

City of  
Port Townsend  
  
Comprehensive  
Financial  
Management  
Policy Guidelines

Adopted January 4, 2021

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## **I. FINANCIAL POLICY GUIDELINES**

The financial policies outlined in this document have been developed in accordance with the Government Finance Officers Association's "Best Practices". These policy guidelines are intended to aid the City Council and City management in financial decision making. These policy guidelines also provide a means to guide short-term financial and budget decisions to help ensure the City is able to meet its immediate and long-term financial service objectives and obligations. These policies will be reviewed and/or updated no less than every three years.

The City of Port Townsend is accountable to its citizens for the use of public funds. Municipal resources must be wisely used to ensure adequate funding for services, public facilities and infrastructure needed to meet the community's present and future needs. These policies are designed to help safeguard the fiscal stability required to achieve the City's goals and objectives.

The City's Comprehensive Financial Policies have the following objectives:

- To guide the City Council and management policy decisions that have significant financial impact.
- To set forth operating principles which minimize the cost of government and financial risk to the City.
- To employ balanced, consistent and fair revenue policies that provide adequate funding for desired programs.
- To promote sound financial management by providing accurate and timely information on the City's financial condition.
- To protect the City's credit rating and provide for adequate resources to meet the provision of the City's debt obligations for all municipal debt.
- To ensure the legal use of financial resources through an effective system of internal controls.

## **II. ORGANIZATION**

The City provides municipal services for its citizens, including protection of life and property, public health and welfare, and improved quality of life. The City Council deems it a high priority to deliver municipal services in the manner consistent for all citizens, and with maximum efficiency and financial prudence.

The Council, as the legislative and governing body, sets the City's Financial and Budget Policy Guidelines, and through its Finance and Budget Committee, monitors and reviews the City's overall financial performance.

The City Manager, as the City's Chief Executive Officer and Chief Budget Officer, is responsible to the Council for managing City operations and program services, and preparation of the City's Annual Budget consistent with established Financial and Budget Policy Guidelines.

The Director of Finance and Administrative Services, as the City's Chief Financial Officer and Chief Auditing Officer, is responsible to the City Manager for the preparation of accurate and timely financial and budget reporting. Additional responsibilities include human resource and information technology administration, general accounting, business license/tax administration and utility billing operations, grant, federal & state funding compliance, purchasing administration, as well as policy advice to the City Manager and Council.

The Department Heads are responsible to the City Manager for department operations, budget observance, capital project management, and grants administration. Department Heads monitor related revenue performance and expenditure control with the assistance of the Finance Department.

The City must prioritize its services and, should revenues become constrained, the following services are considered priorities in the following general order:

1. Public Life, Health and Safety: Police, fire, emergency medical services; building inspections; and traffic control; water, sewer, and storm drainage service and streets infrastructure maintenance.
2. Legal Mandates: Accounting/auditing/financial reporting; land-use planning; required staff certifications and training.
3. City Facilities and Property: maintenance of parks, buildings, public rights of way, and City equipment (including information technology equipment);
4. Council and community goals, both annual and long-range, including strategic plan goals.

### **III. ACCOUNTING, AUDITING AND FINANCIAL REPORTING**

The City will maintain a system of financial monitoring, control and reporting for all operations and funds to provide effective means of ensuring that overall City goals and objectives are met.

**Accounting Records and Reporting** – The City will maintain its accounting records in accordance with state and federal regulations. Budgeting, accounting and reporting activities will conform to the Budgeting, Accounting and Reporting System (BARS) for Governments as prescribed by the Washington State Auditor. The City maintains its accounting and budgeting records on a cash basis and adheres to the cash basis BARS manual.

**Capital Assets** – As a cash basis entity, the City records and reports only inflows and outflows of cash. When a capital asset is purchased the entire expenditure is recorded when the cash is expended, and depreciation is not recorded. The City considers capital assets to be real and intangible assets above \$5,000 in value that have an anticipated life of one year or more. Capital assets are tracked by the Finance Department as a fixed asset

inventory. Items that are no longer needed or no longer functional will be disposed according to the City surplus policy (PTMC 3.44.030) and state law.

Capital assets that are purchased with grant funds may be subject to additional compliance requirements. The department obtaining the grant is responsible for understanding any compliance requirements related to acquiring, inventorying, tracking and disposing of assets obtained through these types of funds.

**Small and Attractive Assets** - The City identifies small and attractive assets as items with a cost greater than \$300 but less than \$5,000. These items have a life expectancy of more than one year AND are not likely to be immediately missed upon disappearance. These items are generally mobile in nature and may be easily transported from the workplace. Some exceptions to the \$300 minimum include tablets, phones, personal computers and other lower cost items that have ongoing maintenance or service costs associated with them. Department Heads are accountable for the security of these items and are responsible for following the Small and Attractive Assets Policy and Procedures that have been adopted by Council (Resolution 16-022). The Finance and Administrative Services Director has oversight responsibility for this policy and the associated inventory of these items.

**Auditing** – The Washington State Auditor will perform the City’s financial, federal single audit and accountability/compliance audits in accordance with state and federal laws. Results of the audit will be provided to the Council in a timely manner.

**Cash Management** – The Finance & Administrative Services Director will ensure that cash management systems are developed to ensure accurate and timely accounting for all cash and security of all cash assets.

Careful financial control of the City’s daily operations is an important part of the City’s overall fiscal management practices. Achieving adequate cash management and investment control requires sound financial planning to ensure that sufficient revenues are available to meet the current expenditures of any operating period.

The City’s cash management and investment guidelines are as follows:

- The City will maintain a cash management program, which includes internal control practices for collection of accounts receivable, disbursement of funds, and prudent investment of its available cash.
- The Finance & Administrative Services Director (Finance Director) serves as the investment officer of the City of Port Townsend. The Finance Director is authorized to oversee the investment program and to develop operating procedures to administer the program. The Finance Director may delegate the authority to conduct investment transactions and manage the operation of the investment portfolio to one or more subordinates as outlined in the investment program operating procedures. All participants in the City’s investment process shall act responsibly as custodians of the public trust.

- As permitted by law and City ordinances and to maximize the effective investment of assets, all funds needed for general obligations may be pooled into one account for investment purposes. The income derived from this account will be distributed to the various funds based on their average fund balances on a periodic basis.

See **APPENDIX A** for Full Investment Policy.

See **APPENDIX C** for Electronic Funds Transfer Policy.

#### **IV. FUND STRUCTURE & FUND RESERVE GUIDELINES**

The City's accounting and budgeting systems are organized and operated on a fund basis. Funds are accounting entities used to record revenues and expenditures. By definition, balanced funds mean that total revenues equal total expenditures. The budgeted funds are grouped into categories: General, Special Revenue, Debt Service, Capital Projects, Enterprise, and Internal Service.

The following provides a brief description of the fund types and reserve guidelines for each fund. The numbers in parentheses represent the BARS manual fund series numbering scheme.

**GENERAL FUND (010)** -- This is the primary operating fund or current expense fund of the City. To maintain the City's credit rating and meet seasonal cash flow, the budget shall provide for an anticipated undesignated fund balance between 8% and 15% of estimated annual revenues for general government fund types. The fund balance shall be exclusive of all reserves not anticipated to be readily available for use in emergencies and contingencies. Should the fund balance fall below 8% of revenues, a plan for expenditure reductions and/or revenue increases shall be submitted by the City Manager to the Council. If, at the end of a fiscal year, the fund balance falls below 8%, then the City shall rebuild the balance within a period not to exceed three fiscal years.

**GENERAL FUND COUNCIL RESERVE (Included in the General Fund)** – The annual budget for the General Fund shall provide for a “Council Reserve” equivalent to approximately 1% of estimated operating revenues in the General Fund (010). Only the General Fund shall maintain a “Council Reserve.” The Council Reserve is established to provide for community requests or unanticipated needs deemed necessary by Council. The Council Reserve shall be suspended during times of significant economic downturn, especially during years when the General Fund ending fund balance falls below 8%. The Council Reserve is a budgeted appropriation expected to be specifically allocated at the Council's discretion. Unspent council reserves will not carry over to the next fiscal year.

**SPECIAL REVENUE FUNDS (101-199)** -- These funds account for revenues derived from special taxes, grants or other restricted sources designed to finance particular

activities defined when the fund is established or outlined by state law. Apart from any unrestricted General Fund contributions to a Special Revenue Fund, the unexpended ending fund balances carry over year to year and should retain enough revenue to cover operating cash flow and anticipated major project or program obligations of the fund.

Of these funds, the Street, Library, and Community Services funds are of an operations nature. The Street and Community Services Funds reserve target will be equivalent to 2-3% of fund expenditures. The Library Fund reserve target is set at 5-8% of Library property tax revenue.

Other Special Revenue Funds are more cyclical, or project related and only need retained ending fund balances or transfers in to cover anticipated obligations: Drug Enforcement, Lodging Tax, Fire/EMS, Affordable Housing, and CDBG Grants.

**CONTINGENCY (102)** – While classified as a Special Revenue Fund, the City’s Contingency Fund is more of a strategic reserve to meet emergency conditions or to help maintain essential services during periods of economic downturn. Each fund should retain enough in its own Ending Fund Balance Reserves to offset minor non-recurring or unanticipated expenses during the budget year. The City’s Contingency Fund is intended for major events and should be maintained at no less than 2% of the General Fund annual estimated operating revenues. If the contingency falls below 2% of estimated operating revenue, the City will initiate a plan that will restore the balance to the required level over a three-year period.

**DEBT SERVICES FUND (200)** – These funds are used to pay general government debt. The City shall retain or transfer in funds sufficient to cover the annual debt service obligations and retain such “coverage” amounts to comply with bond covenants or other loan restrictions.

**CAPITAL PROJECTS FUNDS (300)** – These funds are established for the acquisition or construction of general government (non-utility) capital improvements. Ending Fund Balance Reserves should be maintained at levels sufficient to cover anticipated annual expenditures with transfers in from supporting funds (General, REET, etc.) to cover project needs and to balance the funds.

**ENTERPRISE FUNDS (400)** – These funds are the proprietary or “business-like” funds for operations providing services to the general public supported primarily through user’s fees (Water, Sewer, and Stormwater).

The Ending Fund Balances of the operating funds should be equal to or greater than 60 days of operating expenditures and any additional amounts needed to build towards future project cash or debt payment needs. To the extent that the reserved Fund Balance and operating cash flow are not adequate to fund needed utility system improvements or maintain 60 days of operating expenditures, additional rate increases, or surcharges may be adopted by Council.

Included as Enterprise Funds are the Utility Debt Service Reserve Funds, Utility Capital Project Funds, Olympic Water Gravity System (Transmission Line) Fund, the System Development Fund, and Golf Course Fund; however these funds are not required to maintain 60 days of operating expenditures due to the nature of the funds.

Revenue bonds may be issued by the Enterprise Funds. Investors may require additional lending requirements or covenants (such as a pledge of future revenue streams from the fund). The ending fund balance of the Enterprise Funds should include a reserve to cover any additional covenant requirements.

**INTERNAL SERVICE FUNDS (500)** – These funds are also internal “business-like” funds for operations providing services to other City departments (funds) on a direct cost-reimbursement basis (e.g. Equipment Rental including Information Technology services and equipment, Public Works Administration and internal Engineering Services). The purpose of a reserve in an internal service fund is to ensure that the fund is able to continue to provide the service without interruption. Fund balances should break even after set aside of funds for future capital equipment replacements.

**FIDUCIARY FUNDS (600)** – These funds account for assets held by the City as a trustee or as an agent on behalf of others. Ending Fund Balances and any transfers in should be maintained consistent with fund restrictions.

## **ENDING FUND BALANCE, RESERVES, CONTINGENCY SUMMARY**

The following is a summary of the reserves’ guidelines. Guidelines will be reviewed annually as a part of the Budget process:

- General Fund ..... 8-15% of operating revenue
- Library ..... 5-8% of property tax
- Street..... 2-3% of expenditures
- Community Services ..... 2-3% of expenditures
- Other Special Revenue Funds ..... Sufficient to meet obligations
- Contingency..... No less than 2% of estimated operating revenue
- Debt Service ..... Sufficient to meet obligations
- General and Enterprise Capital Funds Sufficient to meet obligations
- Enterprise Operating Funds ..... 60 days of operating expenditures
- Internal Service..... Sufficient to meet obligations
- Fiduciary Funds ..... Sufficient to meet obligations

The undesignated General Fund Balance (the balance not tied to a known project) will be maintained at a level that provides the City with sufficient working capital and a comfortable margin of safety to address emergencies and unexpected declines in revenue without borrowing. The City should not use the undesignated General Fund Balance to



finance recurring operating expenditures. Annual General Fund revenues should be equal to or greater than annual regular operating expenditures.

Reserves above the target can be used for new expenditures, with emphasis placed on one time uses that achieve future operating cost reductions.

General Fund revenues will be used for general government, street and community service programs only. General Fund revenue for other purposes will require approval by the City Council.

General Fund revenues will not be used to subsidize utility or enterprise operations, which will be self-supporting through user rates.

## **V. REVENUE POLICIES**

**General Revenue Policies** - The City will strive to maintain a diversified and stable revenue system to shelter the government from short-term fluctuations in any one revenue source and ensure its ability to provide ongoing service. The revenue portfolio will strive to draw resources from the community that is perceived as fair and equitable.

Restricted revenue shall only be used for the purposes legally permissible and in a fiscally responsible manner. Programs and services funded by restricted revenue will be clearly designated as such.

Non-recurring and excess yield on volatile revenues (sometimes considered “one-time” revenues) should support one-time expenditures. Examples of acceptable uses of non-recurring and excess yield on volatile revenue include paying down debt, building up reserve balances, special projects and capital equipment.

County, state or federal funding will be used to finance only those capital improvements that are consistent with the capital improvement plan and local government priorities, and whose operation and maintenance costs have been included in operating budget forecasts.

**Enterprise Fund Revenue Policies** – Enterprise operating funds will be operated in a manner that generates sufficient revenues to maintain a minimum ending fund balance that is not less than 60 days of operating expenditures.

Utilities will be self-supporting through user rates and charges.

Utility user charges for each of the City utilities will be based on cost of service (i.e., set to full support the total direct, indirect, and capital costs) and established so that the operating revenues of each utility are at least equal to its operating expenditures and annual debt service obligations. The user rates of a utility shall be designated so that a portion covers replacement of the utility’s facilities.

The Utility will conduct a study of its user rates no less than every 5 years to ensure rates are adequate to fund operations and meet future needs.

Fund balances may be used to temporarily offset rate increases, after sufficient funds have been accumulated for identified capital improvement needs or alternative funding for projects has been secured.

**Fees and Charges (Non-Utility)** – All fees for licenses, permit, fines, and other miscellaneous charges shall be set to recover the City’s expense in providing the attendant service. Average cost or actual cost methodology may be used. These fees will be reviewed periodically and will be incorporated into the budget process for possible action by Council.

Fees and charges for services will generally be set to recover the actual cost of service delivery. Fees that are set lower than the cost of service delivery will be reviewed at least every other year to determine if those fees are still appropriate based on City finances and the community needs.

Where direct beneficiaries of a city program or services can be identified, fees will be established to recover the costs of that program or service. Fees will also be set in a manner that protects taxpayers from subsidizing special service users. A fee shall be charged for any service that benefits limited interests within the community, except for human needs type services to persons with limited ability to pay.

Rental fees will be established to recover full cost of use of the property or facility. Fees related to the rental of City properties may be waived only through approval of the City Manager. The waiver of fees will only be provided if the purpose of the rental or its associated event will benefit the community at large.

Some services provide greater benefit to the community. When a greater community benefit is identified, the Council may choose to subsidize, either whole or in part, such services.

**Park and Pool Fees** – The Pool division will strive to recover 50% of Pool direct costs by generating revenues through special programs, fees, charges, donations and/or designated use of City-operated facilities.

Through a volunteer recruitment program, the Parks will seek to minimize the subsidy required for partial and minimum fee support programs.

Solicitation of funds through donations, fund raising events, non-traditional sources, and various other modes will be encouraged by the City through its park and pool user groups. Funds collected for any special purpose shall be earmarked for that purpose.

## **VI. OVERHEAD COST RECOVERY (COST ALLOCATION)**

As provided in the Washington State Auditor’s Office guidelines, “Cost allocation is a method to determine and assign the cost of central services to the internal-government users of those services. Cost allocation thereby enables local governments to more accurately account for the complete cost of the services it provides to the public—and to better assess the fees it should charge them.” Included in cost allocation are direct costs (not otherwise charged to budget units) and indirect costs. Direct Costs are those costs that can be specifically identified with a particular service or unit if not already charged directly (e.g. facilities, janitorial, etc.) Indirect Costs are costs incurred for common or joint purposes, benefiting more than one unit, not readily assignable to a specific unit (e.g. legal, human resources, administration, clerk, etc.).

The term “allocation” implies that there is no overly precise method available for direct charging a cost to a unit, so the City is using the most appropriate method available for doing so. However, a cost allocation plan should be designed and used to provide a reasonable, consistent and equitable means to allocate costs. Inequitable charges result in questionable charges to grant, utilities and restricted funds. For grant purposes, costs that benefit the public at large cannot be included and should follow the OMB A-87 and/or 2CFR Part 200 guidelines.

The Council adopted a Cost Allocation Plan in Resolution 14-035 on June 25, 2014. In addition to using the overhead cost recovery model to assess the appropriate amount of overhead to utilize for establishing user fees, the model will be used to apply charges to Departments/Funds for City-wide overhead indirect cost recovery where allowed (Council, City Manager, City Clerk, City Attorney and Finance).

The Council may authorize waiver of the overhead cost-recovery in all or part if Council determines doing so will provide a general benefit to the citizens, taxpayers or utility rate payer. If a portion of the overhead cost-recovery is waived, the General Fund must absorb these costs; waived costs may not be absorbed by or reallocated to a Special Revenue or Enterprise Fund.

## **VII. GENERAL BUDGET POLICIES**

**Annual Budget** – The City’s annual budget will be developed in accordance with the policies and priorities set forth in the comprehensive plan, the City Council’s strategic plan, City Council goals and priorities, the needs of the community, and federal and state laws.

In general, budgeted operating revenues must meet or exceed budgeted operating appropriations each year. Current year operating expenses, maintenance costs and direct and indirect costs of services provided will be covered by current year operating revenues. One-time expenditures may be appropriated if one-time revenues or excess fund balance (in excess of reserve requirements) are available.

The City budget appropriations are adopted at the fund level. Department heads are responsible for preparing a budget that reflects realistic expense projections and that adhere to guidelines within this policy document.

**Expense (Appropriation) Policies** – Operating expenditures will be proposed at a level that will be supported by ongoing annual operating revenues. The city will strive to a level of expenditures sufficient to ensure the ongoing health, safety and welfare of the community.

**Staffing Budget** – Salary and benefit costs are the City’s most significant operating expense. The City will strive to provide a total compensation package that is comparable to other cities and similar type positions within the same labor market or other cities of a similar size with comparable type and quality services in order to recruit and retain high quality staff.

The City Manager’s proposed budget will identify staffing levels and provide justification for any increases or decreases in overall City staffing.

Union Contract negotiations may impact budget expenditures annually. However, if a collective bargaining agreement is, or will be, under negotiation, a specific amount will not be included in the budget from potential wage adjustments resulting from the negotiation, other than a base COLA adjustment. This is to protect the City from any claims of not “bargaining in good faith”. Funding for unknown contract terms must be considered in balancing ongoing revenues with ongoing expenses.

**Equipment Replacement & Maintenance** - Equipment replacement and maintenance projections will be updated according to the Fleet Equipment Rental and Replacement Fund and Fleet Operations and Maintenance Fund Policies (**EXHIBIT A**) and the Information Technology(I.T.) Equipment Rental and Replacement Fund and I.T. Operations and Maintenance Fund Policy (**EXHIBIT B**).

In general, The Fleet Equipment Rental and Replacement Committee is responsible for planning, directing, managing, coordinating and supervising programs for the acquisition, assignment, maintenance and repair, rental, replacement of the City Fleet. This committee will meet at least annually to recommend fleet purchases for the upcoming budget year. Fleet replacement rates (if applicable to Funds) will be evaluated at least once per year and recommended to council for appropriation in the annual budget.

Fleet maintenance rates will be adjusted to recover 100% of the actual direct and indirect costs. Fleet maintenance rates will be reviewed mid-year. Current year rates, if necessary, will be adjusted through an adopted supplemental budget request, and rates for the upcoming budget year will be established and adopted by City Council with the annual budget appropriations.

In general, the Technology Services Department, in collaboration with the Finance Department, will be responsible for planning, directing, managing, coordinating and

supervising programs for acquisition, assignment, maintenance and repair, rental, replacement and disposal of the City's I.T. equipment. I.T. replacement rates will be evaluated at least once per year and recommended to council for appropriation in the annual budget.

I.T. maintenance rates will be adjusted to recover 100% of the actual direct and indirect costs. I.T. maintenance rates will be reviewed mid-year. Current year rates will be adjusted through an adopted supplemental budget request, if necessary, and rates for the upcoming budget year will be established and adopted by City Council with the annual budget appropriations.

**Training and Travel** – City employees or others on official City business or training may be required to travel outside the City to conduct their business or training for the City. City employees and officials will be reimbursed for reasonable and customary expenses incurred in the conduct of their business for the City, including food, lodging and travel expenses while away, excluding any expenses for personal entertainment or alcoholic beverages, as provided in the City's Personnel Policies Manual for business or training travel. Such training or travel shall be as provided either specifically or generally in the annual budget.

Training is an investment in maintaining the certifications and skills of the City's employees. At least 1% of the department's budgeted salary expense will be allocated for certifications and skills training. The City will also include a targeted amount of 1% of City-wide salaries for organizational development and process improvement.

**Investments that Forestall Adding Permanent Staff** - Since personnel-related expenditures represent the largest portion of the City's budget, funding of technology or process improvements that increase efficiency and effectiveness of the delivery of City services should receive priority funding.

### **Budget Monitoring-**

The Finance & Administrative Services Director will maintain a system for monitoring the City's budget performance. This system will provide timely information to Department Heads and the City Manager to ensure accuracy of financial data and compliance with budget appropriations. The Council will receive (at a minimum) quarterly reports regarding fund level revenues and expenditure performance compared to budget.

Significant financial issues that need to be addressed between regular monitoring reports will be provided to Council as warranted.

The Finance & Administrative Services Director will monitor unanticipated needs or emergency expenditures and prepare budget amendments in compliance with State Law. Department Heads will be responsible for maintaining budgetary discipline and analyzing

all over and under spending. Explanations for variances in spending to authorized appropriations will be provided by the Department Director to the Finance and Administrative Services Director in a timely manner.

## **VIII. FINANCIAL PLANNING POLICIES**

**FINANCIAL FORECAST** – The City will develop a 5-year Financial Plan and Forecast Model based on these financial policy guidelines and a best estimate of likely revenues and expenditures. The model will be used to test the policies against likely surrounding economic conditions. The model will be used for long-range financial planning and is not a replacement for budgeting.

The City’s financial planning will include the current year budget plus five additional years of projected data. The City may elect to extend its planning horizon further if conditions warrant.

The long-range financial plan operating revenues and expenses will include data for the General Fund, Contingency Fund, Library Fund and Community Services Fund. In addition to ongoing revenues and expenses, this forecast will utilize assumptions that forecast general obligation debt and general fund contributions to capital projects.

The long-range financial plan should present trends and projections in key financial indicators, such as:

- Revenues and expenses per capita including nominal and inflation adjusted data.
- Staffing levels per 1,000 population: total and by major department.
- Projected annual growth rates of revenues and expenses including personnel costs.

The long-range financial plan may include comparisons to other cities and benchmarks, recognizing that the data for comparable cities may reflect differences in service delivery, financial structure and financial policies. Comparative information may include:

- Comparative revenues and expenses by major type to include:
  - Total revenues and expenses per capita.
  - Taxes per capita by tax source.

## **IX. ENTERPRISE FUNDS**

The Water, Sewer and Stormwater utilities will be managed as self-supporting business enterprises. Each utility will be managed in a professional manner in accordance with applicable laws and standards. The long-range financial plan model for each utility will analyze rate revenues, rate structure, operating costs, replacement capital costs, debt service and other utility considerations (special rate programs, paybacks, etc.). The City may utilize specialized rate consultants to evaluate the rate and cost structure of the utilities.

## **X. CAPITAL INVESTMENT PROGRAM PLAN POLICIES**

**General Policy Considerations** - The major resources for funding capital improvement and capital maintenance programs are revenues, grants and debt. Financing planned capital replacement costs are an ongoing challenge. Preparing for the challenges of infrastructure replacement or enhancements demands a long-term view of replacement needs. In order to plan for these needs the City will develop a six-year Capital Improvement Plan (CIP) for adoption by Council as required by the Washington's Growth Management Act. The CIP will be consistent with the Capital Facilities Element of the City's Comprehensive Plan. A capital project over \$15,000 with a minimum of a five-year anticipated life will be included in the CIP.

The city should weigh the full lifecycle costs of proposed projects in relation to funding sources and strategic plans and determine the availability of funding sources. If debt financing is needed, the cost of the debt should be analyzed against the city's debt capacity and debt management policies before being incorporated in the CIP.

The CIP should include the following:

- Project description

- Identify anticipated funding sources

- Outline the project's proposed timing and scope

## **XI. DEBT MANAGEMENT POLICY**

**Statement of Purpose** – The debt financing policy statement sets forth comprehensive guidelines for the financing of capital expenditures. It is the objective of the policy that (1) the City obtain financing only when necessary, (2) the process for identifying the timing and amount debt or other financing be as efficient as possible, (3) the most favorable interest rate and other related costs be obtained, and (4) when appropriate, future financial flexibility be maintained.

The Finance and Administrative Services Director is charged with carrying out the policy and developing recommendations for financing.

**Long Term Debt** - The City will manage its long-term debt in a manner designed to utilize its credit to optimize City services while balancing overall debt levels and annual debt service obligations. Long-term debt includes Bonds, Federal or State loans (e.g. Public Works Trust Fund, Federal Housing Administration, State Revolving Fund), or private placement financing. The City shall only use long-term debt for capital projects that cannot be financed out of current revenues. Annual debt payments should not exceed 15% of the total of annual General Government operating revenues plus budgeted transfers from capital funding sources. General Government Funds include the General Fund, Contingency Fund and Special Revenue Funds.

Debt financing will generally be limited to capital improvement projects identified in the capital improvement planning process and only under the following circumstances:

- When the project's useful life will exceed the term of the financing;
- When project revenue or specific resources as identified will be sufficient to service the debt;
- When projects cannot be cash funded.

Debt financing will not be considered appropriate for:

- Current or ongoing operating and maintenance expenses (except for issuing short-term instruments such as revenue anticipation notes or tax anticipation notes); and any recurring purpose (except as indicated above).

The City's Limited (non-voted) General Obligation (LTGO) Debt Capacity per State Law is 1.5% of total assessed value. The City should seek to retain 5-10% of its LTGO Debt Capacity for unforeseeable emergencies.

**Short Term Debt** – Short-term debt is used to cover the gap in long-term financing or to finance short lived assets. Short-term debt financing instruments may be considered if the transaction costs plus interest of the short-term debt are less than the cost of internal financing and / or if it is more practical to use than committing available operating and working capital cash. Before issuing short-term debt, there should be a reasonable certainty that a known revenue source will be received to repay the debt, unless there is a clear financial emergency.

Options for Interim or "Bridge" financing may include:

- Bond Anticipation Notes (BANS)
- Tax Anticipation Notes (TANS)
- Lines of Credit with major financial institutions
- Interfund Loans

**Bond Anticipation Notes (BANS)** are used when capital projects begin before long-term bond proceeds have been received. **Tax / Revenue Anticipation Notes (TRANS)** are used to cover operating expenditures when tax revenues are received in large lump sums later in the year (Example: Property Taxes).

Tax anticipation debt will be retired annually, and bond anticipation notes should be retired within twelve (12) months of the completion of the project or prior to maturity. Short-term debt outstanding at the end of the year will not exceed 5% of net operating revenue (including tax anticipation notes but excluding bond anticipation notes.)



**Transfers** – General Fund transfers to other funds are intended as payments for the support of specific programs or services. Amounts not needed to support such specific program or service expenses will remain in the General Fund’s fund balance. Operating transfers result in a change in fund equity. For example, the General Fund may make transfers to the Debt Fund to fund annual debt service payments or to the Community Services Fund to support parks or service programs.

**Interfund loans** are temporary in nature. The requirements for interfund loans are as follows:

- The Council must approve all interfund loans by resolution. The resolution will include a planned schedule of repayment of the loan principal as well as setting a reasonable rate of interest to be paid to the lending fund.
- The borrowing fund must reasonably be able to anticipate sufficient revenue to repay the principal and interest payments as required by the authorizing resolution.
- The rate of interest should not be lower than the “opportunity cost” if the funds were otherwise invested, such as the LGIP (Local Government Investment Pool) rate or a bank CD rate for a similar term; not higher than the external rate available to the municipality.
- Interest is not required in the following circumstances:
  - If the borrowing fund has no independent source of revenue other than the lending fund;
  - The lending fund is the General Fund, which, being unrestricted, can provide interest free loans to other funds.
- The term of the interfund loan will not exceed three years. Any interfund loans that are not repaid within three years will be scrutinized for a “permanent diversion” of moneys. (Note: These restrictions and limitations do not apply to those funds which are legally permitted to support one another through appropriations, transfers, advances, etc.)

For short-term cash deficits in non-General Fund operating funds during the course of the year, City interfund loans are preferable to outside short-term or private sector lines of credit.

## **XII. PURCHASING POLICY**

Purchases of goods, services and capital items will be made consistent with the annual budget appropriations, state and federal law, the City’s Purchasing Ordinance and Purchasing Policy and Procedure Manual (**EXHIBIT C**), and the Washington State Auditor’s requirements. The City’s Purchasing Ordinance will outline the City Manager’s spending and contracting authority. Any purchases or contracts above those authority limits must be authorized in advance by City Council (some exceptions for public emergencies will apply). The City Manager may delegate spending authority (within his/her limits) to Department Heads to facilitate operating efficiency.

In General, the City Manager and Department Heads will purchase goods and services at a reasonable cost, using an open, fairly documented and competitive process whenever reasonable and possible. Actions of city employees, when purchasing supplies and services, should be fair and impartial and not be used for personal gain or benefit. Employees may not willfully circumvent purchasing and procurement policies and procedures to enter into contracts, or purchase goods and services except as allowed by state statutes.

The Finance & Administrative Services Director is charged with developing administrative/operating procedures to implement sound purchasing policies. These procedures will be based on guidelines provided in State Law and by the State Auditor's Office. All purchases made by the City will ultimately be approved by the Council through the voucher approval process.

### **XIII. GRANTS MANAGEMENT POLICY**

Leveraging City and community resource with external financial assistance can enhance the quality and level of public services, facilities and infrastructure. City Policy is to seek and accept grants and other financial assistance consistent with the City's strategic plan.

External assistance also carries with it the goals and restrictions of the grantor. Grant relationships are partnerships where the goals of both the City and grantor must be in alignment. The benefits, costs and long-term implications of the partnership must be considered prior to formal application. The City's Grants Management Policy involves the following steps:

**Search** – City department staff and officials are encouraged to actively search out and identify potential grants which may further the City's vision and goals, within the City's financial limitations.

**Pre-Application** – Department Directors and staff shall pursue grants within their purchasing authority identified in City Purchasing Policies. The City Manager shall be advised of all grant considerations over a \$10,000 total.

**Formal Application** – Formal applications directly by the City, or indirectly by other agencies involving the City, must fall within Departmental Purchasing levels.

All grants will seek reimbursement of direct cost departmental and City wide indirect or administrative costs to the maximum extent allowable by the grantor.

Grants by other agencies involving the City or by the City involving other grantees must have City Manager, or Council approval beyond the \$60,000 Purchasing levels.

**Award and Contract** – Upon formal Notice of Grant Award (NOGA) or informal notification, a written contract must be approved prior to any City commitment, formal or otherwise. All grant contracts must be within the City's Purchasing levels. Any needed

budget amendments for grant match not otherwise within general budget authority shall be adopted prior to formal grant acceptance and contract signing.

**Accounting and Reporting** – City departments shall coordinate with Finance to assure that grants comply with Federal, State and local requirements for timely reimbursements, monitoring of vendors and sub recipients, as well as City Purchasing Policies. Any notification of audit of grant programs or funds should be sent to the Director of Finance and Administrative Services even if the audit is coordinated in another department.

**Close Out** – Multi-year grants shall have periodic accounting reviews not less than at the close of each fiscal year. Upon conclusion of each grant, the Department grant manager shall prepare a grant close-out report in coordination with the City’s Finance Department. A complete grants management file record shall be maintained per City policy, either in the Department, Finance or Clerk’s Office.

The City Council Adopted Federal Awards Standards, Procurement Policy and Code of Conduct Policy for all Federal Loans and Grants on July 10, 2017. Standards for federal awards are detailed in **APPENDIX B**.

## **APPENDIX A: INVESTMENT POLICY –**

To the extent possible, funds not needed for operations should be invested in approved investment vehicles. Investments shall be made with judgment and care, under circumstances then prevailing, that persons of prudence, discretion and intelligence in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived.

The standard of prudence to be used by investments officials shall be the prudent person standard and shall be applied in the context of managing the overall portfolio. Investment officers acting in accordance with written procedures and the investments policy and exercising due diligence shall be relieved of personal responsibility for an individual’s security’s credit risk of market price changes, provided deviations from expectations are reported in a timely fashion and appropriate action is taken to control adverse developments.

The City will strive to maximize the return on its investments, with the primary objective of preserving capital and prudent investment practices, including diversification.

Investments will be made in accordance with the following objectives:

1) **Legality:** Funds of the City will be invested in accordance with the Revised Code of Washington (RCW), the BARS manual, these policies and any applicable administrative procedures.

2) **Safety:** Investments of the City will be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. To attain this objective, diversification is

required in order that potential losses on individual securities do not exceed the income generated by other investments.

3) Liquidity: The City's investments will remain sufficiently liquid to enable the city to meet all operating requirements that might be reasonably anticipated.

4) Yield: The City's investments will be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account the City's investment risk constraints and cash flow characteristics.

The Finance & Administrative Services Director will approve financial institutions to be eligible to conduct investment business with the City, in accordance with Washington State Law.

The Finance & Administrative Services Director will periodically furnish the City Manager and Council with a report that shall include the amount of interest earned to date. At least annually, a report summarizing investment activity and rate of return will be provided.

## **APPENDIX B- CITY OF PORT TOWNSEND FEDERAL AWARDS STANDARDS, PROCUREMENT POLICY & CODE OF CONDUCT**

### **CITY OF PORT TOWNSEND FEDERAL AWARD STANDARDS:**

#### **PURPOSE**

Establish and maintain internal controls that provide reasonable assurance that Federal awards are being managed in compliance with all federal regulations and with the terms and conditions of the award. The City of Port Townsend will follow the Uniform Guidance, the Local Agency Guidelines (LAG) distributed by The Washington State Department of Transportation (WSDOT), and the City of Port Townsend's Comprehensive Financial Management Policy Guidelines.

#### **INTERNAL CONTROLS**

The City of Port Townsend will maintain effective internal control over the Federal award providing reasonable assurance that the City of Port Townsend is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award.

- Take prompt action when instances of noncompliance are identified including noncompliance identified in audit findings.
- Take reasonable measures to safeguard protected personally identifiable information and other information the Federal awarding agency or pass-through entity designates as sensitive.

#### **ADVANCE PAYMENTS AND REIMBURSEMENTS**

Payment methods must minimize the time elapsing between the transfer of funds from

the United States Treasury or the pass-through entity and the disbursement by the City of Port Townsend whether the payment is made by electronic funds transfer, or issuance or redemption of checks, warrants, or payment by other means.

- Advanced payments must be limited to the minimum amounts needed and be timed to be in accordance with the actual, immediate cash requirements of the City of Port Townsend to carry out the purpose of the approved program or project. Any advanced payments must be consolidated to cover anticipated cash needs.
- The City of Port Townsend shall minimize the time elapsed between receipt of federal aid funds and subsequent payment of incurred costs.

**ALLOWABLE COSTS**

Federal awards will meet the following general criteria to be allowable except where otherwise authorized by statute:

- Be necessary and reasonable for the performance of the Federal award;
- Conform to any limitations or exclusions set forth in these principles or in the Federal award as to types or amount of cost items;
- Be consistent with policies and procedures that apply uniformly to both Federally- financed and other activities of the City of Port Townsend;
- Be accorded consistent treatment;
- Not be included as cost or used to meet cost sharing or matching requirements of any other Federally financed program in either the current or a prior period;
- Be adequately documented.

**PROCUREMENT**

When procuring property and services under a Federal award, the City of Port Townsend will follow 2 CFR §200.318 General procurement standards through §200.326 Contract provisions or City of Port Townsend purchasing procedures whichever is more restrictive. The following table outlines procurement requirements when using Federal funds.

<b>Procurement Method</b>	<b>Goods</b>	<b>Services</b>
Micro-Purchase - No required quotes. However, must consider price as reasonable, and, to the extent practical, distribute equitably among suppliers.	\$5,000 or less  <i>Must use</i> more restrictive City threshold instead of \$10,000 federal threshold	\$5,000 or less  <i>Must use</i> more restrictive City threshold instead of \$10,000 federal threshold
Small Purchase Procedures	\$5,000 - \$40,000 (Single trade); \$3,000 -	\$5,000 - \$40,000 (Single trade); \$5,000 - \$65,000

<p>(Informal) - Obtain/document quotes from a reasonable number of qualified sources (at least three).</p>	<p>\$65,000 (Multi trade); \$5,000 - \$50,000 (Non-Public Works projects)</p> <p><b>Must use</b> more restrictive City threshold instead of \$250,000 Federal threshold</p>	<p>(Multi trade); \$5,000 - \$50,000 (Non-Public Works projects)</p> <p><b>Must use</b> more restrictive City threshold instead of \$250,000 Federal threshold</p>
<p>Sealed Bids / Competitive Bids (Formal)</p>	<p>\$40,000 or more (Single trade); \$65,000 or more (Multi trade); \$50,000 or more (Non-Public Works Projects)</p> <p><b>Must use</b> more restrictive City threshold instead of \$250,000 Federal threshold</p>	<p>\$40,000 or more (Single trade); \$65,000 or more (Multi trade); \$50,000 or more (Non-Public Works Projects)</p> <p><b>Must use</b> more restrictive City threshold instead of \$250,000 Federal threshold</p>
<p>Competitive proposals</p>	<p>Used when conditions are not appropriate for the use of sealed bids.</p> <ul style="list-style-type: none"> <li>• Must publicize request for proposals soliciting from an adequate number of qualified sources</li> <li>• Maintain written method for conducting technical evaluations</li> <li>• Contract must be awarded to the responsive and responsible firm whose proposal is most advantageous to the program</li> </ul>	
<p>Non-competitive proposals</p>	<p>Appropriate only when:</p> <ul style="list-style-type: none"> <li>• Available only from a single source; or</li> <li>• Public emergency; and</li> <li>• Expressly authorized by awarding or pass through agency in response to written request from the City of Port Townsend; or</li> <li>• After soliciting a number of sources, competition is deemed inadequate.</li> </ul>	

Contracts for more than the simplified acquisition threshold currently set at \$250,000 must address administrative, contractual, or legal remedies in instances where contractors violate or breach contract terms and provide for such sanctions and penalties as appropriate.

Contracts and sub-grants of amounts in excess of \$250,000 require that the City of Port Townsend will comply with all applicable standards, orders or regulations issued pursuant to the Clean Air Act and the Federal Water Pollution Control Act.

The City of Port Townsend will monitor procurements to avoid duplicative purchases and exhaust all mandated sources before soliciting new sources. The City will also continue to enter into inter-entity agreements to realize cost savings for shared goods and services when possible.

The City will verify and document that vendors are not suspended or debarred from doing business with the Federal government.

### **SINGLE AUDIT ACT**

The City of Port Townsend, as a recipient of Federal funds, shall adhere to the Federal regulations outlined in 2 CFR §200.501 as well as all applicable Federal and State statutes and regulations.

### **CLOSURE**

*A project agreement end date will be established in accordance with 2 CFR §200.309. Any costs incurred after the project agreement end date are not eligible for Federal reimbursement.*

## **APPENDIX C: ELECTRONIC FUNDS TRANSFER POLICY –**

Electronic Funds Transfer (EFT) refers to the disbursement from a bank account by means of wire, direct deposit, ACH or other electronic means.

The City will use an accounting system that will adhere to the procedures prescribed in the BARS Manual section 3.8.11 in accordance to RCW 39.58.750.

In order to establish and maintain effective internal controls to protect EFT transactions from internal and external threats, the City practices the following security measures:

- Authorized individuals have a separate banking user id.
- Authorized individuals cannot draft and approve EFT transactions. Only a separate authorized check signer can approve EFT transactions.
- EFTs require the same payment approval process as check payments (i.e. invoice reviewed and approved by proper authorized signatory).
- Bank issued security tokens are required to verify credentials of approver.
- The City's I.T. department monitors City computers to ensure they are used in accordance with City policy and are properly protected from computer malware.

## **CITY OF PORT TOWNSEND CODE OF CONDUCT:**

### **PURPOSE**

The purpose of the Code of Conduct is to ensure the efficient, fair and professional administration of federal grant funds in compliance with 2 CFR §200.112, 2 CFR §200.318 and other applicable federal and state standards, regulations, and laws.

### **APPLICATION**

This Code of Conduct applies to all elected officials, employees or agents of the City of Port Townsend engaged in the award or administration of contracts supported by federal grant funds.

### **REQUIREMENTS**

No elected official, employee or agent of the City of Port Townsend shall participate in the selection, award or administration of a contract supported by federal grant funds if a conflict of interest, real or apparent, would be involved. Such a conflict would arise when any of the following has a financial or other interest in the firm selected for award:

- The City employee, elected official, or agent; or
- Any member of their immediate family; or
- Their partner; or
- An organization which employs or is about to employ any of the above.

The City of Port Townsend's elected officials, employees or agents shall neither solicit nor accept gratuities, favors, or anything of monetary value from contractors, potential contractors or subcontractors.

### **REMEDIES**

To the extent permitted by federal, state or local laws or regulations, violation of these standards may cause penalties, sanctions or other disciplinary actions (up to and including employment or contract termination) to be taken against the City of Port Townsend's elected officials, employees or agents, or the contractors, potential contractors, subcontractors or their agents. Any potential conflict of interest will be disclosed in writing to the Federal awarding agency or pass-through entity in accordance with applicable Federal awarding agency policy.