined by
46 LMC 3.50. The use of any funds within the Capital Development Fund shall be
47 as defined by the Lynnwood Municipal Code. Once the policy targets for

City of Lynnwood Financial Policies

1 unencumbered reserves is achieved (Reserve Fund Policy 1(A)(1)(c)(i) and (ii)
2 above) the city shall set aside at least \$1.1 million per year for capital
3 development (an amount equivalent to the savings to the city generated by the
4 public vote annexing city into the Sno-Isle library district)
5

6 C. Contributions to development funds will be made from available funds as
7 identified in the "Mid-Year Financial Review" pursuant to LMC 2.72.050, or during
8 the budget process. The Finance Director shall make a recommendation to the
9 Council with regard to transfers to reserve funds as a part of that report. The
10 Council, by motion (and amending the budget by ordinance as necessary) shall
11 authorize the transfers as the Council shall determine to be appropriate at that
12 time.
13

14 3 In accordance with RCW 41.16.050, the City shall maintain a Firemen's Pension
15 Fund to record all monies received from taxes on fire insurance premiums received
16 from the state, contributions made by firefighters (before the inception of LEOFF I)
17 and interest earned on the investment of these funds. These funds are used to
18 cover benefits payable to members (or to their survivors) who retired prior to March
19 1, 1970 or who were active on that date.
20

21 4 All expenditures drawn from reserve accounts shall require prior Council approval
22 unless previously specifically authorized by the City Council for expenditure in the
23 budget.
24

25 5 The City has developed and adopted on May 9, 2011, a long-term financial plan to
26 restore and preserve the reserves and fund balances as set by these policies.
27 This plan is based on the system of financial forecasts prepared pursuant to these
28 policies and shall set measurable periodic targets for meeting these policies.
29

General Budgeting Policies

- 30
- 31 1. These Financial Policies shall be used to frame major policy initiatives and be
32 summarized in the budget document.
33
 - 34 2. The biennial budget proposal and amendments of each department shall be based
35 on the mission, goals and objectives of the department. Each budget request shall
36 include an analysis of how the proposal furthers the department's mission, goals and
37 objectives, and how the proposal relates to past activities and accomplishments.¹
38
 - 39 3. The budget should provide for adequate maintenance of capital assets.
40
 - 41 4. The budget process shall be consistent with and integrated into the long term
42 forecasting system and on-going financial reporting
43
44

¹ This policy reflects the request by Councilman Simmonds that budget proposals follow the approach used by Economic Development.

1 **General Reporting Policies**

- 2
- 3 1. The finance department shall prepare on-going financial reports that show and
- 4 monitor actual performance in various expenditures and revenues with the adopted
- 5 budget and planning forecasts.
- 6
- 7 A. The reporting system shall include a financial analysis of the overall financial
- 8 status of the City and of its key funds, including, but not limited to, an analysis of
- 9 ALL available financial resources.
- 10 B. This analysis should discuss the current financial status, and the immediate and
- 11 longer term future financial status.
- 12 C. A complete analysis shall be prepared quarterly with monthly updates.
- 13

14 **General Revenue Policies**

15

16 1. General Revenues

17

- 18 A. To the extent possible, a diversified and stable revenue system will be
- 19 maintained to shelter public services from short-run fluctuations in any one
- 20 revenue source. Trends analyzing the dependence on distinct revenue sources
- 21 shall be included in the budget documents for consideration by the Council.
- 22
- 23 B. Revenue forecasts (see below Financial Management/Strategic Forecasting
- 24 Policies) for major revenues (those which represent at least 10% of the General
- 25 Fund) will present “conservative”, “optimistic” and “best estimates” forecasts and
- 26 the rationale for each. The forecasts shall be based on the best information
- 27 available at the time and references to the sources of information used in the
- 28 estimates will be made available.
- 29
- 30 C. Revenue forecasts will assess the full spectrum of resources that can be
- 31 allocated for public services. Each year the Council shall review potential
- 32 sources of revenue as part of the budget process.
- 33
- 34 D. Short-term (anticipated less than one year) economic downturns and temporary
- 35 gaps in cash flow: Expenditure reductions or restrictions may be imposed.
- 36 Council may approve a contribution from the Revenue Stabilization Fund or
- 37 interfund loans to address temporary downturns in City revenues. Interfund
- 38 loans may be utilized to cover temporary gaps in cash flow.
- 39
- 40 E. Long-term (greater than one year) revenue downturns: Deficit financing and
- 41 borrowing to support on-going operations is not the policy of the City as a
- 42 response to long-term revenue shortfalls. Revenue forecasts will be revised.
- 43 Expenses will be reduced to conform to the revised long-term revenue forecast
- 44 or revenue increases will be considered.
- 45

1 F. All potential grants shall be carefully examined for matching requirements. Some
2 grants may not be accepted if the local matching funds cannot be justified.
3 Grants may also be rejected if programs must be continued with local resources
4 after grant funds are exhausted.

5
6 2. Fees

7
8 A. The City shall develop and maintain a comprehensive list of all fees and charges.

9
10 1) The fees and charges should be thoroughly reviewed utilizing a rate analysis
11 approach in connection with each biennial budget.

12
13 2) Fees shall be reviewed by general type as described below:

14
15 i) Development related fees (land use, building and property, fire marshal's
16 office and engineering fees) shall be governed by ordinance; adjusted for
17 inflation and periodically subjected to a comprehensive rate analysis.
18 Development related permitting fees should be based on recovering the
19 costs of managing the fee system.

20
21 ii) Regulatory Fees (such as those related to Title 5 of the LMC) shall be
22 governed by ordinance and reviewed with each biennial budget process
23 and when appropriate as the regulatory conditions change. As may be
24 permitted by law, these fees may be used for generating city revenues in
25 addition to recovering the costs of the regulatory system.

26
27 iii) Recreation and parks use fees shall be set within a range by the Director
28 of Parks, Recreation and Cultural Arts as provided for by ordinance. A
29 review of the fee ranges shall be conducted with the biennial budget.

30
31 iv) General fees (such as rental rates, copy charges, and other miscellaneous
32 fees) shall be reviewed each year at the Mid-Year Financial review or
33 during the budget and/or amendment process. These services should
34 charge fees to assist in making these services self supporting.

35
36 v) Enterprise Funds (Utilities and Golf Course) Fees shall be set at a level
37 necessary to support the costs of services in the fund and to maintain long
38 term financial stability. To insure that the enterprise funds remain self-
39 supporting, rate structures will fully fund the direct and indirect costs of
40 operations, capital plant maintenance, debt service, depreciation, and
41 reasonable system extensions.

42
43 3. Utility Rates

44
45 A. Utility Fund Revenue and Rates

City of Lynnwood Financial Policies

- 1) The City will conduct a comprehensive third party expert analysis updating our rate structure, on a three year cycle.
- 2) The revenues of the utilities should provide adequate resources to provide for the proper operation of the related programs, servicing of related debt at prescribed levels, maintenance of the capital plant, and adequate reserves.
- 3) Utility rates shall be set utilizing the following guidelines:
 - i) The rate structure should encourage consumers to conserve natural resources while providing a stable and predictable revenue base for the proper management of the utility.
 - ii) The rates shall strive to be equitable among the classes (general types) of ratepayers.
 - iii) The revenue target of the utility rates should maintain a minimum of 1.5 times the debt service payments for the utility in each ensuing year.
 - (a) Rates should be set using an assumption of 95% of the average water consumption for the five previous years.
 - (b) A complete rate analysis, when finished, shall be included with the proposed preliminary budget, if not already adopted by separate ordinance.

Expenditure Policies

1. The City will only propose operating expenditures that can be supported from on-going operating revenues as projected in the City's long range forecast (described in the Financial Management/Strategic Forecasting Policies section below). Before the City undertakes any agreements that would create fixed on-going expenses, the cost implications of such agreements will be fully determined for current and future years with the aid of strategic financial planning models as described in Financial Management/Strategic Forecasting Policies below. Capital expenditures may be funded from one-time revenues, but the operating budget expenditure impacts of capital expenditures will be reviewed for compliance with this policy provision.
 - A. Operating revenues are those revenues that recur regularly on an annual basis, excluding revenues that may be available only on a one time basis such as revenues derived from land sales, bond proceeds,
2. Department heads are responsible for managing their budgets within the total appropriation for their department.
3. The City will maintain expenditure categories according to state statute and administrative regulation as described in the State Auditor's Budgetary, Accounting, and Reporting System (BARS).

City of Lynnwood Financial Policies

- 1 4. The City will assess funds for services provided internally by other funds. The
2 estimated direct and indirect costs of service will be budgeted and charged to the
3 fund performing the service. Interfund service fees charged to recover these costs
4 will be recognized as revenue to the providing fund. A review of the method for
5 determining the amount of the interfund assessment will be reviewed at least every 3
6 years.
7
- 8 5. Emphasis is placed on improving individual and work group productivity rather than
9 adding to the work force. The City will invest in technology and other efficiency tools
10 to ensure high productivity. The City will hire additional staff only after the need of
11 such positions has been demonstrated and documented.
12
- 13 6. All compensation planning and collective bargaining will focus on the total cost of
14 compensation which includes direct salary, health care benefits, pension
15 contributions, training allowance, and other benefits of a non-salary nature which are
16 a cost to the City.
17
- 18 7. The Enterprise Fund expenditures shall be fully supported by their own rates, fees,
19 and charges and not subsidized by the General Fund. The Enterprise Funds shall
20 pay their share of overhead costs and services provided by the General Fund.
21

22 **Debt Management Policies**

- 23 1. The City shall adopt policies to guide the issuance and management of debt.
24
25 A. The City may issue interfund loans consistent with LMC 3.90.
26
27 B. All professional service providers (underwriters, financial advisors, bond insurers,
28 etc.) selected in connection with the City's debt issues will be selected in
29 accordance with the City's procurement policies. In most cases this will require a
30 request for proposal process.
31
32 C. The term of long-term debt issued will not exceed the life of the projects financed.
33 Current operations will not be financed with long-term debt.
34
35 D. The City shall maintain an open line of communication with the rating agencies
36 (Moody's and Standard and Poors), informing them of major financial events in
37 the City as they occur. The Comprehensive Annual Financial Report (CAFR)
38 shall be distributed to the rating agencies and The National Recognized
39 Municipal Information Repository Securities (NRMIRS) within 30 days of SOA
40 approval of the following year of the CAFR. The CAFR shall include all
41 secondary market disclosure required by the SEC.
42
43 (1) The City shall strive to maintain current credit ratings in the future. The
44 current credit ratings are: General Obligation - A1 with Moody's Investor's
45 Service and A+ with Standard and Poors. Revenue Bonds are A with
46 Moody's Investor's Service and AA with Standard and Poor's. City bond
47

City of Lynnwood Financial Policies

1 ratings are found each year in the notes to the financial statements in the
2 Comprehensive Annual Financial Report.

3
4 E. As part of the debt policy, the City will use debt ratios based on debt per
5 assessed value, debt per capita, and debt per capita as a percentage of per
6 capita income as guides. These ratios will assist in guiding amounts that the City
7 will permit in debt issuance.

8
9 F. Assessment bonds will be issued in place of general obligation bonds, where
10 possible, to assure the greatest degree of public equity and flexibility for City
11 finances.

12
13 G. The City will comply with all statutory debt limitations imposed by the Revised
14 Code of Washington (RCW). The City of Lynnwood debt will not exceed an
15 aggregated total of 7.5% of the assessed valuation of the taxable property within
16 the City. Compliance with state law and this policy shall be documented each
17 year in the city's Comprehensive Annual Financial Report.

18
19 H. The following individual percentages (as defined in state law) shall not be
20 exceeded in any specific debt category:

21		
22	General Debt	2.5% of assessed valuation
23	Utility Debt	2.5% of assessed valuation
24	Open Space and Park facilities	2.5% of assessed valuation
25		

26 I. No debt shall be issued for which the City is not confident that a sufficient,
27 specifically identified revenue source is available for repayment. The Finance
28 Director shall prepare an analytical review for this purpose prior to the issuance
29 of any debt.

30
31 J. Credit enhancements shall be considered with a cost/benefit analysis for each
32 long term bond issue.

33
34 K. Reserve accounts shall be maintained as required by bond ordinances and
35 where deemed advisable by the City Council. The city shall structure such debt
36 service reserves so that they do not violate IRS arbitrage regulations.

37
38 **Balancing the Operating Budget**

39
40 1. It is the policy of the City of Lynnwood to adopt structurally balanced budgets.

41
42 A. A structurally balanced budget shall mean:

43 1) On-going expenditures shall be provided for by anticipated on-going
44 revenue.

45 i) On-going expenditures do not include

46 (1) "One-time" items such as capital outlay, projects or studies

City of Lynnwood Financial Policies

1 (2) Allocations to other funds dependent on general revenues sufficient to
2 balance dependent budgets (i.e.: Street Fund, Solid Waste Fund).

3 ii) Anticipated on-going revenues may include:

4 (1) Recurring revenue such as taxes, fees, etc.

5 (2) A reasonable amount of resources remaining unspent from the
6 previous year's budget based on historical experience and an
7 assessment of the current budget.

8 (3) A portion of the unencumbered fund balance above the minimum
9 levels established by this policy.

10 (4) Transfers of recurring revenues from other funds. For example
11 property tax revenues from the Emergency Medical Services Fund
12 #120 or sales tax revenues from the Criminal Justice Fund #105, etc.²

13
14 B. The Mayor shall submit a balanced Preliminary Budget proposal as provided for
15 in LMC 2.72.110.

16 1) The Mayor's budget proposal shall balance all city funds.

17 2) The transfers between funds shall be clearly illustrated.

18 3) The use any proposed new revenues from proposed new fees or taxes
19 should be clearly illustrated.
20

21
22 C. The anticipated amounts of city reserves (as described in this policy) should be
23 clearly illustrated for each fund.

24 1) The reserve estimates shall be provided for the beginning and the end of the
25 Preliminary Budget period (beginning and ending fund balances).
26
27

Financial Management/Strategic Forecasting Policies

1. Long Term Forecasting Policies

28
29
30 A. As a part of each budget or amendment process, the City will prepare both
31 expenditure and revenue projections for the next six years. Projections will also
32 include estimated costs for capital improvements.
33
34

35 • Each forecast shall include three alternative Revenue Forecasts as described
36 in General Revenue Policies above page 7.
37

38 • Each forecast shall include alternative expenditure forecasts based on
39 different policy and economic assumptions regarding the potential growth of
40 costs.

² This is included because of recent confusion regarding the character of transfers into the general fund.

- The expenditure forecast used for planning purposes (designated the planning forecast) shall be based on and be constrained by the “best estimate” revenue forecast.

B. The Planning Forecast shall:

- Incorporate plans for specific increasing reserves and specific fund balances,
- Include revenue streams as may be appropriate to support capital projects in accordance with the city’s Capital Facilities Plan and Strategic Investment Plan Component.
- Serve as the basis for any decision making that could affect long term trends and financial needs.

C. Both six year forecasts shall be updated semi-annually to keep the forecasts current for the purpose of on-going decision making.

- Each update of the forecast shall include an analysis of current revenue and expenditure trends and the implications of those trends over the forecast period. This analysis shall identify significant economic or other factors that may affect the growth of revenues and expenditures over the forecast period.
- Each update of the financial forecast shall compare current trends of revenue and expenditure growth with the planning forecast.
- Each update shall identify various budget and other fiscal decisions that will be needed within the forecast period to keep forecasted expenditures within anticipated revenues based on actual expenditure and revenue trends.

2. Budgeting, Planning and Forecasting

A. All financial decisions shall be within the context of the long-range planning forecast and other related long-range plans (Capital Facilities Plan / Strategic Financial Plan). Staff shall provide a review of the implications of budgetary and other fiscal proposals on these long-range forecasts and plans. Staff shall include a “fiscal note”, in a format to be provided by the Finance Director and approved by the Council, with each action item on the council agenda. If no note is deemed necessary, the agenda cover sheet shall so state.

B. The budget shall be developed consistent with state law and in a manner which encourages early involvement with the public and City Council as provided for in LMC 2.72.030. A calendar of events related to budget development shall be presented to the City Council in the 1st quarter of each year.

C. The budget will integrate into Capital Facilities Plan (CFP) and Strategic Financial Plan (SFP). The budget shall be consistent with the current year of the CFP and SFP. Budget planning activities shall be based on the next year of the SFP.

1
2 D. Assumptions used in the CFP and SFP will be noted and defined.

3
4 E. Basis of long-range planning will be results oriented. In accordance with LMC
5 2.72 and LMC 2.70 and Resolution 2000-03, the City shall strive to illustrate the
6 output from CFP and SFP expenditures.

7
8 F. The Forecasts developed under these policies shall be incorporated into the
9 adopted long-term financial plan which shall be periodically updated and
10 reviewed consistent with the updating of the forecasts as set forth under these
11 policies

12
13 **Capital Asset Acquisition, Maintenance, Replacement and Retirement**

14
15 1. The City shall annually develop a Capital Facilities Plan (CFP) as defined and
16 required by RCW 36.70A.070 which is consistent with the Capital Facilities Element
17 of the City Comprehensive Plan at a time established by the City Council.

18
19 2. Such plan shall include all projects to maintain public capital facilities required to
20 maintain service levels at standards established by the City Council. The plan shall
21 include a complete inventory and analysis of building conditions including the extent
22 and estimated costs regarding maintenance, remodel and replacement of buildings.
23 This plan shall be reviewed in the mid-year financial review.

24
25 3. The proposed CFP may include for consideration such other projects as requested
26 by the City Council, or Mayor.

27
28 4. Funding for capital projects shall be classified as to source (general government,
29 enterprise or other) within the plan.

30
31 A. The extent to which funds exist for each project shall be described in the plan.

32
33 B. The plan shall integrate with the Proposed Preliminary Budget (LMC 2.72.110) in
34 that funds required for the projects recommended for the ensuing budget period
35 shall be identified in the Preliminary Budget.

36
37 C. The CFP shall include a recommended level of funding from general revenues in
38 order to provide for “on-going” projects (as defined in the CFP).

39
40 5. The plan shall be for a period of six years as required by state law (GMA).

41
42 6. With the exception of “on-going projects”, each project shall be described such that
43 development phases are delineated as separate stages of the project. Examples
44 include land acquisition, design and construction. “On-going projects” represent
45 annual capital programs such as street overlay, sidewalk expansion or traffic signal
46 rebuild.

City of Lynnwood Financial Policies

- 1 7. An estimate for the operating budget impact of each proposed project shall be
2 identified and incorporated into the City Strategic Financial Plan.
3
- 4 8. The CFP shall be approved by ordinance annually. The approving ordinance shall
5 constitute a plan of action wherein no final approval to proceed with specific projects
6 is made, but requires specific authorization and appropriation (by ordinance in the
7 form of a budget amendment or financial plan for each project) by the Council in a
8 manner as the Council shall determine.
9
- 10 9. The adopted CFP shall constitute the City's long-range financial plan for capital
11 expenditures and shall be consistent with the City Strategic Financial Plan.
12

ATTACHMENT B



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City of Lynnwood, Washington
Financial Policy Review and
Initial Long Term Financial Plan

by
Pat Dugan

Department of Administrative Services
Lorenzo Hines Jr.
Finance Director
May 9, 2011

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1 **Introduction**

2
3 The “great recession” has severely impacted our state and local economies and
4 the financial capacity of the City of Lynnwood. The City was subject to severely
5 reduced revenues for 2011-12. Sales taxes which had comprised 57% of the
6 City’s 2009-10 General Fund tax collections fell \$4.3 million per year (\$8.6 million
7 per biennium) between 2007 and 2009. During the same period, employee
8 salaries and benefits have increased over \$5.5 million per year (\$11 million per
9 biennium). Since 2007 new or increased revenues have been insufficient to fill
10 this gap. This forced the City to use its reserves and available fund balances in
11 order to maintain its operation during the 2009 and 2010 biennium. While the
12 great recession impacted both 2009 and 2010, most of the drop in revenues and
13 the resulting need to draw on reserves and fund balance occurred during 2009.
14

15 When the City was audited by the State Auditor’s Office (SAO) for the 2009 fiscal
16 year they issued an “accountability finding” noting that this financial condition had
17 occurred and that the City had not effectively controlled costs and that the City’s
18 financial condition had declined significantly during 2009. As a result of this 2009
19 Audit, the City Administration and City Council agreed with the State Auditors
20 office to prepare a comprehensive financial plan addressing the fiscal condition
21 of the City. Key elements of this plan would include a review of the City’s
22 financial policies and a long range financial plan. This report presents that plan.
23

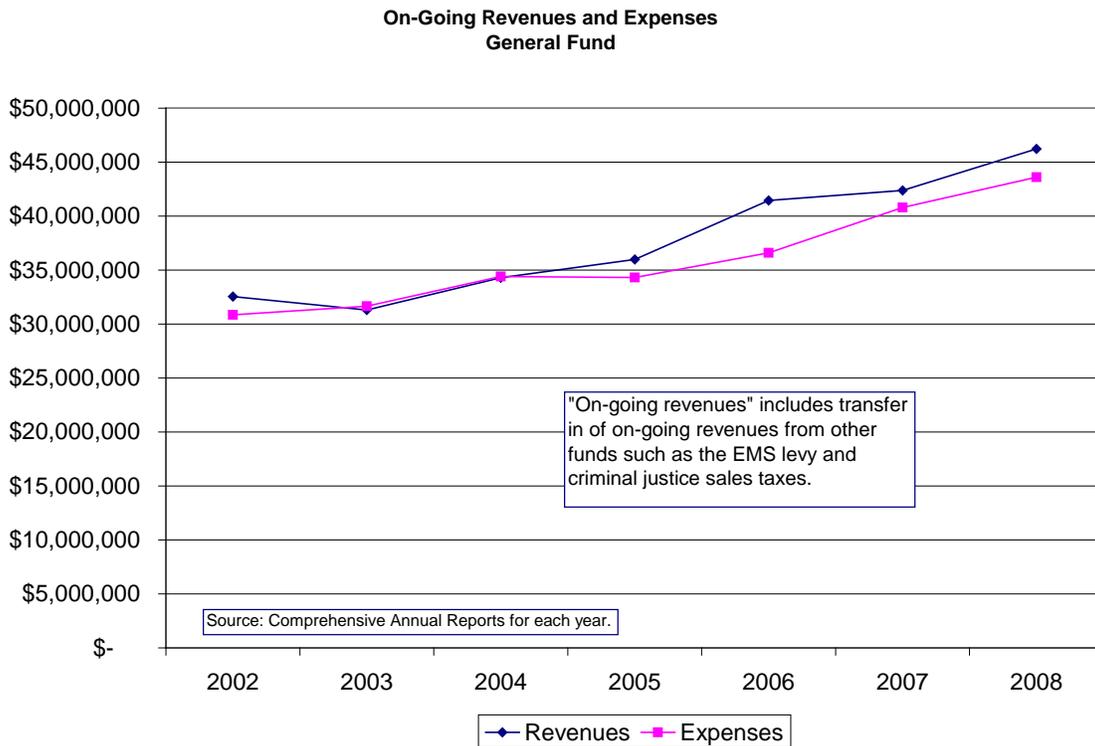
24 **Background**

25 ***2009 Fiscal Condition***

26
27 The City’s current fiscal problem is derived from two major conditions. First, the
28 “great recession” that caused a dramatic and unprecedented drop in sales tax
29 revenues in 2009. Second was the dramatic lack of Streamline Sales Tax (SST)
30 mitigation revenue which the state Department of Revenue estimated to be \$4
31 million for 2009-10 biennium, but which actually yielded only 17% of that amount.
32 Until 2009 the City of Lynnwood was able to manage within its policies that called
33 for retaining a cash flow fund balance of \$5,000,000 (in addition to a revenue
34 stabilization fund of \$2,000,000) and that on-going expenses should be
35 supported by on-going revenues. Figure 1 below shows that on-going revenues
36 have consistently exceeded on-going expenses prior to 2009. During this period
37 the General Fund was contributing revenue to capital construction and reserve
38 funds. The City ended 2008 with a fund balance of \$5,339,802.¹
39
40

¹ This is the final figure for 2008. The 2008 Comprehensive Annual Financial Report (CAFR) reported an ending balance of \$6,105,679, but there was a “prior year adjustment” in the 2009 CAFR that reduced the 2008 ending to \$5,339,802.

1 Figure 1



2

3

4 This positive fiscal picture changed dramatically in 2009 as the recession
 5 worsened well beyond expectations. Prior to the recession sales taxes
 6 comprised nearly (60%) of City tax revenues. The adopted 2009-10 budget
 7 (adopted in 2008) anticipated a continued decline of sales tax revenues of 6.4%
 8 through 2009 (see page 19, adopted 2009-2010 Budget). However, sales taxes
 9 dropped much more dramatically by over 17% from the already depressed 2008
 10 level (as illustrated on figure 2). In addition the City was instructed by the state to
 11 budget \$4 million dollars (page 21 of the 2009-2010 Adopted Budget) in
 12 mitigation payments in regard to streamlined sales tax (SST) which through four
 13 quarters of the biennium returned ONLY \$683,602; a loss of over 83%.

14

15 While the City's most important revenue source was dramatically dropping, the
 16 City's operating costs continued to increase driven by increasing personnel
 17 costs.

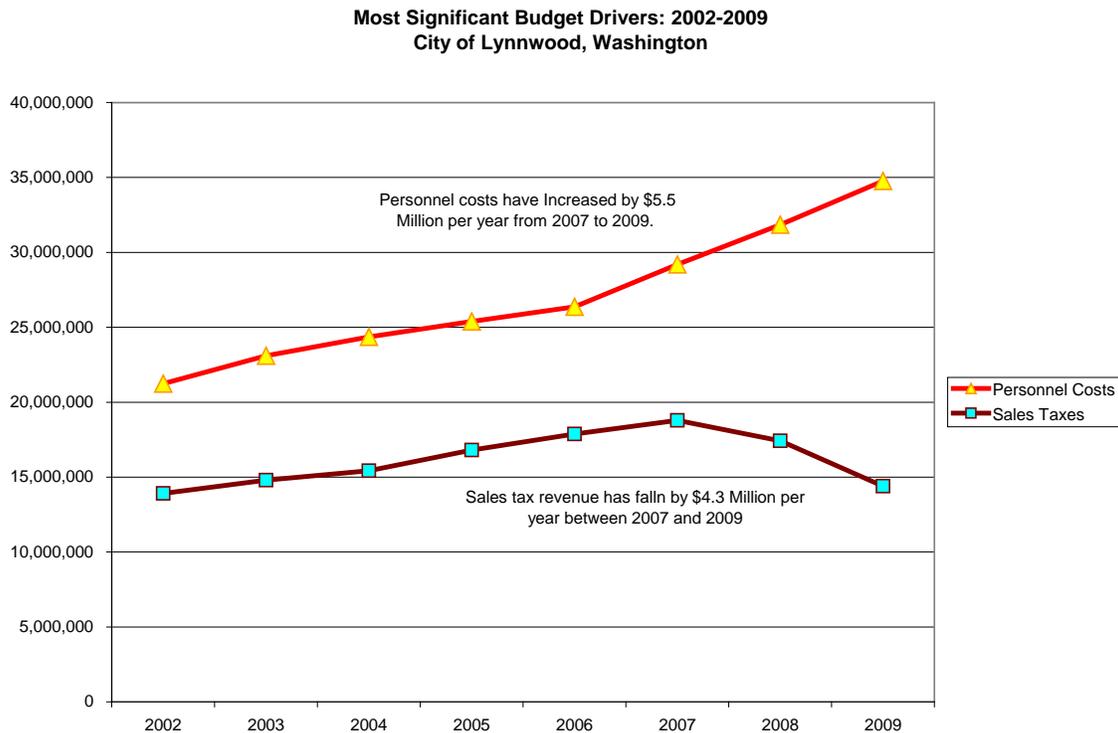
18

19 Figure 2 shows the contrast between falling sales tax revenues and escalating
 20 costs through 2009. The gap between falling sales taxes and increasing
 21 personnel costs was almost \$10 million dollars per year.

22

23

1 Figure2



2

3

4 These fiscal trends consumed all of the City's General Fund balance and then
 5 some. The ending fund balance dropped from over \$5,339, 802 to a minus
 6 \$115,733. The City also accessed its revenue stabilization fund, transferring \$2
 7 million to the General Fund, to maintain this low fund balance. Since the City's
 8 year end balance sheet carries an on-going receivable of over \$3.6 million, and
 9 the drop in fund balance depleted the City's cash needed to cover this
 10 receivable, the General Fund had to borrow \$3,000,000 from the utilities, in order
 11 to maintain a positive cash flow in the fund. In 2010, additional transfers from
 12 other funds, notably **\$1,855,000 from the capital development fund**, were
 13 made to help balance the General Fund's 2009-10 biennial budget. These
 14 actions, necessitated by the dramatic drop in both sales tax and SST revenues,
 15 brought the City to be out of compliance with the City's financial policies
 16 regarding reserves and maintaining on-going expenses with on-going revenues.

17

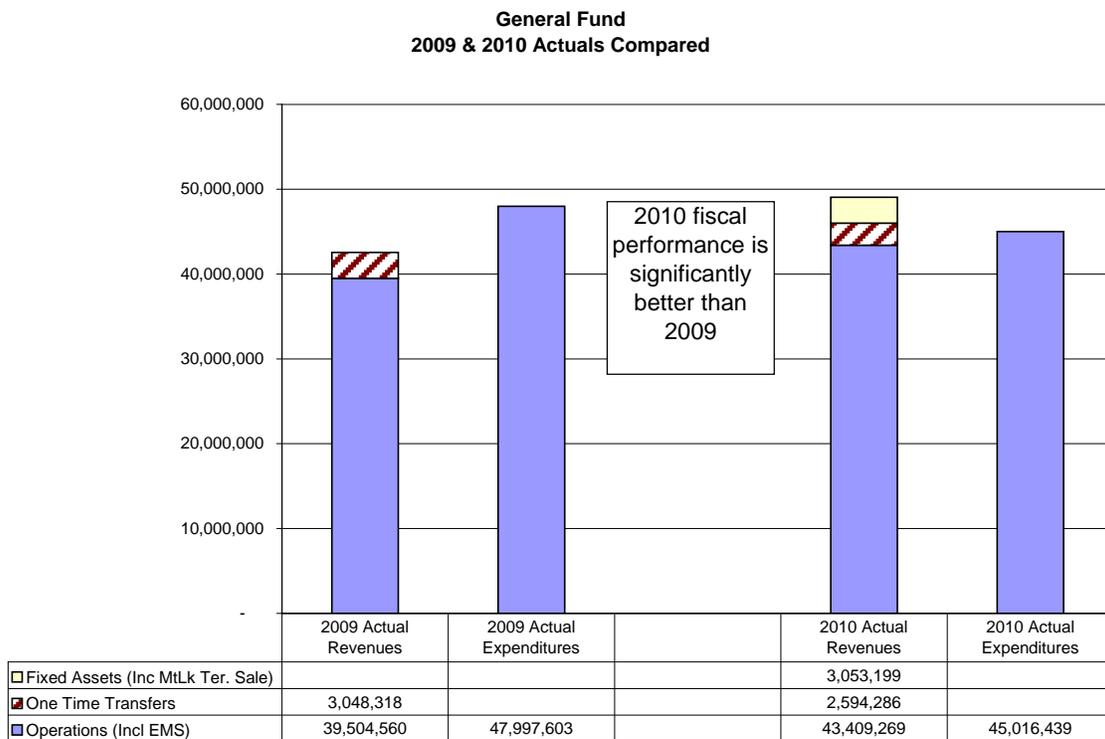
18 While 2009 was a very adverse year financially, the City did manage to restore a
 19 balance to its fiscal operations in 2010, setting a platform for further recovery
 20 from the very adverse conditions in 2009 and 2010. While sales taxes did not
 21 significantly increase during 2010, they at least ceased to fall. Other revenues
 22 also tended to stabilize, although all categories ended the biennium below the
 23 revised budget estimates prepared at the end of 2009. Even with these
 24 stagnating revenues the City did end 2010 in a much better position than 2009.

25

1 Figure 3 compares the fiscal performance of the General Fund in 2009 with
 2 2010. As shown, while transfers were needed to “balance the budget” in 2010,
 3 City operating costs were also substantially cut from 2009 levels. On-going
 4 revenues were increased by the addition of utility taxes, passed in late May 2010
 5 and effective in July 2010. A large real estate sale of \$3,053,199 added to City
 6 resources (Joint Shop). Since revenues without this transaction, exceeded
 7 expenses, the City was able to set the sale proceeds aside in its fund balance.
 8 These funds, coupled with the favorable results of other revenues exceeding
 9 expenses, resulted in an ending 2010 fund balance of over \$3,815,000. This
 10 brings the City very close to compliance with its General Fund balance policy
 11 which requires a minimum of \$4 million (with a target of \$5 million).
 12

13

Figure 3



14
15

Audit Finding

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21
22

In its review of 2009 finances, the State Auditor’s Office noted that the City failed to adhere to its financial policies in the City’s response to the adverse fiscal conditions that occurred during that year. This review resulted in an “accountability finding” in the audit report.

The City of Lynnwood’s elected officials have not effectively controlled costs resulting in the City’s financial position to decline.

23
24
25

1 **Description of Condition**

- 2
- 3 • The City of Lynnwood operates on a biennial General Fund budget of
 - 4 \$86,656,175. During our audit, we noted significant concerns with the
 - 5 City's financial position: A significant decrease in the ending unreserved
 - 6 General Fund balance, decreasing from \$6,105,679² at year end 2008 to
 - 7 a negative \$115,733 at the end of 2009. This is well below the \$4 million
 - 8 minimum required by City resolution 2005-2004.
 - 9 • A decrease in ending cash and investments in the General Fund from
 - 10 \$3,826,675 at the end of 2008 to \$74,101 at the end of 2009.
 - 11 • The City exhausted its \$2 million reserve, or "rainy day" fund, and loaned
 - 12 the General Fund \$3 million from its Utility Fund to pay for operating
 - 13 expenses.

14

15 **Recommendation**

16

17 The SAO recommended that the City's elected officials:

- 18
- 19 • Establish a formal, written comprehensive plan to address its financial
- 20 condition and to ensure it maintains the required minimum fund balance.
- 21 • Closely monitor and evaluate the City's financial condition to ensure the
- 22 plan is followed and the desired results are achieved. The plan should be
- 23 revised as needed to resolve financial issues.

24

25 This plan addresses both of those recommendations. This plan is the

26 comprehensive long-term financial plan recommended in the first bullet. As part

27 of that plan, the financial policies call for the monitoring of the forecasts in this

28 plan to ensure its implementation.

29

30 **City Response**

31

32 As a result of the exit conference with the State Auditor's Office the City agreed

33 on October 11, 2010, to develop a Comprehensive Long-Term Financial Plan

34 that would address how the City intends to recover from the impact of the

35 adverse fiscal conditions of 2009. The key work elements in that agreement

36 were:

- 37
- 38 1. Complete a Review and necessary updates of City Financial Policies
- 39 (Res. 2005-04)
- 40 2. Review the budgeting guidance provided by the state Budgeting,
- 41 Accounting, and Reporting System (BARS)
- 42 3. Update Policies for the Foreseeable Future

² This is the amount reported in the 2009 CAFR. As noted above it was adjusted in the 2009 CAFR to \$5,339,802.

- 1 4. Project Program Expenditures for 4 to 6 Years
- 2 5. Project Revenues 4 to 6 Years
- 3 6. Analyze and compare expenditure and revenue forecasts

4

5

6 **Review of Budgeting Guidance**

7

8 ***State Budgeting Accounting and Reporting***

9

10 The guidance in Part Two of the State Budgeting Accounting and Reporting

11 (BARS) system was reviewed.

12

13 According to BARS, in order to work effectively, any budget system must provide

14 for the following:

- 15
- 16 1. A structure which presents data in categories reflecting the
 - 17 organization's objectives.
 - 18 2. Continual analysis by each organization of how its plan meets these
 - 19 objectives.
 - 20 3. Alternative objectives and alternative plans for meeting these
 - 21 objectives.
 - 22 4. An integrated planning/budgeting process incorporating data that is
 - 23 meaningful for decision making.
 - 24 5. Broad planning decisions in a budget context.
 - 25 6. Timely presentation of plans and financial data for action by the
 - 26 legislative body.

27

28 The BARS manual also notes:

29

30 The purpose of long range planning is to provide a better understanding

31 (for departments, administrators, legislators, and citizens) of the activities

32 and functions the government performs and the resources needed to

33 continue or extend these services. If properly managed, long range

34 planning will reduce the extent to which immediate crises dominate a

35 government's budgeting and resource allocation decisions.

36

37 In order to be effective, this long-range planning needs to be a continuous

38 process; updating these long-range plans should be performed at the

39 beginning of the annual budget process.

40

41 The City's current budgeting system reflects the budget standards noted above.

42 The evolution of the fiscal crisis here in Lynnwood accents the importance of

43 strengthening long range forecasting and planning, and routine reporting and

1 monitoring within the context of that planning. These concepts are reflected in
2 the revised financial plans noted below.

3 4 5 **GFOA Best Practices**

6
7 The City Administration and City Council also reviewed the material from the
8 Governmental Finance Officers Association (GFOA) web site³ developed to
9 provide guidance to local governments recovering from the recession. Since the
10 web site is quite extensive, Finance Department staff excerpted key aspects of
11 that material which relate most directly to the City's situation. That guidance not
12 only accents the importance of a long range plan to facilitate the recovery, but
13 also describes important policy and administrative measures to apply during a
14 recovery. A copy of the summary of this guidance is attached. As noted it
15 outlines the key consideration that should be applied to long range financial
16 planning in general and the important aspects to consider in planning a financial
17 recovery in specific.

18 19 20 **Review and Update of City Financial Policies**

21
22 Based on the available guidance from the state BARS system and GFOA, the
23 Lynnwood City Council has reviewed its financial policies and made numerous
24 revisions. A copy of the revised policies is attached with changes noted by a
25 strike-out and underline format.

26
27 While there are many changes incorporated into these policies the more
28 significant changes can be grouped into three categories that correspond to the
29 review of the guidance:

- 30
31
 - Revisions to the City's fund balance and reserve targets.

32
33 The City Council has revised its overall fund balance to be consistent with
34 recent guidance from the Governmental Finance Officers Association
35 (GFOA) to retain a fund cash balance of at least two (2) months of
36 expenditures. The policies will provide that this required level be applied
37 to the amount in the Revenue Stabilization Fund #198, so that it would
38 have a goal of \$9,000,000 as a balance. However in light of the City's
39 forecasted current and near-term fiscal constraints it was recognized that
40 this may be a more long-term goal. Accordingly, it set an intermediate
41 target of a fund cash balance in revenue stabilization of \$5,000,000 to be
42 accomplished by 2016. Other policies set levels for the General Fund

³ http://www.gfoa.org/index.php?option=com_wrapper&Itemid=615

1 cash flow reserve at the current \$4 million level and set a revenue stream
2 of \$1.1 million for capital needs.

3
4 The General Fund balance would be budgeted by the council and then
5 managed to achieve these targets. Achieving these targets would be a
6 specific budget development priority, and a priority for ongoing
7 management of all department programs and services
8

- 9 • Strengthening the forecasting system

10
11 The previous policies included policies that focused on developing
12 revenue forecasts. The revised policies now include a required system of
13 long-range six-year revenue and expenditure forecasts, from which a
14 strategic multi-year department allocation model (budget) will be
15 developed. The forecasting system would result in a planning expenditure
16 forecast which can be directly compared to, and evaluated to be
17 sustainable by the revenue forecast. This planning forecast will be
18 updated twice a year and used to assess long-term multi-year budget
19 direction directly tied to current and near-term actual budget decisions and
20 any other fiscal decision or proposal to ensure that any ongoing long-term
21 expenditure initiative(s) can be sustained. These forecasts would be
22 incorporated into a financial plan (this being the initial plan) and a multi-
23 year strategic budget which would place priority on achieving the fund
24 balance and reserve policies.
25

- 26 • Strengthening the policies for routine reporting in the context of the long-
27 term financial plan

28
29 The revised financial policies call for integrating the budget process and
30 the forecast system with on-going financial reporting and monitoring. This
31 reporting and monitoring activity will include a financial analysis of the
32 overall financial status of the City and of its key funds, including, but not
33 limited to, an analysis of all available financial resources. This analysis
34 would discuss the current financial status, and the immediate and longer
35 term future financial status.
36
37

38 **Forecasts and Analysis of Forecasts**

39
40 The City completed an update to its revenue forecasts in October of 2010 as part
41 of the process of developing the 2011-12 Biennial Budget. These **revenue**
42 forecasts, pursuant to the City's financial policies provide three alternative
43 forecasts (High, Medium and Low). To complement these revenue forecasts the
44 City developed a companion series of three **expenditure** forecasts. In addition
45 the City reviewed its October revenue forecasts and added a fourth forecast that
46 incorporates the potential (although yet speculative) development of several

1 large commercial economic development projects that are in the development
2 permitting pipeline

3
4 Three Budget Decision-Making Functions & Sustainable Operations

5
6 This forecasting system (as described in the attached power point presentation)
7 is designed to incorporate three broad but distinct budget decision-making
8 functions:

- 9
10 1. Appropriations for the maintenance & operations of facilities, programs
11 and services;
12 2. Planned appropriations to restore reserve funds;
13 3. Planned appropriations (revenue stream) for Capital Projects.

14
15 The forecasts are designed to **explore** the fiscal implications of future
16 expenditure patterns. The forecasts compare very broad **alternative policy**
17 **options** regarding the growth of City expenditures for 2013 through 2016 with
18 previously prepared revenue forecasts.

19
20 The fiscal implications of these forecasts focus particularly on:

- 21
22 1. **Sustainability to support maintenance and operations** of the option
23 under differing revenue assumptions as represented by the revenue
24 forecasts.
25 2. The potential to **restore reserves and a revenue stream for capital**.

26
27 Forecasts and Three Policy Scenarios

28
29 The three alternative revenue forecasts are those that were prepared as part of
30 the budget process and include:

- 31
32 • High: A high forecast based primarily on the state forecast which assumes
33 recovery in sales tax revenue by state in 2012 and 2014 for Lynnwood.
34 • Medium: A medium forecast reflecting a recovery in Lynnwood sales tax
35 revenue by 2016.
36 • Low: A low forecast that assumes continued overall economic stagnation.

1 These revenue forecasts have been updated in this long-term financial planning
2 process to include additional revenues added by the 2011-2012 budget,
3 including inter-fund transfers, and also adding a fourth element to the medium
4 revenue forecast reflecting a series of proposed commercial economic
5 developments which could generate new sales taxes.

6
7 This long-term financial planning process then has developed three alternative
8 expenditure **forecasts** reflecting three alternative policy oriented **scenarios**
9 about how expenditures might be budgeted, managed, and controlled. The
10 underlying assumptions for these expenditure forecasts are that they:

- 11 • Are all based on the adopted 2011-2012 Biennial Budget.
- 12 • All driven by overall broad policy choices:
 - 13 – **Low:** Expenditures will be limited to the **combined rate of**
14 **population growth and inflation** (the *Keeping Pace with*
15 *Community Growth* scenario).
 - 16 – **Medium:** Expenditures will be managed to reach **pre-recession**
17 **levels of expenditure** (LOE) by a set target date (the *Restoring*
18 *Pre-Recession LOE* scenario).
 - 19 • The target date can be varied and the results will change
20 accordingly.
 - 21 – **High:** Expenditures will **resume the past** pre-recession level of
22 service rates of growth (the *Resuming Past Growth* scenario).

23
24 Once all the revenue and expenditure forecasts are prepared, sets of these
25 future scenario forecasts can be matched to compare each expenditure forecast
26 scenario to the three revenue forecasts to determine what level of "Net General
27 Fund Balance Contribution"⁴ will be generated and thus available for restoration
28 and/or increasing various reserves and fund balances. Most importantly, this
29 "net" contribution result can then be evaluated to determine if various targets,
30 benchmarks or milestones have been met to restore and/or increase reserves,
31 fund balances, or provide a cash stream for capital needs. (this process is laid
32 out step by step in the attached PowerPoint presentation).

33
34 This system was applied to the three policy scenarios described above.

35
36 This analysis concluded that last expenditure scenario (the *Resuming Past*
37 *Growth* scenario) is **not** sustainable even under the most optimistic revenue
38 forecasts. The first scenario (the *Keeping Pace with Community Growth*

⁴ "Contribution to fund balance" is the amount that would be added to the fund balance from the adopted budget, which includes the \$4,000,000 minimum balance established in the 2011-2012 Biennial Budget

1 scenario) is sustainable under all but the most pessimistic revenue forecasts for
2 maintaining operation needs under the related policy assumptions. In addition
3 under the first expenditure scenario, significant reserves and a capital revenue
4 stream can be generated under the moderate or better revenue assumptions.
5 Scenarios (the *Restoring Pre-Recession LOE* scenario) directed at restoring
6 prerecession levels of expenditures can be viable if the target year for such
7 restorations is sufficiently off into the future. If the target year is 2018, the
8 scenario would be self sustaining with the moderate revenue forecasts, but there
9 would be little capacity for generating reserves or a revenue stream for capital.
10 Advancing the target year further in to the future would improve the capacity of
11 this scenario to generate reserves and revenue streams for capital. The scenario
12 only becomes significantly promising if the target date were beyond 2020.

14 **An Initial Long-term Comprehensive Financial Plan**

16 **Overview**

18 According to the Governmental Finance Officers Association (GFOA), the
19 purpose of a long-term comprehensive financial plan is to move along a
20 spectrum of outcomes from recovery, to balance, and ultimately to resiliency.
21 Thereafter the objective is to achieve a continuing state of long-term optimum
22 sustainability. All of this is with an eye towards establishing revised and updated
23 financial practices and systems, while trying to mitigate to the extent possible any
24 external financial conditions, and thereby avoiding a relapse. Those outcome
25 states are described as follows:

- 27 • **Financial resiliency.** The most favorable outcome is financial resiliency.
28 Here the government has recovered its financial stability and gone on to
29 implement strategies, control mechanisms, budgeting techniques, and
30 early warning systems to make sure it is sustainable and can withstand
31 future financial shocks.
- 32 • **Financial balance.**⁵ Financial balance is where structural balance has
33 been achieved at least in the short term, but the institutional practices may
34 not have been adopted necessary to withstand future shocks. The system
35 is balanced, but potentially brittle. For example, perhaps financial policies
36 or budget reforms were not adapted to guard against the types of financial
37 decisions that caused distress in the first place.
- 38 • **Relapse.** A relapse can take place if a sufficient shock occurs – a new
39 economic downturn or new decision makers who do not have the benefit
40 of experience from the recovery process. A relapse could also be caused

⁵ GFOA calls this out come “financial sustainability.” This title does not seem to capture the character of this outcome by suggesting that the balance can be sustained while the description says that it can not withstand future shocks.

1 by the use of unsustainable recovery strategies that simply deferred the
2 financial reckoning day or failure.

3
4 The purpose of this plan is to provide the initial steps along the spectrum toward
5 financial resiliency, and ultimately sustaining that state. Among other elements
6 resiliency requires:

- 7 • Adequate fund balances and reserves to allow the City to respond to
8 adverse economic conditions.
- 9 • Reliable revenues.
- 10 • Level of services that can be sustained.

11 This plan adopts a scenario with measurable interim targets that will provide the
12 fund balances that appear necessary for resiliency. The targets are set by City
13 policies, consistent with GFOA best practices. The scenario is based on a
14 conservative estimate of future revenues, but will depend on

- 15 • The City **controlling the growth of expenditures** by systematically
16 **reducing its levels of service** to limit potential growth to **less than 3%**
17 **per year** (which is slightly above the anticipated combined growth of
18 inflation and population growth).
- 19 • Capturing available economic opportunities to enhance potential
20 revenues.

21 The plan includes a **contingency** that requires more cuts in level of service if the
22 anticipated economic growth does not occur. The plan estimates the reserves
23 that may be generated **if** an economic recovery achieves more optimistic levels
24 as reflected in the City's high estimate of revenue growth.

25

26 ***From a Very Tough 2009 and to Initial Stability in 2010***

27

28 As described above, the extremely bad economic conditions of 2009 led to very
29 poor financial results for 2009 with the fund balance dropping from \$6,105,679 at
30 year end 2008 to a negative \$115,733 at the end of 2009. In addition the City
31 General Fund had to borrow \$3,000,000 from the water utility in order to maintain
32 adequate cash.

33

34 During 2010 the City continued very substantial multi-million dollar cuts in
35 programs and services, together with an initial revenue increase which enabled
36 the City to resolve a \$4.8 million shortfall and bring its finances back into balance
37 as shown in Figure 3 above. This allowed the City a platform upon which to
38 stabilize conditions and begin building back its reserves. It set the stage for the
39 budgeting decisions of Fall 2010 for the new 2011-12 budget.

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Initial Recovery in 2011-2012 Biennium

By a combined triple strategy of multi-million dollar cuts, adding millions in future tax and fee revenues, and completing two real estate sales, the adopted 2011-12 budget restores the General Fund cash balance to current policy targets.

- The City cut over \$10 million in proposed expenditures,
- The City added new and increased revenues, and
- Completed real estate sales equaling just over \$2.5 million.

These measures will allow, according to the budget, the City to meet it’s essential operating needs at an adequate level of service while still restoring its fund balance and repaying the \$3,000,000 utility loan. In the context of the spectrum of recovery, balance, and resiliency outcomes, the adopted 2011-2012 budget provides the financial “balance” outcome described above. The purpose of the plan (described below) is to detail the steps necessary to arrive at the financial “resiliency” outcome which can be sustained.

Initial Financial Plan

Basic parameters and related policies

As described above a wide range of alternative revenue and expenditure forecasts have been developed and evaluated. The conclusions of that analysis noted that resuming past trends in expenditure growth is **not** sustainable and cannot be supported even by the most optimistic revenue forecast. Therefore, the following approaches and policies are established and need to be continued to be in effect:

Planning Policy #1: The City cannot return to historic budgeting trends in expenditure growth.

Similar analysis demonstrates that returning to past levels of service with substantial expenditure costs is also **not** viable, especially if the City is to achieve the fund balance and reserve targets set forth in the City’s newly revised financial policies.

Planning Policy #2: The City cannot plan to return to past levels of service with the substantial associated costs in any realistic future time frame given long-term forecasted revenues.

The most viable expenditure scenario is that the City constrains potential program and services increases at or below the combined rate of inflation and growth in population.

1 **Planning Policy 3: The planning forecast (pursuant to City financial**
2 **policies) would be to control program and service expenditures to**
3 **below 3% per year.**
4

5 However, several general factors work against limiting expenditure increases to
6 the constrained level needed for such sustainability: Those factors are:

- 7
- 8 • Third party actions: New state or federal mandates; Cuts by the State,
9 County, or other neighboring cities.
- 10 • Internal pressures: New spending; personnel salary and/or benefit
11 increases.
- 12 • Public pressures: The public may expect, need or demand additional
13 services or higher levels of service.
- 14

15 **Planning Policy #4: Without a rapid return and substantial economic**
16 **growth which is unlikely, maintaining the growth of expenditures will**
17 **require reductions in levels of service to offset these factors which**
18 **make sustaining this limit very difficult.**
19

20 Levels of service reductions should be anticipated in advance, planned, and
21 phased in gradually
22

23 **Planning Policy #5: Each department should develop immediately,**
24 **review, and maintain level of service reduction plans to be**
25 **implemented as needed to keep the expenditure growth below 3%.**
26

27 The medium revenue forecast does not include any revenue that is expected to
28 be generated by new commercial developments. Since many of the potential
29 commercial economic developments are in planning stages and with proper
30 characterization as speculative, it is useful and appropriate to incorporate them
31 into the planning revenue forecast as a clearly separate and identifiable element.
32 .

33 **Planning Policy #6: The planning revenue forecast shall be the**
34 **“Medium” financial forecast with adjustments to reflect probable (not**
35 **speculative) new economic development projects in the City.**
36

37 There will be additional fund balance available to contribute to reserves at the
38 end of this biennium:

- 39 • If the expenditures in the 2011-2012 budget are managed to stay within
40 budget,
- 41 • if non-sales tax revenues collectively come in at or above budget, and
42 • if current trends in sales taxes that is running ahead of forecast hold
43 through the biennium:
- 44

1 The table below estimates these amounts:
 2

11-12 Budget Ending (over 4,000,000): budgeted revenues minus budgeted expenses.	\$ 174,796
2010 Budget Ending Balance (Above \$3,000,000)	\$ 762,060
Excess sales tax if 5% inc per year current biennium	\$ 741,087
Total Potential Additional Ending Fund Balance fo 2012	\$ 1,677,943

3
 4

5 **Planning Policy 7: Any potential ending fund balance from the 2011-**
 6 **12 biennium should be placed in to the revenue stabilization fund.**

7

8 Under the financial policies, the first priority for establishing appropriate reserves
 9 is to maintain a fund balance of \$4,000,000 in the General Fund Balance.

10

11 **Planning Policy 8: The 2011-12 budgeted \$4,000,000 ending fund**
 12 **balance in the General Fund must be maintained.**

13

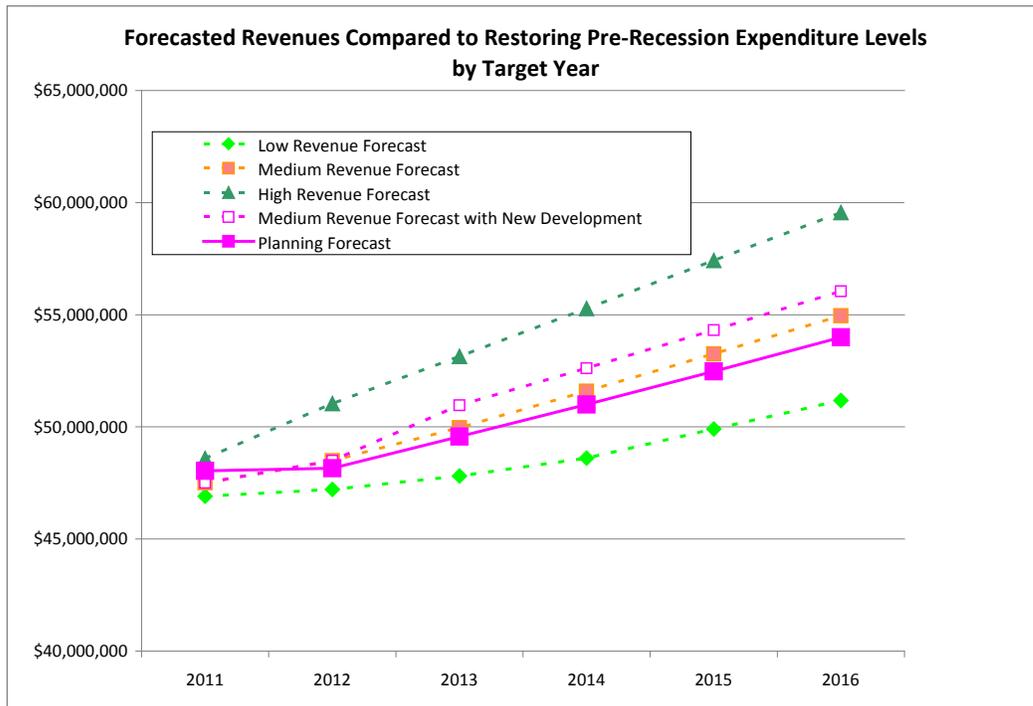
14 **Planning Forecast**

15

16 Figure 4 presents the expenditure forecast with the alternative revenue forecasts.

17

18 Figure 4

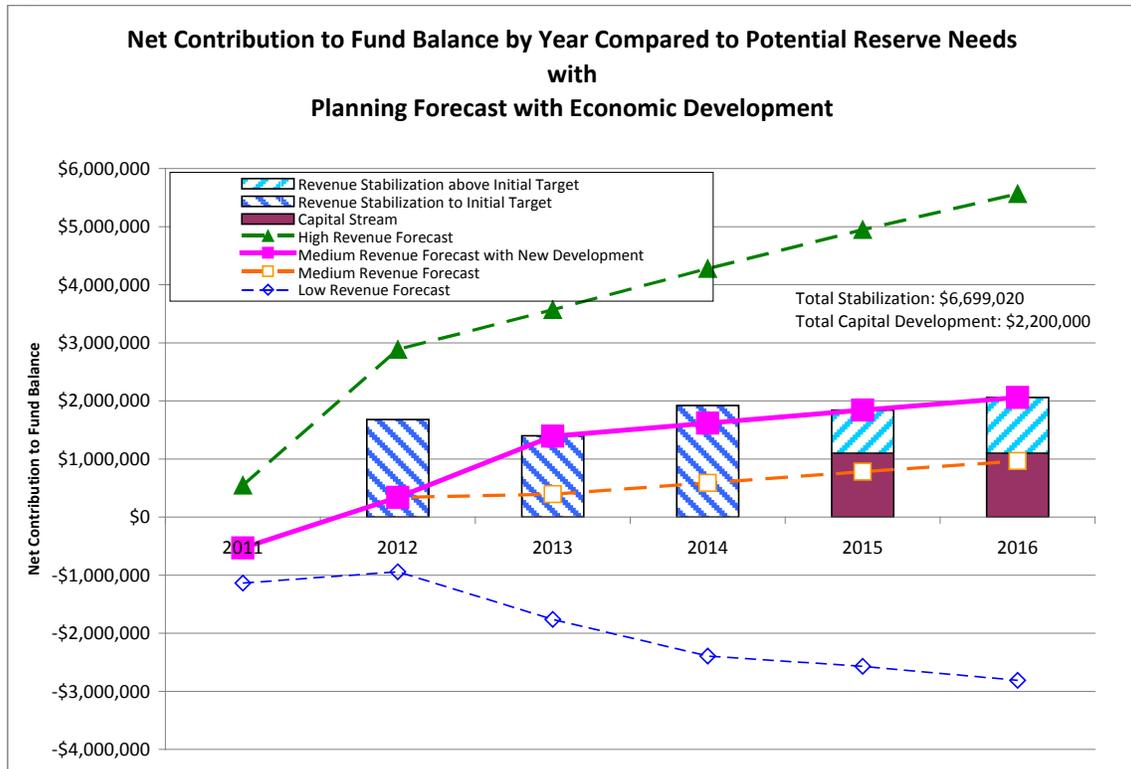


19

As shown in the “Planning Forecast”, expenditures can be supported by each of the revenue forecasts except the low forecast.

However, can the fund balance and reserve targets be supported within the financial policies? Figure 5 shows that the key elements of the reserve policy can be achieved by the medium revenue forecast with new development, designated as the planning forecast by planning policy 6.

Figure 5



As described in the attached Forecast Model, each of the lines represents the difference between the planning forecast and each revenue forecast. This is the potential contribution to fund balance that could be generated by each revenue forecast when compared with the planning forecast of expenditures. The planning revenue forecast (Medium Revenue Forecast with New Development) is the solid line with boxes.

The bars on the figure are transfers that would be possible by combining the planning revenue forecast with the planning expenditure forecast. As noted, the initial target (\$5 million) for the Revenue Stabilization Fund can be achieved in two years after this biennium. This is well ahead of the target set in the policies for 2016. After the biennium the capital reserve policy (\$1.1 million per year) of the financial policies can be achieved in 2015 and 2016 while the revenue stabilization can be further build toward the long-term goal of \$9 million. The

1 schedule of the transfers portrayed is consistent with the priorities for building
 2 reserves as set in the financial policies.

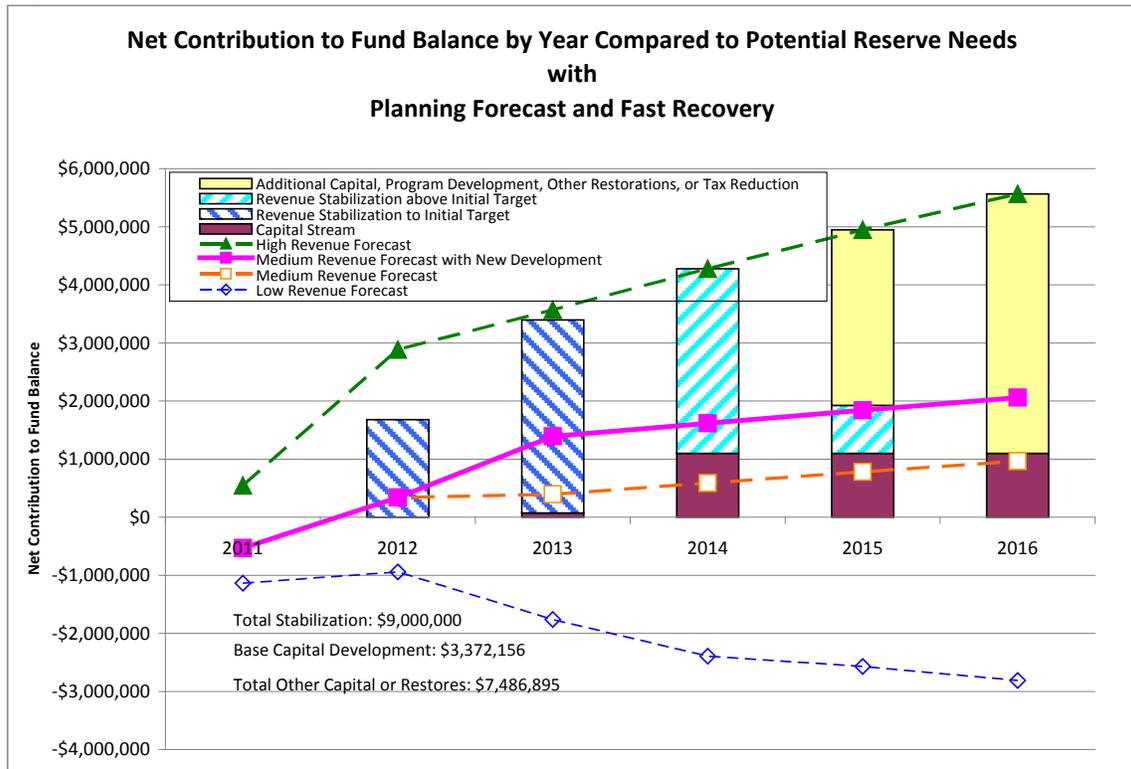
3
 4 **Contingencies**

5
 6 While the City budgeting system can control expenditures, it can not control most
 7 revenues and therefore revenues are less manageable than expenditures.
 8 Consequently the plan should address the implantation of the Financial Policies
 9 under differing revenue forecasts.

10
 11 *Positive Contingencies*

12
 13 Revenues can be higher than the medium forecast. Figure 6 summarizes a
 14 reserve building scenario consistent with the Financial Policies if the high
 15 revenue forecast occurs under a more robust than anticipated recovery.

16
 17 **Figure 6**



18
 19
 20 Under this scenario many of the key policy elements can be achieved fairly
 21 readily.

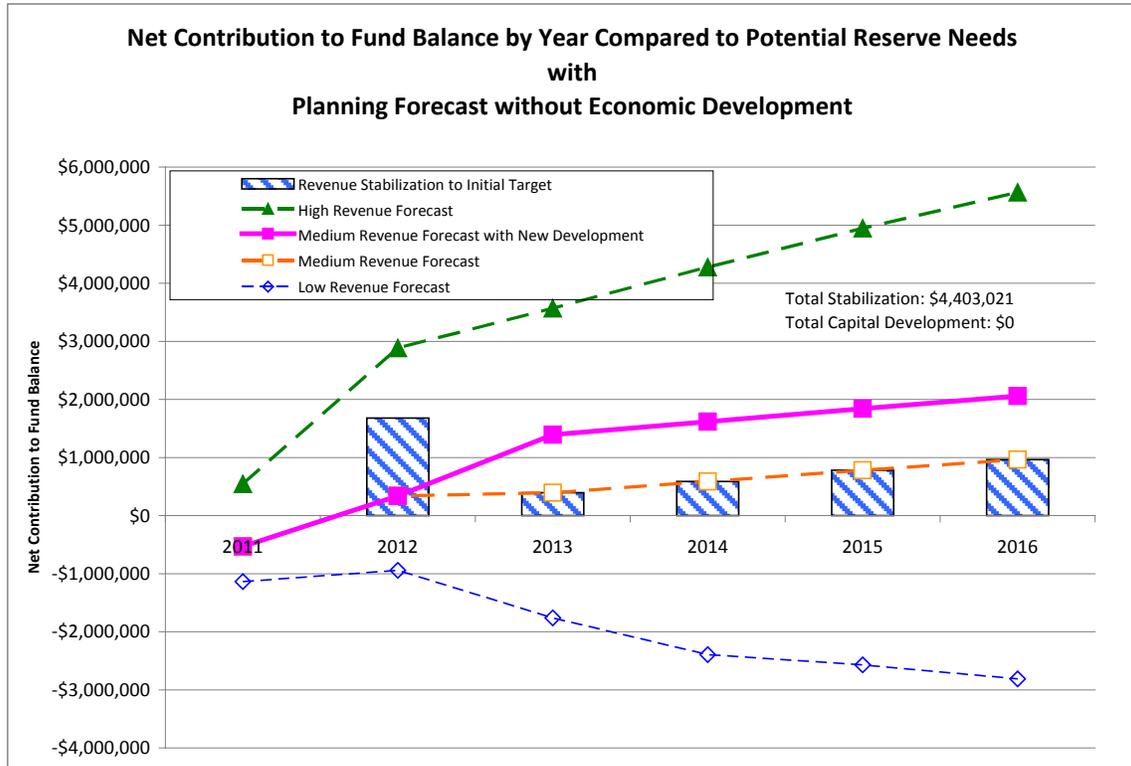
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- The initial revenue stabilization target is hit in 2013.
 - The revenue stabilization goal is reached in 2015.
 - The Capital reserve revenue stream can begin in 2014.

- An almost \$7.5 million can be available to restore other reserves or reduce taxes.

Negative Contingencies

Revenues can be lower than the medium forecast with new development. Figure 7 summarizes the reserve building scenario if new development does not occur.

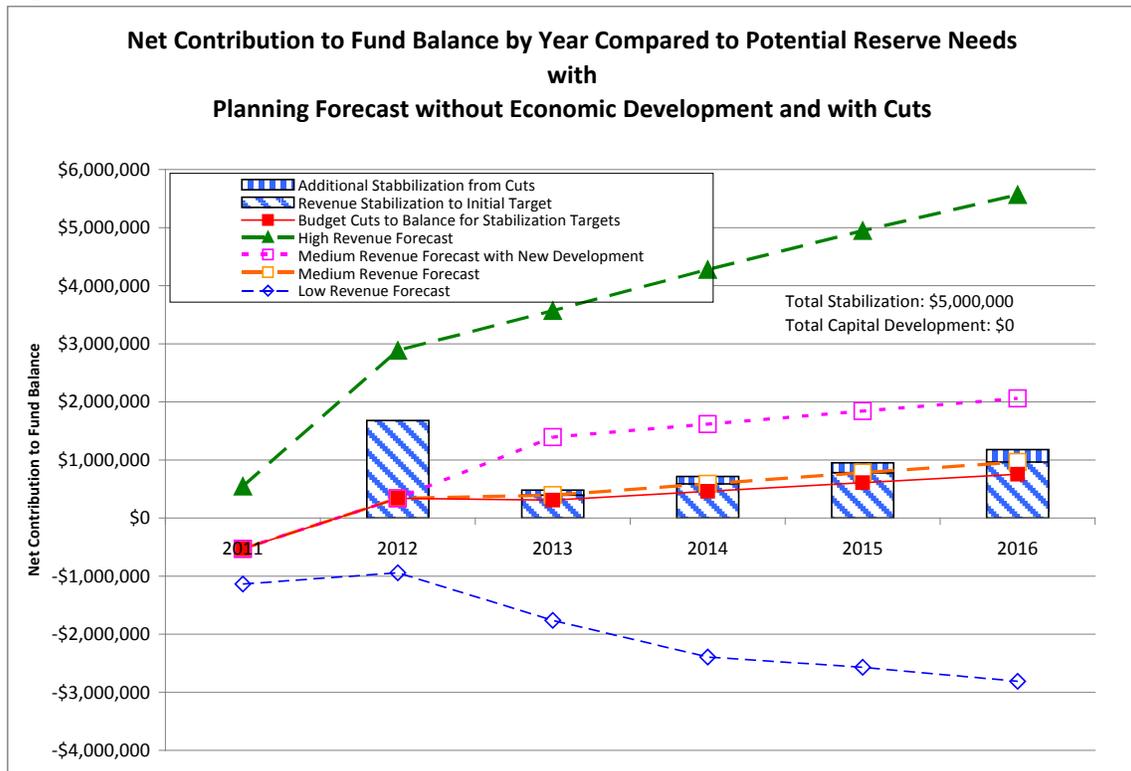
Figure 7



Under this scenario the financial policies cannot be achieved because the goal of reaching a \$5 million revenue stabilization fund by 2016 will not be realized. This scenario would require additional cuts below those cuts required to stay below the 3% growth rates.

Figure 8 illustrates cuts ranging from .5% in 2013 to 1.5% in 2016 that would be necessary to increase the contribution to fund balance to the level needed to reach the target of \$5 million by 2016.

1 Figure 8



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5 **Monitoring Targets**

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7 While the scenarios above illustrate a range of possibilities, the actual events are
8 likely to be somewhat different. Targets can assist in measuring progress toward
9 the priority reserve policy (reaching a 5 million Revenue Stabilization Fund by
10 2016).

11
12 **Planning Policy 9: The following targets are set for transferring**
13 **money into the Revenue Stabilization Fund:**

14

Year Ending	Targets
2012	\$ 1,000,000
2013	\$ 2,000,000
2014	\$ 3,000,000
2015	\$ 4,000,000
2016	\$ 5,000,000

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17 **Planning Policy 10: The Finance Department shall monitor progress**
18 **toward achieving the Revenue Stabilization targets and whether the**
19 **City is constraining expenditure growth below the planning forecast**
20 **of 3% per year.**

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Planning Policy 11: The Finance Department shall report to the City Council the status of the Revenue Stabilization Fund and the expenditure limit.

Planning Policy 12: If expenditures are exceeding the 3% limit, the City Council shall amend the City budget to reduce expenditures by applying reduction plans of various Departments. Allowing additional expenditures would only be appropriate if:

- the Revenue Stabilization target is met, and
- there is an appropriate plan to continue progress toward other reserve policies.

Planning Policy 13: If progress toward the target falls short the City Council shall amend the City budget to reduce expenditures by applying reduction plans of various Departments.

Planning Policy 14: If progress toward the target is higher than target, the City Council May consider transferring revenues to other purposes consistent with the Financial Policies.

Complete Financial Planning

This is an initial financial plan. As noted in the attached GFOA Guidance there are many other issues and measures that should be addressed in addition to reserves and fund balance. This initial financial plan focus on those aspects of financial planning because of the importance of such balance to achieving financial resiliency.

Planning Policy 15: The City should initiate a complete long-term financial planning process consistent with GFOA best practices as summarized in the attached summary of GFOA Guidance.

Planning Policy 16: A priority element of such planning shall be level of service reduction plans by each City department.