

City of Renton, WA

Financial Management Policies

(Last updated March 2008)

Basic Policy Statement

The City of Renton is committed to the highest standards of responsible financial management. The City, including the City Council, Mayor, and staff will work together to ensure that all financial matters of the City are addressed with care, integrity, and in the best interest of the City.

The rules and procedures contained in this section are designed to:

1. Protect the assets of the City of Renton;
2. Ensure the maintenance of open and accurate records of the City's financial activities;
3. Provide a framework of operating standards and behavioral expectations;
4. Ensure compliance with federal, state, and local legal and reporting requirements; and
5. Provide a means for the City Council to update and monitor these policies with the assistance and cooperation of the Mayor's Office and the Finance and Information Services Administrator.

Lines of Authority

1. The Renton City Council has the authority to execute such policies as it deems to be in the best interest of the City within the parameters of federal, state, and local law.
2. The Finance Committee has the authority to perform reviews of the organization's financial activity, determine the allocation of investment deposits, and assure that adequate internal controls are in place.
3. The Mayor and Chief Administrative Officer (CAO) have the authority to oversee the development of the annual budget, make spending decisions within the parameters of the approved budget, enter into contractual agreements, make capital asset purchase decisions, and make decisions regarding the allocation of expenses within designated parameters. Unless otherwise specified in this document, principal responsibility for complying with the directives enumerated herein shall be vested in the Mayor.
4. Each Department Administrator has the authority to expend City funds within approved budget authority and in accordance with procedures prescribed by the Mayor's Office, and to recommend spending requests within the parameters of the approved budget process to the Mayor.

Accounting Records and Reports

1. *Basis of Accounting*
 - a. The City's Comprehensive Annual Financial Report (CAFR) on its financial activity shall be presented in compliance with Generally Accepted Accounting Principles (GAAP) as defined by the Governmental Accounting Standards Board (GASB).
2. *Basis of Budget*
 - a. The City budget is presented on a GAAP basis of accounting.
3. *Fund Accounting*
 - a. The City of Renton's accounting and budgeting systems use a fund accounting consistent with guidance provided by the GASB and the Washington State Auditor's Office.
 - b. The funds are grouped into categories: General Fund, Special Revenue, Debt Service, Capital Projects, Enterprise, Internal Service, and Fiduciary/Trust.
 - c. The City Council shall create and eliminate funds as appropriate by separate ordinance, or through the budget ordinance.
 - d. Funds shall either be "external" or "internal" for financial reporting purposes.
 - i. Internal funds shall be separate sets of accounts for the purpose of enhancing internal management control only. These funds shall reside within an external fund. For cash management purposes, internal funds may rely on their related external fund without payment of interest or violation of the City's cash management policies. (See Interfund Loan policy for further clarification).
 - e. The City's financial accounting system shall assure that the status and transactions of each account and their relationship to budget authority is clear.
4. *Financial Reporting*
 - a. The CAFR shall be timely and comprehensive and meet or exceed professional industry standards.
 - b. The City's budget documents shall provide for comparison with prior years.
 - c. Revenue and expenditure reports shall be prepared monthly and be available on the City's website.
 - d. A written analysis of the City's monthly report shall be prepared quarterly, coordinated with the CAO and Mayor, reviewed with the City Council, and available on the City's website.
 - e. All budget amendments shall be included in the monthly report.
 - f. Any outstanding interfund loans shall be disclosed in the quarterly report.
5. *Audit*
 - a. The City shall commission an annual audit of its financial reports and related records to be conducted by the Washington State Auditor's Office.
 - b. At the conclusion of the audit, the auditor shall be available to brief the City Council on the results.
 - c. The results of the audit shall be available to the public.

Policy on Stabilization Funds

Sufficient fund balances and reserve levels are important in the long-term financial stability of the City.

1. The City shall maintain reserves required by law, ordinance, and/or bond covenants.
 - a. General Government
 - i. The City shall maintain reserves in the General Government Funds of at least 10% of total budgeted operating expenditures.
 - ii. In addition, the City shall maintain an additional reserve as a part of the City's Risk Management Funds in a minimum amount of \$5,000,000.
 - iii. In addition, the City shall maintain an "Anti-Recessionary Reserve" in an amount of at least 2% of General Government budgeted operating expenditures. Expenditures utilizing the "Anti Recessionary Reserve" require a two-thirds majority vote of the City Council.
 - b. The City shall maintain one year payments in voted general obligation debt service funds.
 - c. The City shall maintain reserves in the Enterprise Funds as follows:
 - i. Water Utility Fund: 12% - 25% of total budgeted operating expenses.
 - ii. Golf Fund – 25% - 50% of total budgeted operating expenses.
 - iii. All other Enterprise Funds: 10% - 20% of total budgeted operating expenses.
 - d. Reserve balances of other funds shall be set through the budget process in an amount consistent with the purpose and nature of the fund.
2. Replacement reserves shall be established for equipment, facilities, and information technology, regardless of whether the equipment is acquired via lease, gift, or purchase.
 - a. Service charges paid by City departments to the appropriate Internal Revenue Service funds should include an amount to provide for replacements.

Financial Planning

1. The City shall maintain a long-term (five year) financial planning model.
 - a. The financial planning model shall:
 - i. be based on the currently adopted budget;
 - ii. utilize these policies;
 - iii. be based on assumptions and drivers realistically expected to occur;
 - iv. clearly document the assumptions and drivers used and the results of the use of such assumptions and drivers;
 - v. be designed in such a way to permit analysis of alternative strategies;
 - vi. relate to the related plans of the City to include Service Delivery Plans, Comprehensive Plans, Master Plans, etc.; and
 - vii. shall be prepared for the General Government and such other funds as deemed necessary.

2. Budget Development

- a. The City shall prepare an annual budget that is consistent with:
 - i. state law;
 - ii. the long-term financial planning model;
 - iii. these policies; and
 - iv. industry best practices.
- b. The City of Renton's annual budget shall be prepared using the following schedule and process as a general guide:
 - i. Review stakeholder input such as surveys, public forums, neighborhood meeting notes, and business community communication.
 - ii. The Mayor, City Council, and CAO will conduct a goal-setting retreat with the Department Administrators updating the Business Plan and other policy guidance.
 - iii. The City Council and Administration will meet to review and discuss the prior year's audited results, current year budget status, next budget schedule, process, budget guidelines, and budget preparation items of interest.
 - iv. The Finance & Information Services (IS) Administrator prepares the budget preparation instructions and meets with Department Administrators to distribute budget instructions and discuss budget preparation.
 - (1) The instructions will include policy priorities, estimates of compensation adjustments, internal service, and indirect charges.
 - v. Departments will provide to the Finance and IS Department budget estimates and requests conforming to the budget instructions.
 - vi. The Mayor submits a proposed balanced Preliminary Budget to the City Council in conformance with state law.
 - vii. The City Council conducts public hearings on the proposed budget in conformance with state law.
 - viii. The City Council sets the City's property tax levies.
 - ix. The City Council adopts the final budget ordinance.
 - x. The Final Budget Document is published and posted to the City's website.

- c. Budget amendments should be presented for consideration when the need arises.
 - i. Budget authority shall be at the fund level.
 - ii. Changes resulting in a need to revise the appropriation authority shall be presented as they occur.
- 3. Revenues
 - a. Revenue forecasts shall assess the full spectrum of resources available to finance City programs and services.
 - b. The City shall consider the diversification of revenue as a strategy when developing its financial plans.
 - c. Should an economic downturn develop that results in (potential) revenue shortfalls or fewer available resources, the City will make appropriate adjustments to its budget.
 - d. Revenue estimates shall be based on forecasting methods recommended by the Government Finance Officers Association (GFOA) and will typically be more likely to be conservative rather than aggressive.
- 4. Expenditures
 - a. Priority shall be given to expenditures that will improve productivity.
- 5. Capital Improvements
 - a. A comprehensive six-year plan for City capital improvements shall be prepared annually and adopted by the City Council as part of the City budget.
 - i. All projects included in the Capital Improvement Program (CIP) shall be consistent with the City's Comprehensive Plan.
 - ii. The Capital Improvement Program shall be prepared in consultation with Council Committees for ongoing capital improvements.
 - b. All proposed capital improvement projects shall include a recommended or likely source of funding.
 - c. Private development (including residential, commercial, and industrial projects) shall pay its fair share of the capital improvements that are necessary to serve the development in the form of system development charges, impact fees, mitigation fees, or benefit districts.
 - d. Capital project proposals should indicate the project's impact on the operating budget, including, but not limited to, long-term maintenance costs necessary to support the improvement.

- e. Capital projects (as approved within the CIP) shall be budgeted for on a project life basis (rather than fiscal year).
 - i. Appropriations for projects shall not lapse at year-end but be carried forward until the project is complete.
 - ii. The project shall be deemed complete when the scope of the original project as provided for in the approved Capital Improvements Plan is completed or as amended by formal action of the City Council.
 - iii. City Council shall be notified of project completion.

Policy on Fees and Charges

1. The City shall annually review all fees for licenses, permits, fines, rates, and other miscellaneous charges as part of the budget process.
2. User charges and fees shall be established based at a percentage of the full cost of providing the service, unless otherwise provided by statute or regulation.
 - a. Full cost incorporates direct and indirect costs, including operations and maintenance, overhead, and charges for the use of capital facilities.
 - b. Other factors for fee or charge adjustments may also include the impact of inflation, other cost increases, the adequacy of the coverage of costs, and current competitive rates.
3. Proposed rate adjustments, user charges, and fees shall be presented to the City Council for approval each year as part of the Mayor's proposed Preliminary Annual Budget to the Council.
4. The City shall rigorously collect all amounts due.

Policy on Utility Funds

1. The City shall establish and maintain separate utility operating and capital improvement funds and budgets for each of its utility operations.
2. Utility rate studies shall be conducted every six years to update assumptions and ensure the long-term solvency and viability of the City's Utilities.
3. Utility rates and capital fees shall be reviewed annually and necessary adjustments made to avoid major rate increases.
4. The City shall use system development charges, grants, and low interest loans to fund capital projects where possible. Overall, the utilities should maintain a debt to equity ratio of 60/40.
 - a. Each Utility should fund an amount of the cost equal to the annual "depreciation expense" of capital assets less debt service principal payments.
5. System Development Charges (SDCs) shall be established at levels to ensure that all customers seeking to connect to the City's Utility Systems shall bear their equitable share of the cost of both the existing and future systems.

6. Debt financing of utility improvements will be consistent with the Utility Master Plans, Council Rate Policies, and other factors so as to smooth the effect of major improvements on utility rates.
7. The City shall strive to maintain minimum debt service “coverage” with the net revenue (gross operating revenue of the utilities less operating and maintenance expenses) of the combined utilities being 1.25 - 1.5 times the actual debt and the net revenue of the individual utility being at least 1.25 times the actual debt.

Policy on Debt Issuance and Management

1. Long-term borrowing shall be confined to capital improvements or similar projects with an extended life when it is not practical to be financed from current revenues. The City shall not use long-term debt to finance current operations.
2. Debt payments shall not extend beyond the estimated useful life of the project being financed. The City shall keep the average maturity of general obligation bonds at or below fifteen years, unless special circumstances arise warranting the need to extend the debt schedule.
3. The City shall work to maintain strong ratings on its debt including maintaining open communications with bond rating agencies concerning its financial condition.
4. With Council approval, interim financing of capital projects may be secured from the debt financing market place or from other funds through an interfund loan as appropriate in the circumstances.
5. The City may issue interfund loans when appropriate and consistent with a separately adopted City Council policy on the subject.
6. When issuing debt, the City shall strive to use special assessment, revenue or other self-supporting bonds in lieu of general obligation bonds.
7. Long-term general obligation debt shall be utilized when necessary to acquire land or capital assets based upon a review of the ability of the City to meet future debt service requirements. The project to be financed should also be integrated with the City’s long-term financial plan and Capital Improvement Program.
8. General obligation debt should be used when the related projects are of a benefit to the City as a whole.
 - a. General Obligation Bond (Voted):
 - Every project proposed for financing through general obligation debt should be accompanied by a full analysis of the future operating and maintenance costs associated with the project.
 - b. Limited Tax General Obligation Bond (Non-Voted):
 - The City should avoid issuing general obligation (non-voted) debt beyond eighty percent (80%) of its general obligation debt capacity.
9. The City shall use refunding bonds where appropriate when cost savings can be achieved of at least 4% net present value (NPV), restructuring its current outstanding debt, and/or improving restrictive bond conditions.

10. The City's financial team for the issuance of debt shall consist of the Council, Mayor, CAO, Finance and IS Administrator, applicable department management (related to the projects to be financed), City Legal Counsel, designated bond counsel, financial advisor, and underwriter in order to effectively plan and fund the City's capital improvement projects.
 - a. Through a competitive selection process conducted by the Finance and IS Administrator with consultation with the Mayor, CAO, and Legal Counsel, the City Council shall approve the most qualified financial advisor/underwriter and bond counsel.
 - b. These services shall be regularly monitored by the Finance and IS Administrator.
11. The City shall evaluate the best method of sale for each proposed bond issue.
 - a. When a negotiated sale is deemed advisable (in consultation with the Mayor and City Council) the Finance and IS Administrator shall negotiate the most competitive pricing on debt issues and broker commissions in order to ensure the best value to the City.
 - b. When a negotiated sale is used, the City shall use an independent financial advisor to advise the City's participants in matters such as structure, pricing, and fees.
12. The City shall comply with IRS regulations concerning use of, and reinvestment of bond proceeds.
 - a. The City shall monitor and comply with IRS regulations with regard to potential arbitrage earnings. If arbitrage earnings are believed to be above amounts provided by IRS regulations, the City will set aside earnings in order to pay the appropriate amount to the federal government as required by IRS regulation.
13. The City shall provide full secondary market disclosure related to outstanding debt.

Related Policies

- Investment Policy
- Contracting Policy (Purchasing Authority)
- Interfund Loans

City Funds and Fund Structure

		Key	Report
000	General	A	E
001	Community Services (Replaces 101)	A	I (000)
003	Street (Replaces 103)	A	I (000)
004	Community Dev Block Grant	A	I (000)
006	Library / Museum (Replaces 106)	A	I (000)
007	Parking Garage Maintenance (Closing in 2008)	A	I (000)
009	Farmers Market Fund	A	I (000)
010	Fire Memorial	A	I (000)
011	Fire Health and Wellness	A	I (000)
031	Park Memorial (Replaces 131)		E
201	1997/2001 Limited GO Bonds	A	I (215)
207	1978 Limited GO Bonds	A	I (215)
215	Gen Govt. Misc. Debt Service	A	E

Total General Government

SPECIAL REVENUE FUNDS:

102	Arterial Street		E
108	Leased Properties Fund (Replaces 306)		E
110	Hotel Motel		E
118	Reserve for Paths & Trails		E
125	1% For Art		E
127	Cable Communication		E
135	Springbrook Wetlands Bank		E

DEBT SERVICE FUNDS:

219	1989 Unlimited GO Bonds (Closing in 2008)		E
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CAPITAL PROJECT FUNDS (CIP):

303	Community Dev Mitigation		E
304	Fire Mitigation		E
305	Transportation Mitigation		E
316	Municipal Facilities CIP		E
317	Transportation CIP		E
318	Landing CIP		E

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ENTERPRISE FUNDS:

		Key	Report
402	Airport	C	E
403	Solid Waste Utility		E
404	Golf Course	D	E
405	Water Utility	B	E
406	Waste Water Utility	B	I (405)
407	Storm Water Utility	B	I (405)
416	King County Metro	B	I (405)
422	Airport CIP	C	I (402)
424	Golf Course Capital	D	I (404)
425	Water Utility Construction	B	I (405)
426	Waste Water Utility Construction	B	I (405)
427	Storm Water Utility Construction	B	I (405)
461	Waterworks Bond Reserve	B	I (405)
471	Rate Stabilization	B	I (405)
481	Water/Sewer Bonds	B	I (405)

INTERNAL SERVICE FUNDS:

501	Equipment Repair/Replacement		E
502	Insurance		E
503	Information Services		I (501)
504	Facilities		I (501)
512	Insurance, Healthcare		I (502)
522	Insurance, Leoff1 Retirees HC		I (502)

FIDUCIARY FUNDS:

611	Firemen's Pension		E
650	Special Deposits		E

ACCOUNTING FUNDS:

GWS	Government-wide Statements (Closing in 2008)		Ia
901	Bank Clearing		Ia
910	General Fixed Asset Account Group		Ia
950	General Long-term Debt Account Group		Ia
631	Claims Clearing		Ia
632	Payroll Clearing		Ia

Notes for Fund Matrix

- A. General Government Funds share general revenues. Therefore, no interest shall be charged for loans between funds.
- B. Water Utility Funds shall be managed as a system such that balance sheet accounts are merged for management and reporting purposes.
- C. Airport Funds shall be managed as a system such that balance sheet accounts are merged for management and reporting purposes.
- D. Golf Course Funds shall be managed as a system such that balance sheet accounts are merged for management and reporting purposes.
- E. External Fund for Reporting Purposes
- I. Internal Fund for Management Purposes
- Ia. Internal Fund for Accounting Purposes