

## **RESOLUTION NO. 2009-34**

**A RESOLUTION** of the City of Bainbridge Island, Washington, establishing a consolidated set of updated financial and budget policies, supplementing, superseding, amending and/or re-affirming certain policies adopted by the City during or prior to 2009.

**WHEREAS**, the City Council (the “Council”) is responsible for setting financial policy for the City of Bainbridge Island (the “City”); and

**WHEREAS**, the Council wishes to update, rescind, amend and/or re-affirm several financial and budgetary policies that were initially adopted by the City during or prior to 2009; and

**WHEREAS**, the Council wishes to establish an ongoing consolidated set of Financial and Budget Policies (the “Budget Policies”) to be administered by the City Administration (the “Administration”) and to guide Council action on an ongoing basis.

**THE CITY COUNCIL OF THE CITY OF BAINBRIDGE ISLAND DOES RESOLVE AS FOLLOWS:**

### **SECTION 1. BUDGET POLICIES**

#### **1.1 Adoption**

There is hereby established a consolidated set of Budget Policies, in accordance with this Resolution. Such Budget Policies shall be documented in a consolidated manner for ease of reference by City Council, Administration and the public. Once adopted, the Budget Policies replace and supersede all budget, finance and debt policies previously adopted by the Council.

#### **1.2 Review and Amendment**

The Council’s Finance and Personnel Committee (“Finance Committee”) shall, with the support of the Administration, review the Budget Policies not less frequently than annually, and shall recommend any necessary or appropriate amendments to the Council, for approval by simple majority. In 2010 and later years, the Finance Committee shall, by March 31, recommend any proposed amendments, and the Council shall act on any such proposals by April 30. Promptly after Council approval of any amendment of the Budget Policies, the Administration shall publish restated pages of the Budget Policies incorporating any such amendments

### **SECTION 2. APPLICABLE LAW, CITY CODE AND COMPREHENSIVE PLAN**

#### **2.1 RCW Chapter 35A.33**

Chapter 35A.33 of the Revised Code of Washington (“RCW”), pertaining to budgets for Code Cities, is hereby incorporated by reference, as it may be amended from time to time.

## 2.2. **BIMC Chapter 2.82 -- City Budget Process**

(a) **City Budget Process.** Effective with the biennial budget of 2009-10, and thereafter, the provisions of Chapter 2.82 of the Bainbridge Island Municipal Code (“BIMC”) that contemplate an annual budget process shall be superseded by a biennial budget process.

(b) **Even Years.** In each even-numbered calendar year, starting in 2008, the Council shall adopt a budget for the following year and endorse a budget for the next ensuing even-numbered year.

(c) **Odd Years.** In each odd-numbered calendar year, starting in 2009, the Council shall, with the advice and assistance of the City Manager, review and revise the previously endorsed budget and shall adopt, not later than December 31, a budget for the ensuing year.

(d) **Budget Calendars.** By January 31 of each year, starting in 2010, the Council, with the advice and assistance of the City Manager, shall approve an annual calendar or schedule for the process of preparing and adopting any Capital Facilities Plan update, and the one or two-year budget (whichever is applicable under the biennial cycle). Such calendar may be amended at any time by the Council, and the current version of any such calendar or schedule shall be considered to be included in the Budget Policies by reference.

## 2.3. **Applicable Provisions of BIMC Incorporated by Reference**

These Budget Policies incorporate by reference the provisions of the City’s Municipal Code (BIMC) that are applicable to the budgetary and financial policies and practices of the City.

## 2.4. **Comprehensive Plan – Capital Facilities Goals and Policies**

The Capital Facilities Goals and Policies that are stated in the City’s Comprehensive Plan, as amended from time to time are hereby included in full in the Budget Policies.

## **SECTION 3: MONITORING, ANALYZING AND PROJECTING**

### 3.1 **Monthly, Quarterly and Mid-Year Budget Reports**

On a monthly basis, the Administration shall make available to the Finance Committee a report of the year-to-date revenues and expenditures through month-end of the reported month, against budget, and shall report to the Finance Committee any material trends and unexpected developments. The Administration shall furthermore report monthly on the year-to-date status (through the end of the reported month) and the annual forecast of cash inflows and outflows, including a projection of end-of-year cash balances. Moreover, starting with the second quarter of 2009, the quarterly end-of-month reports for March, June, September and December shall be more detailed and shall include a variance report on the City’s larger capital projects. The mid-year report through June 30 shall provide comprehensive details and summaries and shall be accompanied by the Administration’s mid-year report. Each such report for the year-to-date

through a reporting month shall be presented to the Finance Committee not later than the first Finance Committee meeting occurring in the second month following the reporting month.

### 3.2 **Financial Capacity Analysis**

(a) **In General.** Based on the schedule stated in the annual budget calendar approved by Council, the Administration shall deliver to Council a ten-year Financial Capacity Analysis, depicting (i) detailed revenue and expenditure forecasts for the current year and also including (ii) the three prior years, and (iii) projections for the ensuing six future years. The Administration shall present to Council one or more updated Financial Capacity Analysis versions not later than the dates stated on the Council's budget calendar. The purposes of the Financial Capacity Analysis shall be (i) to enable Council to utilize this data to analyze and evaluate the long-term fiscal impacts of up to date cash forecasts and current budget choices, decisions and policy options, and (ii) to meet the requirements of Growth Management Act for a Financial Capacity Analysis to accompany the Capital Facilities Plan."

(b) **Conservative Forecasts.** For each Financial Capacity Analysis, the Administration shall prepare each such analysis as follows: (i) underlying economic and financial assumptions shall be reasonable and shall take into account an appropriately chosen set of inflation factors and an appropriate set of economic projections from recognized governmental or professional bodies, and (ii) all projections of revenues for future years, and all adjusted estimates for the current year, will be conservatively forecasted. The Administration's chosen assumptions for revenues, expenditure inflation factors and economic measures shall be disclosed to the Council. The City's revenue estimates will be realistically forecasted and will employ revenue policies which prevent undue or unbalanced reliance on any one revenue source. The City's budget amendment process shall be used to adjust speculative revenue estimates when they become certain and measurable. City tax-supported funds revenue forecasts shall not assume growth rates that exceed general inflation (Seattle Tacoma CPI-U for December of the prior year). Real growth that exceeds inflation will be recognized through the City's budget amendment process.

## **SECTION 4. RESERVES**

### 4.1 **Emergency Rainy Day Reserve**

Section 1 of Resolution No. 2008-01, establishing an Emergency Rainy Day Reserve within the City's General Fund, and providing for the budgetary target amount for such a reserve, is hereby included in the Budget Policies. Effective January 1, 2009, it is the Council's policy that the Emergency Rainy Day Reserve shall be treated as a Restricted Reserve, which shall ideally be funded as and when resources, such as from the sale of surplus property, become available.

### 4.2 **Contingency Reserve**

Section 2 of Resolution No. 2008-01, establishing a Contingency Reserve within the City's General Fund, and providing for the funding of such a reserve, is hereby included in the Budget Policies. When adopting a budget, the Council shall determine whether or not there are adequate

revenues to support a Contingency Reserve, and, if so, the amount of the Contingency Reserve shall not be greater than the limitations imposed by Resolution No. 2008-01 and State law.

#### 4.3 **Reserves – Generally**

(a) **Restricted Reserves.** Each restricted reserve shall be accounted for on the City’s books, and may not be obligated or expended by the Administration in the absence of a vote of Council. The City’s General Fund restricted reserves (as of 2009) are:

- General Fund: Emergency Rainy Day Reserve
- General Fund: Police Investigations Reserve
- General Fund: Marine Operations Reserve
- General Fund: Suyematsu Sinking Fund
- General Fund: Public Arts

(b) **Designated Reserve.** Each designated reserve will be a budgetary allocation that is accounted for on the City’s books, and may be expended by the Administration solely for the designated purpose for which the reserve is established. The City’s General Fund Designated Reserves (as of 2009) are:

- Reserve for Purchase of Development Rights (Agricultural)
- Equipment Reserve

#### 4.4 **Working Capital**

“Working Capital” shall mean the dollar amount of unencumbered cash balances, excluding amounts held in Special Funds or in restricted reserves. Working Capital shall also not include any balances dedicated to capital project obligations carried over from one year to the next, or any bond-funded balances dedicated to capital projects stated in the bond offering documents. The target for end-of-year Working Capital for the tax-supported funds, for each year from 2009 onward, shall be an amount equal to two months of tax-supported fund recurring revenue. For this purpose, “recurring revenue” shall exclude revenue earmarked for principal and interest on voter-approved bonds or LID indebtedness.

### **SECTION 5. REVENUES AND EXPENSES**

#### 5.1 **Funds and Subfunds**

For purposes of GASB reporting, the City’s funds shall be those enumerated from 001 to 901, as shown on the City’s most recent audited or unaudited annual financial report. However, for purposes of the Administration’s financial management and cash management reporting to Council, the Administration will report revenues (and cash inflows), expenditures (and cash outflows), and balances, under the following fund categories:

- Tax-Supported General Funds: The subfunds of which shall be the following:
  - General Fund
  - Street Fund

- REET Fund
  - GO Bond Fund
  - Capital Construction Fund
  - Development Services Fund
  - Clearing Fund
  - General Long Term Debt Fund
  - LID Capital Construction Fund
  - LID Bond Fund
- Tax-Supported Special Funds: The subfunds of which shall be the following:
    - Civic Improvement Fund (LTAC)
    - Affordable Housing Fund
    - Expendable Trust Fund
    - Agency Fund
- Water Utility Fund
  - Sewer Utility Fund
  - SSWM Utility Fund

## 5.2 **In General**

Resolution Nos. 2006-35 and 2006-41 are hereby rescinded and are replaced by this Section 5. Statements in this subsection 5.2 apply to both the tax-supported and utility funds of the City:

- (a) The City shall use major one-time revenue to fund capital improvements, debt reductions, contingency funds or reserves. The use of one-time revenues to fund operating expenditures is discouraged.
- (b) The City shall maintain a structure for all fees and charges where the beneficiary of the service pays the cost of that service except to the extent that the City Council has determined that provision of the specific service in question provides a general public benefit. The Council shall review, at least annually, the Administration's recommended policy for the allocation of City costs to various funds.
- (c) The City is authorized to allocate up to three percent (3%) of unrestricted revenues of the tax-supported and respective utility funds for replacement of capital equipment as deemed appropriate by the Administration.

## 5.3 **For Utility Funds**

- (a) In 2010 and thereafter the City shall maintain separate reserves for each utility fund, as follows:
  - (i) Capital Contingency Reserve. This designated reserve shall have a targeted level (by December 2011 and thereafter) of at least one percent (1%) of the utility system's fixed assets (at book value). The primary purpose of the reserve is to provide a ready source of cash in case of an emergency, should a major piece of equipment or a portion of the utility's infrastructure fail

unexpectedly. This reserve holds debt proceeds, system participation fee revenues, system reinvestment funding from rates, and any transfers of surplus cash reserves from the operating account.

(ii) Operating Reserve. This designated reserve shall have a targeted level as of each year-end of at least forty-five (45) days' operating expenses in the cases of the sewer and stormwater funds, and at least sixty (60) days in the case of the water fund. The primary purpose of the Reserve is to provide cash for operations in case of seasonal variations in revenue or expenses, or to support operations in a year in which revenues are abnormally low. Because water usage for irrigation, and therefore water revenues, are particularly sensitive to a year's weather patterns, the reserve requirements for the water fund are set higher than for the other two utilities.

(iii) Restricted Debt Reserve. To the extent that the City issues a form of debt (e.g. Revenue Bonds) that requires the municipality to maintain a restricted cash reserve during the term of the debt repayment period, the utility shall maintain a restricted reserve for such purpose. This reserve is to safeguard the purchasers of the utility's debt, and may be used to fund the final installment or last year's debt service.

(b) The City will maintain water, sewer and stormwater utility rates adequate to ensure that each of the three utility funds is fully self-supporting.

#### 5.4 **For Tax-Supported Funds**

(a) Departmental revenues of the tax-supported funds shall be considered unrestricted revenue of the City – subject to any applicable legal restriction, and subject to any applicable provision of the Budget Policies, that may apply to a particular revenue source.

(b) Revenues from the City Parking Lot and Commercial Parking Lot Tax shall be treated as revenues of the Streets Fund.

(c) Annually, the City shall ideally (to the extent revenues permit) allocate at least Eight Hundred Thousand Dollars (\$800,000) (in 2009 dollars, adjusted for inflation thereafter) to help fund road preservation projects. For years after 2009, the WashDOT inflation factor will be used to adjust for inflation.

(d) REET revenues shall be first applied to current capital debt service and then, to the extent available, to current capital projects.

(e) Building and Development Services (B&DS) revenues shall be maintained at a level that contributes no less than seventy-five percent (75%) of expenditures on a planning basis for the B&DS Fund.

(f) Organizations that are not part of the City, but which receive funding from the City for contractual services, shall not have their appropriation carried forward from year

to year unless expressly authorized under the terms of a contract approved by Council. Contractual documents may include inter-local agreements, memorandums of agreement, contracts or other forms of agreement. Except as expressly stated contractually to the contrary, annual review and reauthorization by the Council of any such funding shall be required.

## **SECTION 6. EXPENSES PERTAINING TO PERSONNEL**

### **6.1 City Staffing Levels**

(a) Authorized Limit on Full-Time Equivalent Employees. The City's overall authorized level of staffing shall be not greater than 127 in 2010.

(b) Monitoring. The Administration shall include a report of the number of FTEs, by Department, in each month's regular year-to-date revenue and expenditure report to the Finance Committee. For each position vacated year-to-date and each carry-over vacancy to be re-filled, the Administration shall report whether the position is intended to be re-filled, and, if so, whether from internal or external applicants.

(c) City Manager's Discretion to Approve Part-time Service. Nothing in the assumptions that underlie the Administration's estimates of full-time equivalent employees for a budget year shall eliminate the City Manager's discretion to encourage and/or agree to one or more employees performing on a part-time basis (e.g. 80% or other percentage) rather than a full-time basis during part or all of a budget year.

### **6.2 Compensation and Benefits**

(a) Prior Compensation and Benefits Policies. Except as provided below, the compensation and benefit policies approved by the Council in 2007 (or any prior year) are rescinded.

(b) Comparison of Compensation and Benefits. In 2010, the City Administration shall compare the cash compensation, and the value of benefits, for City employee positions to the compensation and benefit levels of approximately a dozen comparable cities in Washington, to provide data for potential compensation and benefit policies which may be adopted by the Council from time to time.

(c) Training and Staff Development Expenses. The City is authorized to allocate up to 0.5% of unrestricted revenues of the tax-supported and respective utility funds to professional training and development for staff as deemed appropriate by the Administration.

## **SECTION 7. DEBT**

### **7.1 Debt Policy**

The City's Debt Policy, as it may be amended from time to time, is hereby included in the Budget Policies.

**SECTION 8. STRATEGIC PRIORITIES**

The budget shall be built on an understanding of the priorities of government, and a commitment by the Council and Administration to an ongoing process of identifying and implementing strategic priorities of government (as described in Benchmarking Critical Recommendations 2 and 3, and the Strategic Priorities section of these Budget Policies).

**SECTION 9. INVESTMENT**

The provisions of BIMC 3.12 (Investments) are incorporated by reference.

**SECTION 10. BANKING AND MONEY MANAGEMENT**

10.1 **Safety**

The City shall engage in relationships, and conduct its business, with one or more banks, repositories of public pooled funds, and financial institutions in a manner that avoids concentrating City balances in a way that may expose the City to material losses in the event of an adverse development affecting any bank or financial institution in which City assets are held.

10.2 **Money Management**

The City Administration shall seek to form relationships with banking and financial institutions that offer the City efficient and effective tools and technologies to manage and track transactions and balances.

PASSED by the City Council this 21<sup>st</sup> day of December 2009.

APPROVED by the Mayor this 21<sup>st</sup> day of December 2009.

/s/  
Christopher Snow, Mayor

ATTEST/AUTHENTICATE:

/s/  
Rosalind D. Lassoff, City Clerk

FILED WITH THE CITY CLERK: December 15, 2009  
PASSED BY THE CITY COUNCIL: December 21, 2009  
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