

City of Roy Financial Policies

Purpose

We adopt these policies to guide decision makers at all levels to preserve the financial integrity of the City. The ultimate goal is to promote public confidence that the City manages its citizens' financial assets and resources prudently and effectively over the course of time and through changes in elected officials and staff members. These policies are a tool for:

- budgeting decisions
- acquisitions decisions
- improvements decisions
- staffing decisions
- services decisions

General Policies

1. The City Council reviews its Financial Policies as part of the budget process.
2. The Mayor develops directives and general procedures for implementing the City Council's financial policies with the assistance of staff members.
3. All City Departments and staff members share in the responsibility of meeting policy goals and ensuring long-term financial health.
4. The City maintains and develops service plans and programs as they reflect current policy directives, projected resources and future service requirements.
5. The City strives to attract and retain employees necessary for providing high quality services. Within budget constraints, it offers compensation and benefits competitive with the public and private sectors and closely aligned with those of other small cities.
6. The City coordinates efforts whenever appropriate with other governmental agencies to achieve common policy objectives, share the cost of providing governmental services on an equitable basis, and support favorable legislation at the state and federal levels.
7. The City encourages economic development efforts to strengthen the local economy balanced with maintaining a historical small town atmosphere.
8. The City strives to maintain fair and equitable relationships with its contractors and suppliers.

Revenue Policies

The City strives to maintain a revenue system that is reliable, equitable, diversified, and sufficient to support desired City services and to protect programs from short-term fluctuations.

1. Current revenues fund current expenditures. The City's budget presentation explains any use of "one-time" or limited-duration revenues to balance the operating budget, along with plans to end the City's reliance on these types of revenues.
2. The City estimates budgeted revenues conservatively using accepted standards and estimates provided by the state, other governmental agencies or reliable economic forecasters when available.
3. The City does not use deficit financing and borrowing to support routine on-going operations in the case of long-term (greater than one year) revenue downturns. The City

first revises revenue forecasts and reduces expenses to respond to long-term downturns and, secondly, considers revenue increases.

4. Enterprise operations are self-supporting.
5. The City prefers revenue that supports services with users' charges, rather than with taxes and subsidies, where the services provided have directly related costs.
6. Users' charges must account for overhead costs.
7. In establishing rates, fees and charges, the City considers market rates and similar charges levied by other cities.
8. The City considers grant funding for programs or items which address the City's needs or enhance the City's ability to provide services that its citizens value.
9. The City considers the short-term and long-term obligations that would result before accepting any grant.
10. The City manages and expends all gifts and donations in accordance with the City's Donation Policy set forth in Roy City Code 3-1-8.
11. The City diligently collects revenues, employing when necessary such means as staffing levels allow, including imposing late payment penalties, discontinuing service, offering appropriate payment plans, using collection agencies, filing liens, going to small claims court and foreclosure.

Expenditure Policies

The City administers the expenditure of available resources to assure fiscal stability by prioritizing services, establishing appropriate service levels and delivering services effectively and efficiently.

1. The City strives to adopt an annual General Fund budget in which current expenditures do not exceed current projected revenues.
2. One-time revenues may fund capital expenditures.
3. Department heads are responsible for managing their budgets within the total appropriation for their departments.
4. During the fiscal year, if the City projects an operating deficit at year-end, the City will take corrective actions. Corrective actions can include expenditure reductions, fee increases, hiring freeze or use of contingencies. The City Council may address temporary gaps in cash flow by approving a short-term interfund loan or use of one-time revenue sources, although the City avoids these measures if possible.
5. The City does not use long-term debt or bond financing to pay for current operating expenditures.
6. The City assesses funds the costs of services provided internally by other funds.
7. The City hires additional staff only after the need is demonstrated and documented. The first assessment is how to improve productivity, to include appropriate investments in technology and other efficiency tools.
8. Compensation planning focuses on the total cost to the City including paid benefits.
9. During the budget process or at other appropriate intervals, the City evaluates services to ensure that they remain effective and competitive in cost.
10. The City utilizes vendor discounts whenever appropriate.

Purchase Policies

The City purchases and contracts using methods that promote impartiality and competition, conserve funds, attain the best price for goods and services, and ensure accountability.

1. The City operates under legal requirements related to purchasing, including RCW 35A.40.210, RCW 35.23.352, RCW 39.04, RCW 39.80, WAC 296-127-010(7) and federal regulations relating to grant administration.
2. Resolution No. 848 sets forth the City's requirements relating to small public works contracts, limited public works projects and consulting services.
3. Resolution No. 744 sets forth the City's requirements to award contracts for the purchase in an amount between \$7,500 and \$15,000 of materials, equipment, or supplies not connected to a public works project.
4. The City uses MRSC Rosters for public works, consultants and vendors for purchases covered by Resolutions No. 848 and 744. The City may use MRSC Rosters for other purchases. The City may search beyond MRSC Rosters if necessary to find a better solution to the City's needs.
5. The City may participate in cooperative purchasing arrangements led by larger government entities, provided that the terms of the award are applicable to the City's purchase and any necessary memberships or agreements are approved by the City Council.
6. The City Council pre-approves purchases of goods and/or services in excess of \$750 according to Roy City Code 3-1-2, with exceptions as outlined in RCC 1-5-2(C) or when delaying a purchase until the next meeting will result in additional costs and/or will prevent operation of a vital City function. In that case, the mayor approves the essential purchase from quotes obtained, and the City Council confirms at the next meeting.
7. Department heads approve purchases when council approval is not required.
8. Department heads submit at least three quotes to council for approval of purchases exceeding \$750.00. Phone quotes are acceptable. Written quotes are preferable and may be in the form of email or a print of website information where appropriate.
9. Department heads provide relevant documentation with approvals, requests for approvals and requests for payment of invoices.
10. If unable to obtain three quotes, the department head submits to council the names of contacts made and the reasons quotes are unavailable.
11. When quotes and other material purchase or service factors are substantially the same, the City gives preference to vendors in the City if possible.
12. After making awards, the City records bid quotations, which are available at the City Clerk-Treasurer's office upon inquiry.
13. The Clerk-Treasurer monitors compliance with these policies and with budget authority.

Operating Budget Policies

1. The operating budget is the City's annual financial plan. It is the City Council's policy document for implementing its goals and objectives. The budget provides the resources necessary to accomplish them.
2. The City Council adopts and maintains a balanced annual operating budget.
3. The City strives to adopt a budget where current annual operating revenues will be greater than or equal to current operating expenditures.
4. The City considers forecasts of future changes in the economy and changes in service demands when evaluating the sustainability of planned programs and expenditures.

5. If the City plans to use reserves to cover a budget shortfall expected to continue beyond one year, the City also develops a plan to close the gap through expenditure decreases or revenue increases.
6. Any year-end operating surpluses revert to unappropriated balances for use in maintaining reserve levels set by policy and are available for capital expenditures and/or “one time only” General Fund expenditures. For larger expenditures occurring less frequently than annually, the City budgets a pro-rated amount each year and re-appropriates previously unspent amounts from the ending balance carried over.
7. Within budget constraints, the City provides for ongoing maintenance and the orderly replacement of capital assets and equipment. The City uses a “rental” rate structure of charges to operating departments to accumulate anticipated costs based on projected replacement dates.
8. The City budgets no more than 2% of expenditures for contingencies in the general fund to provide for unforeseeable expenses, subject to the limit per \$1,000 of assessed valuation in RCW 35A.33.145.
9. Departments are accountable for maintaining control of their budgets.
10. The Mayor has the authority to approve appropriation transfers between programs or departments within a fund.
11. The City operates under the budgeting requirements mandated by the state.

Asset Management Policies

The City monitors the state of its long-term capital equipment and infrastructure and sets priorities for replacement and renovation based on needs, funding alternatives and availability of resources.

1. The City’s capital facilities plan is a component of its Comprehensive Plan.
2. The City Council establishes standards for service levels that the City’s capital facilities support.
3. The City finances only those capital improvements that are consistent with the adopted plan and City priorities.
4. The City does not lease capital assets when purchase is feasible.
5. All capital improvement operating and maintenance costs are included in operating budget forecasts.
6. The City maintains its capital assets to protect the City’s capital investment in each asset and to minimize future maintenance and replacement costs.
7. Current revenues support maintenance and orderly replacement of capital assets where possible.
8. The threshold used in determining if a given asset is a capital asset is \$5,000 per item.
9. Investments in updating the long-range plan for the City’s water system are capital improvements.
10. The City also tracks “small and attractive” assets: police weapons; insured vehicles and machinery falling below the \$5,000 threshold; and minor electronic or power equipment falling below the \$5,000 threshold. A small and attractive asset is an item that has a life expectancy of more than one year, is not likely to be missed immediately upon disappearance, could be replaced without suspicion during voucher audits, and specifically excludes small manual tools and minor manual equipment in the public works department such as shovels, hand tools, supplies, etc.
11. The City conducts a physical count and inspects the condition of all capital and tracked assets in accordance with RCC 3-1-3.

12. The City maintains adequate insurance on all capital assets consistent with the results of the physical count/inspection.
13. Department heads develop RCC 3-1-3 inventory submissions noting items added and indicating disposition of items removed. Submissions include distinguishing items acquired with water system resources or grant resources. Items added as a result of donations or transfers from other funds are assigned such fair market value as department heads are able to determine and document.

Accounting Policies

The City operates under prevailing federal, state and local statutes and regulations.

1. The City uses cash basis accounting, which is a departure from generally accepted accounting principles (GAAP).
2. The City Clerk-Treasurer distributes budget reports showing the status of revenues and expenditures at least quarterly to appropriate legislative, staff and management personnel.
3. The State Auditor's Office performs an audit every three years. The City Council may request an early audit when there is a significant staff change or when the City contemplates incurring significant debt.
4. The City uses its budget as a policy document, a financial plan, an operations guide, and a communications device.

Cost Allocation Policies

The City strives to allocate indirect costs between the General, Streets and Water Funds using methods that reflect as accurately as reasonably practical the benefits each fund realizes from the costs. The methods include:

- amount of staff time spent on work for each fund
- amount of equipment usage on work for each fund
- amount of facilities space devoted to and/or provided to serve the users of each fund
- portion of the relative purpose for incurring the cost
- actual counts where available

City staff members log representative time and usage to establish baseline proportions. When there is a significant change in hours or duties, staff members again log time or usage to adjust proportions accordingly. Where it is not reasonably practical to obtain relative numbers, city staff members make good faith estimates incorporating a conservative assignment of costs to the Water Fund. When city staff members update numbers, the clerk-treasurer "true-up" cost allocations in arrears as appropriate.

The costs allocated include:

- staffing costs in public works and clerk-treasurer offices
- costs of operating public works and city staff vehicles
- costs of operating the city hall facility
- costs of internet and telephones
- costs of computer applications and consulting
- postage
- copies
- legal, consulting and public disclosure request costs where applicable

Debt Policies

The City uses debt financing to provide needed capital equipment and infrastructure improvements while minimizing the impact of debt payments on current revenues.

1. The City does not use long-term debt to pay for current operations.
2. The City considers the use of bonds or certificates of participation only for significant capital and infrastructure improvements.
3. The term of debt shall never extend beyond the useful life of the equipment or improvements that it finances.
4. The City does not use general obligation debt to finance self-supporting enterprise activity.
5. The general policy of the City is to use voter-approved general obligation debt for general-purpose public improvements and capital projects if current revenues are insufficient to pay for them.
6. The City may use non-voter approved debt when it can identify a revenue source to pay debt service expenses.
7. The general policy of the City is to establish debt repayment schedules that use level annual principal and interest payments.
8. Interest earnings on bond proceeds is limited to 1) funding the improvements specified in the authorizing bond ordinance, or 2) payment of debt service on the bonds.
9. The City uses proceeds from debt in accordance with the purpose of the debt issue and the provisions stated in the bond ordinance.
10. The City uses the most prudent methods of acquiring capital outlay items, including using lease-purchase agreements. The City does not lease-purchase equipment with a useful life less than the term of the lease.
11. The City strives to establish and maintain a rating in the credit market that preserves future access and minimizes future borrowing costs.
12. The City prefers to avoid debt but may use it when the effect is to spread more equitably the cost of an asset to all users over its useful life, or to procure an asset at current cost when expected cost increases are greater than expected borrowing costs.
13. The City may use interfund loans if an analysis of the lending fund indicates excess funds are available and loaning the money will not impact the fund's current operations.
14. The City considers debt proposals only in conjunction with projected future operation and maintenance costs that would result.
15. The City considers debt proposals only in conjunction with its overall Capital Improvement Program and impacts on the City's debt limits.
16. The City uses recognized legal and financial experts to provide counsel on significant debt decisions.

Cash Management Policies

The City manages and invests its operating cash to optimize yield while providing necessary liquidity and avoiding imprudent risk.

1. The City manages cash and investments with emphasis on safety of principal, liquidity and financial return, in that order.
2. The City follows the cash handling and related controls suggested by the State Auditor's Office to the extent possible with the limited number of personnel on staff.

3. The City Clerk-Treasurer reports cash position and year-to-date budget position monthly to the City Council.

Investment Policies

1. The City of Roy invests public funds to provide maximum security with the highest investment return, while meeting the City's daily cash flow demands and conforming to all statutes governing the investment of public funds.
2. This investment policy applies to all financial assets of the City of Roy. The City's annual financial report accounts for invested assets.
3. The City makes investments, under prevailing circumstances, exercising the judgment and care that persons of prudence, discretion and intelligence would use in the non-speculative investment of their own capital, considering its probable safety as well as the probable income to be derived. Investment officers use the "prudent person" standard applied in the context of managing an overall portfolio. Investment officers acting in accordance with industry standards, their fiduciary duty, the City's written procedures, the investment policy, and state and federal law, and exercising due diligence are relieved of personal responsibility for an individual security's credit risk or market price changes, provided that they report deviations from expectations in a timely fashion and take appropriate action to control adverse developments.
4. The primary objectives, in priority order, of the City's investment activities are:
 - Safety of the principal. The City's foremost objective is to preserve the capital in the overall portfolio.
 - Liquidity. The City's portfolio remains sufficiently liquid to enable the City to meet all reasonably anticipated operating requirements.
 - Yield. The City's designs its portfolio to attain a market rate of return throughout budgetary and economic cycles, taking into account the City's risk constraints and the portfolio's cash flow characteristics.
5. Roy City Code 1-6A-1(C) authorizes the clerk-treasurer to invest city funds in savings accounts or certificates of deposit. The City delegates responsibility for managing the investment program consistent with this policy to the City Clerk-Treasurer or the appointed acting City Clerk-Treasurer. No person may engage in an investment transaction except as provided under the terms of this policy.
6. City officials and employees involved in the investment process shall refrain from personal business activity that could conflict with the proper execution of the investment program, or that could impair their ability to make impartial investment decisions. Officials and employees shall disclose to the mayor any material financial interests in financial institutions that conduct business with the City. They shall further disclose any personal financial/investment positions related to the performance of the City's portfolio. Officials and employees shall subordinate their personal investment transactions to those of the City, particularly with regard to the timing of purchases and sales.
7. The City shall make public deposits in qualified public depositories as provided in RCW 39.58.
8. The City of Roy may invest in savings, certificates of deposit, or with the Local Government Investment Pool.
9. To the extent possible, the City matches its investments with anticipated cash flow requirements. Unless matched to a specific cash flow, the City does not directly invest in securities maturing more than one year from the date of purchase.
10. The clerk-treasurer reports investment activity and returns in the City's financial statements and reports.

Fund Balance and Reserve Policies

The City maintains reserves and ending balances in operating funds to protect its financial position from emergencies.

1. At each fiscal year end, the remaining dollars in each operating fund that are undesignated and unencumbered constitute available general operating reserves of the City. The remaining dollars in each capital fund that are undesignated and unencumbered constitute available reserves for capital expenditures requiring council approval.
2. The City's goal is to establish and maintain a reserve of at least 10% of the General Fund and General Fund-supported operating budgets.
3. The City intends general operating reserves to be available for unexpected short-term or one-time contingencies. Excess operating reserves may be used for identified needs in accordance with purchase policies and operating budget policies.
4. The City specifically reports reserved fund balances in BARS codes 3081XXX to reflect restrictions on cash and investments imposed by external parties and/or due to internal commitments. Internally committed resources are those with specific limitations imposed by the city council through an ordinance or resolution. Such limitations require an ordinance or resolution to remove them.
5. The City reports reserves maintained for other intended uses in BARS codes 3088XXX.
6. The City strives to maintain operating cash in the operating funds totaling three months' regular operating expenses.

Internal Controls

In general, the City strives to ensure oversight, accuracy and accountability by requiring separate review of reports, payments, inventories, and other documentation surrounding the use of City resources. A knowledgeable person or persons not directly involved in the process or transaction performs the separate review. The City recognizes that it creates a balance between conserving resources by limiting staffing, and preserving resources by providing enough staffing to allow segregation of duties. Therefore, the City recognizes that limited internal controls are possible. It is the responsibility of the mayor and each department to develop policies to achieve reasonably feasible internal controls.