

**BUDGET POLICIES**

This section of the budget sets forth the objectives of the budget as a policy document together with a description of the basis of the policy.

**Policy Context of the Budget**

The City budget process is part of an overall policy framework that guides the services and functions of the City. The budget serves a key role in that policy framework by allocating financial resources to the programs, which implement the City’s overall policies. The budget also establishes financial policies to influence the availability of future resources to carry out the City’s policies.

This budget is a balanced budget with legal budgetary control at the fund level; i.e., expenditures and other financing uses may not exceed budgeted appropriations at the fund level.

The City’s basic policy document is its Comprehensive Plan. This plan sets the basic vision for the development of the City and establishes policies and programs intended to achieve that vision. The plan is further articulated by a series of planning elements, which include capital improvement elements (such as utility plans), policy elements (such as housing plans, economic development programs, etc.) and regulatory measures. According to state law the Comprehensive Plan is amended annually to incorporate changes in policies or programs. In addition to the Comprehensive Plan, the City has also developed an Emergency Operations Plan.

**CITY POLICY FRAMEWORK**

<p><b>COMPREHENSIVE PLAN IMPLEMENTATION PROGRAM</b></p> <p><b>COMPLETED ACTIONS (AS OF DECEMBER 2009)</b></p> <p>Capital Facilities Plan Update (2010-2015) Comprehensive Plan Update</p> <p>Water Comprehensive Plan Update Sewer Comprehensive Plan Update Storm Comprehensive Plan Update</p> <p><b>SCHEDULED ACTIONS (2011-2012)</b></p> <p>Comprehensive Plan Update</p> <p>Capital Facilities Plan Update (2011 – 2016) Comprehensive Transportation Plan Update including non-Motorized plan</p> <p>Parks, Arts &amp; Recreation Plan Update</p> <p><b>FUNDING PROGRAM</b></p> <p>Biennial City Budget Community Development Consolidated Plan Capital Facilities Plan</p>
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## **Budget Policy Development**

The budget process is linked to this policy framework by the development of Council Goals. The citywide goals guide departmental objectives funded by the budget, which govern the activities of various departments in the implementation of the policy. The Capital Facilities Plan, which is derived from the Comprehensive Plan, is funded in the budget process.

Budget policy development involves several distinct steps. This policy starts with an understanding of needs and issues, describes explicit policies governing the development and management of financial resources, identifies broad goals, sets objectives with which to apply available funding, and concludes with specific funding proposals. In assessing issues and needs, this policy builds on actions taken in previous budgets, thereby providing continuity with previous programs. This allows community needs to be addressed on a multi-year basis, rather than attempting to satisfy all needs in one year. Explicit budget policies are statements, which describe how financial resources of the City are obtained (various taxes, fees, rates, etc.) together with how they are allocated, managed, and controlled. The Council goals are broad policy statements that outline the significant objectives of the City. Budget objectives are policy statements summarizing the actions that are to be implemented in the budget.

These budget policies result from an ongoing process of economic and financial analysis by the Finance Department. The periodic financial reports, which are routinely reviewed by the Mayor, Council and Finance Committee, monitor progress against this analysis. The development of the Comprehensive Annual Financial Report (CAFR) is also an important part of the analysis process. The financial management policies result from combining the above analysis with Generally Accepted Accounting Principles (GAAP).

## **Financial Management Policies**

The following policies guide the manner in which the budget develops, allocates, manages and controls financial resources available to the City. These policies are goals that the City seeks to achieve in its decision-making. However, since fiscal conditions and circumstances continually shift and change in response to operating needs, it may not be practical or always desirable to continually achieve these policies. Therefore, these policies are intended to guide, not govern, financial decision making and may not be fully achieved within any given budget period.

## **Operating Policies**

1. The City should accept ongoing service obligations in new areas of programming only when adequate funding is available.
2. Indirect administrative costs associated with the operation of funds should be identified and charged against the operation of those funds.
3. The City's role in social service funding shall continue to be supplemental (addressing special or unique local needs) to the basic responsibilities of regional agencies.
4. The City shall continue to advocate that the responsibility for funding basic social service needs rests with regional (or broader) agencies that have access to a broader basis of funding and can more appropriately address needs on a regional basis.

## **Budgeting, Accounting, and Financial Reporting Policies**

1. In accordance with the Governmental Accounting Standards Board (GASB), the financial structure of the City shall be divided into tax-supported governmental funds (including a General Fund to support the governmental services of the City) and self-supporting proprietary funds established for non-governmental purposes. Proprietary funds shall include a series of enterprise funds, which shall be managed as business enterprises, completely supported by revenues derived by that enterprise.
2. The accounts of the City and its operating budget shall be maintained in accordance with the State Budgeting, Accounting, and Reporting System (BARS) code and shall provide current financial data on request.

3. The State Auditor will annually perform a financial and compliance audit of the City's financial statements. Their opinions will be contained in the City's Comprehensive Annual Financial Report (CAFR), and the State Auditor's Report.
4. As an additional independent confirmation of the quality of the City's financial reporting, the City will annually seek to obtain the Government Finance Officers Association Certificate of Achievement for Excellence in Financial Reporting and the Distinguished Budget Presentation Award. The Budget and CAFR will be presented in a way designed to communicate with citizens about the financial affairs of the City.
5. Enterprise funds shall be budgeted on a flexible basis, which allows activities to expand and contract in accordance with increased or decreased revenue earning activity.
6. The City should adjust utility and other enterprise fund rates in increments adequate to offset inflation and to maintain adequate working capital balance and equities.
7. Depreciation shall be accounted for, and should be used, as a measure of capital development needs in the utilities. As such, the first priority for the use of such funds should be in maintaining existing services. Costs incurred as a result of growth should be borne by new users, and extension of services to new users should be on the basis of an investment decision by which the capital expenses will be recouped by rate income from new users.

#### **Revenue Policies**

1. The City will seek to avoid dependence on temporary or unstable revenues to fund mainstream municipal services.
2. The City should avoid dependence on federal revenues to fund ongoing mainstream municipal services.
3. General Fund services should be supported by user fees to the extent appropriate for the character of the service and its user.
4. Grant funds or similar contractual revenue of a temporary nature will be budgeted only if they are committed at the time of the preliminary budget. Otherwise, separate appropriations will be made during the year as grants are awarded or contracts made.
5. Revenue estimates for budget purposes should be conservative yet realistic.

#### **Reserve Policies**

1. The City will maintain a Cumulative Reserve Fund to provide counter-cyclical balance, to protect the City from unforeseen contingencies and to allow an accumulation of resources to finance foreseeable general governmental capital projects.
2. Each enterprise fund and the General Fund should maintain adequate fund balances or working capital to meet unexpected contingencies. Each utility will maintain a minimum balance equal to 1% of system fixed assets for fund emergency repairs and unanticipated capital expenditures. The General Fund balance is to be maintained at a level sufficient to meet the cash flow needs of the fund without borrowing. A \$1,000,000 minimum working capital balance will be maintained in each utility fund. Other enterprise funds should maintain working capital balances of 20% of their operating and capital expenses.
3. Each utility fund shall strive to ensure ongoing system integrity through reinvestment in the system by funding full depreciation net of debt.

#### **Cash Management and Investment Policies**

1. The City investment practices will be developed in accordance with Municipal Treasurers' Association standards.
2. Ongoing operations of City government shall be funded from ongoing revenues. An appropriate Tax Anticipation Note or Revenue Anticipation Note may support funds experiencing temporary cash deficits due to cash flow. Interfund loans may be provided at interest rates determined by current outside investments. Such loans should be paid back during the fiscal year.

### Capital Budget Policies

1. The burden for financing capital should be borne by the primary beneficiaries of the facility.
2. Long-term borrowing for capital facilities should be considered an appropriate method of financing large facilities that benefit more than one generation of users.
3. The City will develop a multi-year plan for capital improvements as required by the Growth Management Act of Washington State. The Capital Facilities Plan will be updated annually and be financially constrained for the appropriated budget period.
4. The City will maintain its physical assets at a level adequate to protect the City's capital investment and minimize future maintenance and replacement costs. The budget will provide for the adequate maintenance and orderly replacement of capital and equipment from current revenues where possible.
5. The City will strive to rely on a strong local improvement district program for certain street, water, sewer, and storm drainage improvements. They will be funded with no protest covenants obtained from property owners whenever possible.
6. Enterprise fund working capital in excess of that needed for operations may be used for capital needs in order to conserve the debt capacity of those funds for major facility expansions to meet future needs.

### Debt Policies

1. General Obligation (GO) Bond debt should be scheduled for repayment on the basis of the entire outstanding debt not just the individual issue; in a manner which seeks to reduce fluctuation in the total tax rate.
2. The City will ensure compliance with existing loan/bond covenants by having at least 1.25 times revenue bond debt service, including system development charge revenues.
3. The City will strive to maintain a ratio of 50% debt/50% equity (cash); achieved by debt-financing no more than 75% of Capital Facilities Plan in the utility funds.
4. The City will strive to improve its bond ratings by improving its financial stability.
5. The City shall employ competent financial advisors and bond attorneys for all large bond issues.

### Auburn's Vision for the Future

Auburn's vision sets the overall direction for the City, and as such, focuses city goals on strategies developed toward implementation of this vision. The 2011-2012 Budget allocates City's resources through the development of departmental objectives. The department objectives are designed to implement the city-wide strategies which in turn work toward the citywide goals. These goals are designed to implement the Vision adopted by Council. The strategies coordinated by this budget are developed by Council and administered by the Mayor.

The City Council and Mayor set the direction in 2006 for the City by establishing Vision 2016 which looks ahead and envisions what the City should look like in 10 years. The 2011-2012 budget continues to implement the vision that the City Council and Mayor developed.

### Citywide Goals and Strategies

#### I. Provide for Public Safety

1. Ensure that Auburn is a safe place to live or have a business (Lead Department: Police)
2. Provide adequate funding sources for public safety (Lead Department: Finance)
3. Continue to provide for public safety by holding forums for community needs (Lead Departments: Community Services and Public Works)