

## Financial Management Policies

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The importance of sound financial management makes it desirable for a city to establish goals and targets for its financial operations so that policies will be consistent and complete and performance can be monitored on an ongoing basis. Because a fiscally sound city government is in the best interest of the community members of the City of Olympia, this Financial Management Policy Statement has been adopted as the guiding management principles which are to be applied in the management of the City's finances.

### **Budgeting Policy**

Budget practice for the City will conform to the following policies:

- Budgets will be formulated and approved according to the following procedural guidelines:
  - The administration decides on programmatic need and recommends funding levels.
  - The Capital Facilities Plan (CFP) is submitted 90 days, and the operating budget presented 60 days, prior to the end of the fiscal year.
  - By State law, the Council must approve the operating budget with a capital budget element prior to the end of the fiscal year.
- The capital budget is submitted on a functional six-year basis, to be updated annually.
- The operating budget is presented at a fund level and shall be adopted annually.
- Performance monitoring of the operating budget will include:
  - Forecast statements for each budget program.
  - A “work measurement system” which compares the costs and benefits for each funded activity.
  - An accounting system which ensures that actual operating expenditures conform to the budget.
- Capital Budgeting Policies and Procedures:
  - Projects will be funded by a combination of bond proceeds, grants, leases, and operating funds, with a maximum of 80 percent funded by long-term debt.
  - Planning for capital projects will include a six-year plan titled Capital Facilities Plan, which must be updated annually and include a statement of projected costs and sources of funds.
  - Capital projects must meet the following criteria:
    - If debt-funded, the term of debt should not exceed the useful life of the project.
    - Capital projects should be built according to specifications which enable them to be self-sustaining whenever possible.
    - Long-term debt should be funded through revenue bond issue whenever feasible to maximize the general obligation debt limitation.

- Six-year budget projections will be prepared and updated annually and will include any expected changes in revenues or expenditures.

### **Revenue Structure**

The City currently receives revenues through Federal and State grants, local taxes, and fees. To achieve the most desirable flow of revenues, planning must be undertaken as follows:

Tax policy must try to avoid:

- Over-reliance on property taxes.
- Adverse effects of excessively heavy taxes.
- Disproportionate burdens levied on any particular taxpayer group.

Structuring of taxes should attempt to:

- Provide a stable and predictable stream of revenue to fund City programs.
- Make collection of revenues simple and reliable.
- Retain/promote business (industry).

When revenues are increased, the following administrative practices will be pursued:

- User fees on certain activities chosen so that low-income families do not bear heavy costs.
- Service fees on activities where either raising revenues or limiting demand would prove beneficial.
- A cash-management system which obtains maximum interest income within State guidelines.

### **Debt Management**

The Objectives of the City's Debt Management Policy will be:

- To smooth the use of debt so that debt service payments will be a predictable and manageable part of the operating budget.
- To raise capital at the lowest cost, consistent with the need to borrow. This will be accomplished by:
  - Keeping a high credit rating (while making attempts to strengthen credit rating).
  - Maintaining a good reputation in the credit markets by adjusting the capital program for regular entry to the bond market and by managing the annual budget responsibly.

Debt instruments the City can use are:

- Short-Term Debt:
  - Short-term debt will not be issued for operating purposes nor will it be rolled over (except for Bond Anticipation Notes [BANs]) from one period to another.

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- Tax Anticipation Notes (TANs) and Revenue Anticipation Notes (RANs) can be issued in amounts up to 60 percent of expected appropriations and must mature within the fiscal year.
- BANs can be issued with a maximum three-year maturity and can be rolled over when interest rates make short-term debt preferable. BANs cannot be used to extend the life of a bond.
- GANs (Grant Anticipation Notes) can be used when grant reimbursement for a project lags behind the payment schedule for large construction costs.
- Long-Term Debt:
  - Long-term debt will be used to maintain and develop municipal infrastructure when the economic life of a fixed asset exceeds five years.
- Revenue bonds will generally be used for projects which are financially self-sustaining.
- General Obligation bonds can be used to finance public works, which benefit the community and have revenues insufficient to amortize the debt.
- General Obligation pledges can be used to back self-sustaining projects financed through revenue bonds when costs can be reduced and the municipal credit rating is not put in jeopardy by this action.

Debt Issuance Policy will ensure that:

- An attempt to enter the market will be smooth or with regular volume and frequency, as much as possible.
- Advantage be taken of favorable market conditions.
- The timing of revenue bonds considers project, market, and General Obligation factors.
- The municipal credit rating is kept high.

The credit rating component of debt issuance will be strengthened by keeping assessments current.

Disclosure statements will be used to keep taxpayers and investors informed of the City's financial position. These include printed copies of:

- Annual Reports
- Operating Budget and Capital Facilities Plan
- Official Statements

Debt issues will be sold on a competitive basis (except when conditions make a negotiated sale preferable) and awarded to the bidder who produces the lowest interest cost. Revenue bonds can be issued through a negotiated sale when the issue is unusually large, the project is speculative or complex, the issue is refunding, or the market is unstable.

### Accounting and Financial Reporting

The objectives of a System for Accounting and Financial Reporting are:

- To maintain the confidence of the Council, taxpayers, and investors by providing information which demonstrates that:
  - Money and property are handled responsibly, the current financial position is fully disclosed, and activities are operating at a maximum level of efficiency.
  - Financial performance conforms to all laws, ordinances, and procedures.

To maintain financial control in order that:

- Managers have an information system to use for policy setting, decision-making, and program supervision.
- Municipal activities can monitor their revenues, expenditures, and performance levels.
- Forecasts can be made of future operating and capital budgets, and of future initiatives in taxing policy.

The standards to be followed by the System of Accounting and Financial Reporting fall into the following areas:

- Accounting and Auditing:
  - Procedures will allow reporting per Washington State’s Budget and Accounting Reporting System (BARS) and follow Generally Accepted Accounting Principles (GAAP).
  - Recording will be on a modified accrual basis for revenues and expenditures for governmental funds and on an accrual basis for proprietary and fiduciary funds.
  - New procedures will be developed whenever they can contribute to the quality of timely information flows.
- Financial Reporting:
  - BARS, Governmental Accounting Standards Board (GASB), and Government Finance Officers Association reporting principles will be followed.
  - Reports will be organized in pyramidal form: at the top, a streamlined Annual Report; then an overview of financial position; and results of operations categorized by fund accounts.
  - These reports will be used to promote the City’s good financial profile.
- Manuals:
  - BARS manuals will codify procedures, be used by accounting personnel and City officials, and specify the source of data for each account. They will be maintained by the Finance Department.
  - Policy and procedure manuals will be maintained with current information.

### **Investments**

The policy on investments applies to the investment of all City funds, excluding pension funds. The investment program is intended to provide safety, maximum returns and adequate liquidity to meet cash flow requirements. The minimum requirement for liquidity for operating funds is 10 percent of the annual operating budget.

The City may invest in any of the securities identified as eligible investments as defined by RCW 35A.40.050. In general, these include: Certificates of Deposit, United States Securities, Banker's Acceptances, Repurchase Agreements and Certificates, and Notes and Bonds of the State of Washington. Speculative investments are not allowed.

All investments shall be made through an informal bidding process. The policy shall be to assure no single institution or security is invested into, to such an extent that a delay of liquidation at maturity is likely to cause a current cash flow emergency.

