

RESOLUTION 2014-Q

**A RESOLUTION OF THE TOWN OF EATONVILLE, WASHINGTON APPROVING
FINANCIAL POLICIES FOR THE TOWN OF EATONVILLE**

WHEREAS, the Finance Committee feels that the Town of Eatonville is in need of Financial Policies to assist elected officials and staff in the financial management of the Town and;

WHEREAS, the Finance Committee has reviewed the Financial Policies and;

WHEREAS, the Eatonville Town Council will authorize the Mayor to adopt said Financial Policies for the Town of Eatonville.

**THE TOWN COUNCIL OF THE TOWN OF EATONVILLE, WASHINGTON, HEREBY
RESOLVES AS FOLLOWS:**

**THAT: The Financial Policies for the Town of Eatonville are
approved in the form attached hereto as Exhibit A.**

PASSED by the Town Council of Town of Eatonville and attested by the Town Clerk in authentication of such passage this 28th day of July 2014.

Mike Schaub, Mayor

ATTEST:

Kathy Linnemeyer, Town Clerk

Town of Eatonville

Financial Policies

Statement of Purpose

The financial integrity of our Town government is of utmost importance. To discuss, write, and adopt a set of financial policies is a key element to maintaining this integrity. Our Town has evolved with a variety of financial policies that can be found in many different sources including: Town Council Resolutions and Ordinances; Budget documents; and Capital Improvement Programs. The set of policies within this document serves as a central reference point of the most important of our policies, which are critical to the continued financial health of our local government.

Written, adopted financial policies have many benefits, such as assisting the elected officials and staff in the financial management of the Town, saving time and energy when discussing financial matters, inspiring public confidence, and providing continuity over time as elected officials and staff members change. While these policies will be amended periodically, they will provide the basic foundation and framework for many of the issues and decisions facing the Town. They will promote sound financial management and assist in the Town's stability, efficiency, and effectiveness.

Financial Goals

The Town of Eatonville's financial goals seek to:

- Ensure the financial integrity of the Town
- Manage the financial assets in a sound and prudent manner
- Improve financial information for decision makers at all levels:
 - Policy makers as they contemplate decisions that affect the Town on a long- term basis
 - Managers as they implement policy on a day-to-day basis
- Maintain and further develop programs to ensure the long term ability to pay all costs necessary to provide the level and quality of service required by the citizens
- Maintain a spirit of openness and transparency while being fully accountable to the public for the Town's fiscal activities

Financial Policies

Eatonville's financial policies address the following major areas:

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| I. General Policies | VI. Accounting Policy |
| II. Revenue Policies | VII. Debt Policy |
| III. Expenditure Policies | VIII. Cash Management/Investment Policy |
| IV. Operating Budget Policy | IX. Reserve Policy |
| V. Capital Management Policy | |

I. General Policies

1. The Town Council may adopt resolutions or ordinances to set financial policies to assure the financial strength and accountability of the Town.
2. The Mayor and/or Town Administrator shall develop administrative directives and general procedures for implementing the Town Council's financial policies.
3. All Town Departments will share in the responsibility of meeting policy goals and ensuring long-term financial health. Future service plans and programs will be developed to reflect current policy directives, projected resources, and future service requirements.
4. Efforts will be coordinated 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 level.
5. Initiate, encourage, and participate in economic development efforts to create job opportunities and strengthen the local economy.
6. The Town will strive to maintain fair and equitable relationships with its contractors and suppliers.

II. Revenue Policies

Design, maintain, and administer a revenue system that will assure a reliable, equitable, diversified, and sufficient revenue stream to support desired Town services.

General Revenues

1. Current expenditures will be funded by current revenues. The Town will try to maintain a diversified and stable revenue system to protect programs from short-term fluctuations in any single source.
2. Budgeted revenues will be estimated conservatively using accepted standards and estimates provided by the state, other governmental agencies or reliable economic forecasters when available.
3. General Fund and other unrestricted revenues will not be earmarked for specific purposes, activities or services unless otherwise authorized by Town Council or required by law, or generally accepted accounting practices (GAAP). All nonrestricted revenues will be deposited into the General Fund and appropriated by the budget process.
4. If revenues from "one-time" or limited duration sources are used to balance the Town's annual operating budget, it is to be fully disclosed and explained at the time the budget is presented. It is the Town's goal to not rely on these types of revenues to balance the operating budget.

5. The Town will not use deficit financing and borrowing to support on-going operations in the case of long-term (greater than one year) revenue downturns. Revenue forecasts will be revised and expenses will be reduced to conform to the revised long-term revenue forecast or revenue increases will be considered.

Fees and Charges

7. Enterprise and Internal Service operations will be self-supporting.
8. The Town will maximize the use of service users' charges in lieu of ad valorem (property) taxes and subsidies from other Town funds, for services that can be identified and where costs are directly related to the level of service provided.
 - a. Charges for providing utility services shall be sufficient to finance all operating, capital outlay, and debt service expenses of the Town's enterprise funds, including operating contingency, planned capital improvements, and reserve requirements.
 - b. User charges shall fund 100% of the direct cost of development review and building activities. User charges include, but are not limited to, land use, engineering inspection, building permit and building inspection fees.
 - c. Other reimbursable work performed by the Town (labor, meals, contracted services, equipment and other indirect expenses) shall be billed at actual or estimated actual cost.
 - d. Charges for services shall accurately reflect the actual or estimated cost of providing a specific service. The cost of providing specific services shall be recalculated periodically, and the fee adjusted accordingly. The Town shall maintain a current schedule of fees and charges, showing when the fees were last reviewed and/or recalculated. Fees, charges, and utility rates will be reviewed every three years at a minimum.
 - e. The Town will consider market rates and charges levied by other municipalities for like services in establishing rates, fees, and charges.
 - f. Certain fees, such as rental fees, will be based upon market conditions and are not subject to the limitations of cost recovery.
 - g. Rate increases should be small and applied frequently to avoid an overly burdensome future increase.

Grants and Gifts

9. All potential grants shall be carefully examined for matching requirements. Some grants may not be accepted if the local matching funds cannot be justified.
10. Grant funding for programs or items, which address the Town's current priorities and policy objectives should be considered to leverage Town funds. Inconsistent and/or fluctuating grants should not be used to fund on-going programs.

11. Before accepting any grant the Town shall thoroughly consider the implications in terms of ongoing obligations that will be required in connection with acceptance of said grant.
12. All grants and other federal and state funds shall be managed to comply with the laws, regulations, and guidance of the grantor, and all gifts and donations shall be managed and expended in accordance with the Town's Donation Policy and the wishes and instructions of the donor.

III. Expenditure Policies

Identify priority services, establish appropriate service levels, and administer the expenditure of available resources to assure fiscal stability and the effective and efficient delivery of services.

1. The Town will strive to adopt an annual General Fund budget in which current expenditures do not exceed current projected revenues. Capital expenditures may be funded from one-time revenues.
2. Department heads are responsible for managing their budgets within the total appropriation for their department.
3. The Town will take immediate corrective actions if at any time during the fiscal year expenditure and revenue re-estimates are such that an operating deficit is projected at year-end. Corrective actions can include a hiring freeze, expenditure reductions, fee increases, or use of contingencies. The Town Council may approve the use of reserves, a short-term (not more than 24 months) interfund loan or use of one-time revenue sources to address temporary gaps in cash flow, although this will be avoided if possible.
4. Long-term debt or bond financing shall not be used to finance current operating expenditures.
5. The Town will assess funds for services provided internally by other funds. Interfund service fees charged to recover these costs will be recognized as revenue to the providing fund.
6. Emphasis will be placed on improving individual and work group productivity rather than adding to the work force. The Town will invest in technology and other efficiency tools to maximize productivity. The Town will hire additional staff only after the need for such positions has been demonstrated and documented.
7. All compensation planning and collective bargaining will focus on the total cost of compensation which includes direct salary, health care benefits, pension contributions, and other benefits which are a cost to the Town.
8. Periodic comparisons of service delivery will be made to ensure that quality services are provided to our citizens at the most competitive and economical cost. Privatization and contracting with other governmental agencies will be evaluated as alternatives to

service delivery where appropriate. Programs that are determined to be inefficient and/or ineffective shall be reduced in scope or eliminated.

9. Whenever feasible, government activities will be considered enterprises if so doing will increase efficiency of service delivery or recover the cost of providing the service from the benefiting entity by user fees.
10. The Town will make every effort to maximize any discounts offered by creditors/vendors. Staff will also use competitive bidding per the Purchasing Policy to attain the best possible price on goods and services.

IV. Operating Budget Policies

1. The Town Council will adopt and maintain a balanced annual operating budget.
2. The Town will strive to adopt a budget where current annual operating revenues will be equal to or greater than current operating expenditures.
3. The Town Council shall adopt the budget by ordinance at the fund level.
4. Any interfund transfers and/or loans will be completed only after specific Council approval or inclusion in the approved annual budget.
5. In the event a balanced budget is not attainable, and the cause of the imbalance is expected to last for no more than one year, the planned use of reserves to balance the budget is permitted. In the event that a budget shortfall is expected to continue beyond one year, the planned use of reserves must be developed as part of a corresponding strategic financial plan to close the gap through revenue increases or expenditure decreases.
6. Revenue and expenditure forecasts will be prepared to examine the Town's ability to absorb operating costs due to changes in the economy, service demands, contractual obligations, and capital improvements. The forecast will encompass five years and will be updated annually.
7. Any year-end operating surpluses will revert to unappropriated balances for use in maintaining reserve levels set by policy and will be available for capital expenditures and/or "one-time" only General Fund expenditures.
8. Funding for new programs or services should be limited to the extent that they can be funded over the near-to-long term given the current revenue stream.
9. Department and Fund budgets shall be prepared in a manner that reflects the full cost of providing services.
10. The Town will maintain all its assets at a level such that it protects the Town's capital investment and minimizes future maintenance and replacement costs.

11. Fleet and equipment replacement will be accomplished through the use of a “rental” rate structure. The rates will be revised annually to ensure that charges to operating departments are sufficient for the replacement of the vehicles and equipment.
12. The operating budget shall serve as the annual financial plan for the Town. It will serve as the policy document of the Town Council for implementing Council goals and objectives. The budget will provide the staff the resources necessary to accomplish Town Council determined service levels.
13. As mandated by RCW 35.33.051, the Mayor shall annually present a proposed operating budget to the Town Council on or before the first Monday in October. The Town Council must adopt by ordinance a final balanced budget no later than December 31 of each year.
14. Budget control and accountability is maintained at the departmental level.
15. The Mayor has the authority to approve appropriation transfers between programs or departments within a fund. In no case may total expenditures of a particular fund exceed that which is appropriated by the Town Council without a budget amendment. Amendments to the budget should be presented at least semi-annual in July and November and approved by the Town Council.

V. Capital Management Policies

Review and monitor the state of the Town’s capital equipment and infrastructure, setting priorities for its replacement and renovation based on needs, funding alternatives, and availability of resources.

Capital Facilities Plan

1. The Town will develop a Capital Facilities Plan (CFP) as defined and required by RCW 36.70A.070 which is consistent with the Town Comprehensive Plan. The plan shall be for a period of six years. This plan should be updated by the end of August each year.
2. The CFP will include all projects to maintain public capital facilities required to maintain service levels at standards established by the Town Council. It may also include for consideration such other projects as requested by the Mayor or Town Council.
3. The CFP will provide details on each capital project plan including estimated costs, sources of financing and a full description of the project.
4. The Town will finance only those capital improvements that are consistent with the adopted CFP and Town priorities. All capital improvement operating and maintenance costs will be included in operating budget forecasts.
5. A status review of the CFP will be conducted annually and a report will be presented by the Mayor or his/her designee, to the Town Council.

Capital Asset Management

6. The Town will maintain its capital assets at a level adequate to protect the Town's capital investment and to minimize future maintenance and replacement costs. The budget will provide for adequate maintenance and orderly replacement of capital assets from current revenues where possible.
7. Adequate insurance will be maintained on all capital assets consistent with the results of the annual physical count/inspection.

VI. Accounting Policies

Comply with prevailing federal, state, and local statutes and regulations. Conform to a comprehensive basis of accounting in compliance with Washington State statutes and with generally accepted accounting principles (GAAP) as promulgated by the Governmental Accounting Standards Board (GASB), and the Government Finance Officers Association (GFOA) where applicable.

1. The Town uses the cash basis of accounting which is a departure from generally accepted accounting principles (GAAP).
2. The Town will maintain expenditure categories according to state statute and administrative regulation. The Town will use the "Budgeting, Accounting & Reporting System" (BARS) prescribed by the State Auditor for its revenue and expenditure classification.
3. The Finance Committee will review the prior month's financial reports showing the current status of revenues and expenditures. The reports will be made available for public inspection.
4. Electronic financial systems will be maintained to monitor revenues, expenditures, and program performance on an ongoing basis.
5. The Annual Financial Report will be prepared and submitted to the State Auditor's Office no later than 150 days from the end of the preceding fiscal year.
6. The Annual Financial Report will be prepared on the basis of accounting that demonstrates compliance with Washington State statutes and the BARS manual prescribed by the State Auditor, which is a comprehensive basis of accounting other than generally accepted accounting principles. The report will provide full disclosure of all financial activities and related matters.
7. An audit shall be performed every two years by the Washington State Auditor's Office, which will issue an official opinion on the annual financial statements, along with a report on accountability for public resources and compliance with state laws and regulations and its own policies and procedures.

VII. Debt Policies

Establish guidelines for debt financing that will provide needed capital equipment and infrastructure improvements while minimizing the impact of debt payments on current revenues.

1. The Town will not use interfund loans over 12 months to pay for current operations. The use of bonds or certificates of participation will only be considered for significant capital and infrastructure improvements.
2. The term of the debt shall never extend beyond the useful life of the improvements to be financed.
3. General obligation debt will not be used for self-supporting enterprise activity.
4. The general policy of the Town is to fund general-purpose public improvements and capital projects that cannot be financed from current revenues with voter- approved general obligation debt. Non-voter approved debt may be utilized when a dedicated revenue source other than general revenue can be identified to pay debt service expenses.
5. The general policy of the Town is to establish debt repayment schedules that use level annual principal and interest payments.
6. Interest earnings on bond proceeds will be limited to 1) funding the improvements specified in the authorizing bond ordinance, or 2) payment of debt service on the bonds.
7. Proceeds from debt will be used in accordance with the purpose of the debt issue. Funds remaining after the project is completed will be used in accordance with the provisions stated in the bond ordinance that authorized the issuance of the debt.
8. The Town will use the most prudent methods of acquiring capital outlay items, including the use of lease-purchase agreements. In no case will the Town lease- purchase equipment whose useful life is less than the term of the lease.
9. The Town will maintain its bond rating at the highest level fiscally prudent, so that future borrowing costs are minimized and access to the credit market is preserved. The Town will encourage and maintain good relations with financial bond rating agencies and will follow a policy of full and open disclosure.

VIII. Cash Management and Investment Policies

Manage and invest the Town's operating cash to ensure its legality, safety, provide for necessary liquidity, avoid imprudent risk, and optimize yield.

1. Cash and Investment programs will be maintained in accordance with Town regulations and will ensure that proper controls and safeguards are maintained. Town funds will be managed in a prudent and diligent manner with an emphasis on safety of principal, liquidity, and financial return on principal, in that order.
2. The Town will develop and adopt an investment policy. Currently the Local Government Investment Pool (LGIP), which is an investment vehicle maintained by the State Treasurer's Office to help local governmental entities achieve higher rates of return by pooling local funds for economies of scale, is the only authorized investment vehicle available to the Town.
3. The Town will maintain written guidelines on cash handling, accounting, segregation of duties, and other financial matters.
4. Monthly reports will be prepared and distributed to all departments and the Town Council showing cash position, and year-to-date budgeted and actual expenditures.
5. The Town will conduct annual reviews of its internal controls and cash handling procedures. The mayor to do a random review each year.
6. Internal controls will be tested on an annual basis at a minimum.

VIII. Reserve Policies

Maintain the reserves, contingencies, and ending fund balances of the various operating funds at levels sufficient to protect the Town's credit as well as its financial position from emergencies.

1. At each fiscal year end the remaining dollars left in each fund that are undesignated and unencumbered constitute available reserves of the Town.
2. The Town will include all fund balances in the annual budget.

Strategic Reserve

3. The Town's goal shall be to establish and maintain a General Operating Strategic Reserve of at least 10 percent of the General Fund and General-Fund supported operating budgets.
4. The reserve is defined as an emergency or cash flow reserve to fund one-time, emergency, or unanticipated expenditure requirements or offset unanticipated revenues fluctuations occurring in the fiscal year or one-time revenue losses.
5. Annual contributions will be budgeted from the General Fund resources as available to establish and maintain the target reserve level.

6. All expenditures drawn from the reserve account shall require prior Council approval unless previously authorized by the Town Council for expenditure in the annual budget.

General Fund

7. The Town's goal shall be to maintain a General Fund ending fund balance of at least 10 percent of the budgeted General Fund operating revenues. The Town shall reach this targeted minimum percentage by December 31, 2017.

Contingency Fund

8. A contingency fund in an amount of 0.5 percent of the General Fund expenditure budget may be maintained annually in the Town budget as Town resources allow. The contingency account will be reestablished annually as part of the budget process
9. The Contingency fund will be maintained in accordance with RCW 35.33 to meet any municipal expense, the necessity or extent of which could not have been reasonably foreseen at the time of adopting the annual budget. The account provides some flexibility for unforeseen events without the necessity to appropriate additional funds from the Town's reserves.
10. All transfers from the Contingency fund will require Town Council approval.
11. Per RCW 35.33.145 the contingency fund may not exceed \$0.375 per \$1,000 of Assessed Valuation.

Enterprise Funds

12. The Town's Enterprise Funds will maintain reserves equal to at least 10 percent of their adopted operating expenditures.
13. The buy-in fee into each utility enterprise fund will be reserved for capital use.

Equipment Rental & Replacement Fund

14. Sufficient reserves will be maintained to provide for the scheduled replacement of Town vehicles and capital equipment at the end of their useful lives.
15. Contributions will be made through assessments to the operating departments and maintained on a per asset basis.

Additional Reserves

16. Additional reserve accounts may be created by the Town Council to be set aside for specific purposes or special projects, for known significant future expenditures, or as general operational reserves.