



DEPARTMENT: Finance

AUTHORIZED BY: City Manager, Director of
Finance and Budget

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POLICY: FINANCIAL MANAGEMENT

PURPOSE

The City of Yakima is committed to the highest standards of financial management. The City Council, City Manager, and staff will work together to ensure that all financial matters of the City are addressed with care and integrity and with the best interests of the City in mind.

POLICY SUMMARY

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

- Protect the assets of the City of Yakima.
- Ensure the maintenance of open and accurate records of the City's financial activities.
- Ensure the availability of sufficient financial resources for the City to meet both its immediate and long-term objectives.
- Provide a framework of operating standards and behavioral expectations regarding fiscal matters.
- Ensure fiscal compliance with federal, state, and local legal and reporting requirements.
- Provide a means for the City Council to update and monitor these policies with the assistance and cooperation of the City Manager's office and the Finance Department.

SCOPE AND APPLICABILITY

The City Council and all City Staff shall comply with the guidelines set forth herein. Any recommended deviation from these policies shall be clearly identified in appropriate written documentation (e.g., staff report, resolution, or budget presentation). These policies are intended to be applied in conjunction with requirements set forth in state law, the City of Yakima Municipal Code, the City of Yakima Charter, and Generally Accepted Accounting Principles (GAAP). In the case of any conflict, the provisions of such laws, ordinances, or GAAP will control.

POLICY AND PROCEDURES

Lines of Authority

Yakima City Council - has the authority to execute such policies as it deems to be in the best interests of the City within the parameters of federal, state, and local law.

City Manager - has the authority to oversee the development of the 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, the City Manager is responsible for complying with the directives listed herein.

Finance Department - has the authority to develop the budget, review the organization's financial activity, determine the allocation of investment deposits, assure that adequate internal controls are in place, and to administer the financial policies and procedures of the City.

Department Supervisors - have the authority to expend City funds within approved budget authority and in accordance with procedures prescribed by the City Manager, and to recommend spending requests, within the parameters of the approved budget process, to the City Manager.

The City maintains a comprehensive set of internal controls to protect the City's assets and sustain the integrity of its financial systems. Managers at all levels are responsible for implementing the City's Financial Policies, sound internal controls, and for the regular monitoring and measuring of their effectiveness.

Accounting Records and Reports

Basis of Accounting

The City's Annual Comprehensive Financial Report (ACFR) on its financial activity shall be presented in compliance with Generally Accepted Accounting Principles (GAAP) as defined by the Governmental Accounting Standards Board (GASB).

- The City will establish and maintain a high standard of internal controls and accounting practices.
- The accounting system will maintain records on a basis consistent with accepted standards for local government accounting and the State of Washington Budgeting, Accounting, and Reporting Systems. (BARS)

Yearend Process

The City's fiscal year is January 1 to December 31. It is the Finance Department's responsibility for the financial statements to be closed in a timely manner for regulatory compliance and in preparation for the annual audit. Departments and Elected Offices must follow the City's end of year procedures in order for the financial statements to be closed in a timely manner.

End of year procedures are designed to:

- Comply with Federal/State reporting requirements;

- Record financial transactions in the appropriate accounting period;
- Close the general ledger in order to prepare financial statements in accordance with generally accepted accounting principles; and
- Prepare the ensuing general ledger for use in conjunction with the approved budget.

The Finance Department is responsible for all Federal and State reporting requirements. Reporting requirements include payroll W-2 and W-3 electronic transmittals; accounts payable 1099 electronic transmittals; and federal reporting for employee moving expenses.

The City will process prior year invoices for the first 30 days of the new year. All prior year invoices that are received after the 30 days have passed will be paid out of the current year's budget. If an invoice is received after the 30 days have passed and is monetarily material, then an exception may be made and the invoice may be accrued back to the prior year.

Taxes receivable will have a 60 day look back for reporting purposes. Any taxes received in the first 60 days of the new year will be accrued back into the prior year, this will also include the delinquent property taxes due.

Fourth quarter purchases, including purchase orders and p-card orders shall only be made if necessary or an emergency in nature. Exceptions to this rule can include:

- Direct Purchase Orders (DP) for inventory items needed for repair or operations.
- Travel / Training with prior approval
- Standing PO's for monthly recurring bills
- Recurring P-card charges or autopay
- Annual agreements
- Capital engineering projects
- Personnel advertisements and cost
- Legal bills

Any regular PO under \$1,000 that has not been received by December 31st will automatically be cancelled. PO's between \$1,000 - \$9,999 that have not been received by January 30th will be canceled. PO's \$10,000 or more that are not expected to be received by January 30th can be carried forward into the new year once. PO's will not be allowed to be carried forward more than once.

Basis of Budget

The City prepares a two-year budget with quarterly amendments and is presented on a modified accrual basis of accounting.

Fund Accounting

The City of Yakima's accounting and budgeting systems use fund accounting consistent with guidance provided by the GASB and the Washington State Auditor's Office. The funds are grouped into categories as prescribed by the State Auditor's Office and/or other regulatory authority. Funds can be created as needed by ordinance.

The Finance Department shall assure that the status and transactions of each account and their relationship to budget authority is clear.

Financial Reporting

- The annual financial report shall conform to GAAP and be in the form of the (ACFR).
- The ACFR shall be comprehensive, completed in a timely manner, and meet or exceed professional industry standards established by the Government Finance Officers Association (GFOA).
- The City's budget documents shall include comparisons to prior years.
- Revenue and expenditure reports shall be prepared quarterly, presenting a summary of financial activity by major types of funds, and shall include a comparison of actual user versus budgeted revenues and expenditures to ensure adherence to the approved budget.
- A written analysis of the City's activity in the areas of Investments, and Debt shall be prepared quarterly.
- All published reports will be available via the City's website.

Audit

The City shall commission an annual audit of the City's financial reports and related records to be conducted by the Washington State Auditor's Office, as required by state law. At the conclusion of the audit, the auditor shall be available to brief the City Council and City Manager on the financial opinion and the audit made available to the public via the City's website.

Capital Asset Accounting

An effective capital asset accounting system is important in managing the city's capital asset investment.

- The City will maintain a schedule of individual capital assets with values in excess of \$10,000 and an estimated useful life of more than one year. All items with an original value of less the \$10,000, or with an estimated useful life of one year or less, will be recorded as operating expenditures.
- A fixed asset system will be maintained to identify all City assets and their location.
- The City shall maintain a listing, outside of the capital asset system, of all computers and shall conduct a periodic physical inventory of those computers.
- The City's Fleet Management Division shall maintain a Fleet Master Listing of all vehicles and other large motorized equipment (road graders, backhoes, etc.) Inventory control of the City's vehicles shall be maintained through the fleet maintenance program.

Reserve Fund Balance Policies

The primary reason for a General Fund reserve policy is to be prepared for contingencies, but there are principle reasons for building cash reserves:

- Large unforeseen one-time expenditures/expenses of an emergent nature, such as a catastrophic event, a natural/manmade disaster (e.g. earthquake, windstorm, flood, terrorist attack), or excessive liability judgments.
- Economic downturn or other unanticipated events affecting revenue growth.
- Reasonable cash reserves are needed to maintain favorable credit ratings.

Sufficient fund balances and reserve levels are important to the long-term financial stability of the City. The City shall maintain reserves required by law, ordinance, and/or bond covenants.

General Government

The City shall maintain reserves in the General Government Funds of at least 12% of the total budgeted operating expenditures. When the General Government reserve balance exceeds 12%, the excess may be used for one-time capital needs or may be transferred to capital reserves or risk management reserves.

Enterprise

The City will maintain operating reserves equivalent to 25% of total annual operating expenses. This operating reserve shall be created and maintained to provide sufficient cash flow to meet daily financial needs and will be based upon total operating expenses. For budgeting purposes, operating expenses will be calculated upon the funds' total expense budgets excluding Capital transfers and the current year's debt service.

- The Water, Wastewater, Irrigation and Stormwater funds will maintain capital reserves to be funded in accordance with applicable capital facility plans. Each utility will strive to transfer the minimum of annual depreciation expense for capital purposes (i.e. debt service principal and asset replacement).
- These funds will strive to fund capital replacement reserves to accumulate sufficient funds to 1) match capital grants for asset replacement in accordance with capital facility planning or 2) replace assets when needed to avoid service interruption.

Debt Service

The City shall accumulate resources sufficient to make required payments in general obligation debt service funds. Revenue Bond reserves shall be maintained in accordance with bond covenants. All debt service reserves shall be in addition to the operating and capital reserves of the utilities.

Equipment Replacement

- The City shall maintain an Equipment Rental Replacement Fund for all rolling stock. Reserves shall be established for equipment acquisition and replacement. The reserve is established regardless of whether the equipment is acquired via lease, gift, or purchase.
- Service charges paid by City departments to the Internal Service fund should include an amount to provide for replacements when required.
- Transit and Airport are excluded from the Equipment Rental Replacement Fund, primarily because they own equipment purchased by grants or voted property tax measures. Reserves shall be established for equipment replacement in the respective capital funds with the long-term goal to fund at the level of annual depreciation.

Non- Enterprise Capital

Other capital funds will strive to build reserves sufficient to replace assets when needed to avoid service interruption. Excess operating reserves will be calculated

at the end of each operating year, and a recommendation will be made by the Director of Finance and Budget to the City Manager to make additional transfers into capital funds. The long-term goal is to fund at the level of annual depreciation.

Risk Management

- The City shall maintain a liability reserve fund with a balance sufficient to fund 100% of anticipated claims reserves established by the insurance carrier in consultation with City Legal.
- The Workers' Compensation self-insurance fund shall maintain a cash reserve equal to 100% of anticipated claims reserves as established by the third-party claim administrator.
- The Unemployment Compensation self-insurance fund shall maintain a cash reserve equal to 100% of budgeted claims and settlement expenses.
- The Employees' Health Benefit self-insurance fund shall maintain a minimum cash reserve as determined by the Washington State Risk Manager's Local Government Self-Insurance Program Guidelines. Currently, this benchmark is 16 weeks or 30% of medical claims, plus 8 weeks or 15% of vision and dental claims.

Other Funds

Reserves shall be set through the budget process in an amount consistent with the purpose and nature of the fund.

Financial Planning

5 Year Financial Planning Model

The City shall maintain a long-term (five- year) financial planning model. The financial planning model shall be based on the currently adopted budget, and documented assumptions, realistically expected to occur, and will be designed in such a way to permit analysis of alternative strategies. The plan shall be prepared for the General Government and such other funds as deemed necessary.

Budget Development

The goals of the Budget and Strategic Plan are to align the budget with the resident's priorities and provide the best value for each tax dollar. The City shall prepare a balanced bi-annual budget that is consistent with state law, industry best practices, and the 5-Year Financial Plan. The bi-annual budget links resources with operating programs and projects consistent with the City's Strategic Plan. The budget will fund recurring expenditures with recurring operating revenues.

In order to facilitate and implement the budget process, the City Manager or designee, will propose a bi-annual budget calendar at the first regular Council meeting in July.

- The budget calendar will be comprehensive in nature and generally provide for a process that resembles the Best Practices as published by the (GFOA) and in compliance with the calendar provided in Washington State Law.
- The City of Yakima's bi-annual budget shall be prepared using the following schedule and process as a general guide:

- Review stakeholder input such as Annual Citizen's Survey, public forums, neighborhood meeting notes and business community communication.
- The City Council and City Manager will conduct a goal-setting retreat with the Department Directors updating the approved Strategic Plan, Business Plan and other policy guidance.
- The Director of Finance and Budget prepares the budget preparation instructions and meets with Department Directors to distribute budget instructions and discuss budget preparation.
- The instructions will include policy priorities, estimates of compensation adjustments, internal service and indirect charges.
- Departments will provide to Finance budget estimates and requests conforming to the budget instructions.
- The City Manager submits a proposed balanced Preliminary Budget to the City Council in conformance with state law.
- Balanced budget should comprise of funding recommendations for the operating and capital budgets that do not exceed the estimated resources.
- The City Council conducts public hearings on the proposed budget in conformance with state law.
- The City Council sets the City's property tax levies.
- The City Council adopts the final budget ordinance.
- The final budget document is published and posted to the City website.

Budget Management

The City will maintain a fair and equitable system to allocate overhead and other shared costs. The amount charged by the City for services provided under an interlocal or similar agreement will include a factor to cover the city's overhead costs when appropriate.

Bi-annual appropriated budgets are adopted at the fund level within available resources (i.e. new revenue and existing reserves). Operating program appropriations not spent during the fiscal year do not automatically carry-over into the next year and may lapse at year end.

Encumbrances are purchase orders, contracts, and other commitments for the expenditure of funds. Outstanding encumbrances at the end of the year may be carried forward into the next year's budget by a formal budget appropriation authorized by Council.

Capital budgets are considered adopted at the project level. Capital projects are included in the bi-annual budgeting process for the purpose of estimating cash flow requirements. Outstanding project appropriations can be carried forward into the next year's budget by the Finance Department.

Budget amendments should be presented for consideration when the need arises. Council will be apprised if the proposed funding is new revenue (most commonly grant awards) or is from existing reserves within the minimum guidelines.

The City Council shall approve the number of permanent City staff positions, their classification and their assignments to specific City funds when it adopts the City's Budget.

The City will utilize one-time revenues only for one-time/non-recurring expenditures or to build reserves such as the capital reserve fund.

The cash out of accrued leave upon separation of service from the City may be included in the appropriate operating budget if quantifiable at the time of budget development. Generally, the savings from the resulting vacancy is sufficient to fund this one-time expenditure. In cases where the current budget cannot absorb an unforeseen cash out, the City Manager may re-allocate funds or request a supplemental appropriation for Council approval.

Revenues

Revenue estimates shall be based on forecasting methods recommended by (GFOA) and shall assess the full spectrum of resources available to finance City programs and services. The City shall consider the diversification of revenue as a strategy when developing its financial plans.

The City will strive to maintain as diversified and stable a revenue system as permitted. Because revenues, especially those of the General Fund, are sensitive to both local and regional economic activities, revenue estimates provided to the City Council shall be conservative. Should an economic downturn develop that results in (potential) revenue shortfalls or fewer available resources, the City will make appropriate adjustments to its budget.

The City will not use one-time revenues to support ongoing expenditures.

Fees and Charges

The City shall review all fees within the Master Fee Schedule at least every two years as part of the budget process. User charges and fees shall be established based on a percentage of the full cost of providing the service unless otherwise provided by statute or regulation. Proposed rate adjustments, user charges, and fees shall be presented to the City Council for approval each year in the Preliminary Budget.

Utility Rates and Capital Fees

Utility rates should be adequate to ensure reliable, competitively priced services for our customers. Net reserves in excess of both legal requirements and minimum working cash balances should be used to minimize future rate increases by funding approved capital projects, retiring high cost debt, and augmenting fund reserves established to reduce ratepayer risk.

Utility rates and capital fees shall be reviewed annually, and necessary adjustments shall be made to reflect inflation, construction needs, and avoid major rate increases. Utility rate studies shall be conducted at least every six years to update assumptions and to ensure the long-term solvency and viability of the City's Utilities. 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 system and future systems.

Expenditures

- Management shall ensure compliance with the legally adopted budget. Additional purchases and expenditures must comply with legal requirements for approval. Priority shall be given to expenditures that will improve productivity or public safety.
- Expenditures will be accounted for in the appropriate accounts.

Capital Facilities Plan

The purpose of the Capital Facilities Plan is to systematically identify, plan, schedule, finance, track, and monitor capital projects to ensure cost-effectiveness as well as conformance to established policies.

The City Manager will annually submit a financially balanced, multi-year comprehensive plan for review by the City Council pursuant to the timeline established in the annual budget preparation schedule. The comprehensive plan will incorporate a methodology to determine a general sense of project priority according to developed criteria.

The Capital Facilities Plan shall provide:

- A statement of the objectives of the Capital Facilities Plan and the relationship with the City's Strategic Comprehensive Plan, department master plans, necessary service levels, and expected facility needs.
- An implementation program for each of the capital improvements that provides for the coordination and timing of project construction among various city departments.
- An estimate of each project's costs, anticipated sources of revenue for financing the project, and an estimate of the impact of each project on city revenues and operating budgets. The operating impact information shall be provided for the period covered in the city's current five-year Capital Facilities Plan. No capital project shall be funded unless operating impacts have been assessed and the necessary funds can be reasonably anticipated to be available when needed.
- For the systematic improvement, maintenance, and replacement of the city's capital infrastructure as needed.
- A schedule of proposed debt requirements.

All proposed capital improvement projects shall include a recommended or likely source of funding.

The performance and continued use of capital infrastructure are essential to delivering public services. Deferring essential maintenance and/or asset replacement can negatively impact the condition of assets and infrastructure as well as the ability to appropriately plan for required major maintenance and replacement needs. Efforts will be made to allocate sufficient funds in the multi-year maintenance, and repair and replacement of critical infrastructure assets.

The city's objective is to incorporate "Pay-As-You-Go" funding (using available cash resources) in the annual Capital Facilities Plan. This will supplement funding from other sources as such bonds, grants, and developer contributions.

Private development (including residential, commercial, and industrial projects) shall pay its fair share of the capital investments that are necessary to serve the development in the form of system development charges, mitigation fees, or benefit districts.

When current revenues or resources are available for capital improvement projects, consideration will be given first to those capital assets with the shortest useful life and /or to those capital assets whose nature makes them comparatively more difficult to finance with bonds or lease financing. Using cash for projects with shorter lives and bonds for projects with longer lives facilitates "intergenerational equality", wherein projects with long useful lives are paid over several generations using the project through debt service payments.

The first year of the adopted capital plan will be the capital budget for that fiscal year.

Staff will monitor projects in progress to insure their timely completion or to recommend appropriate adjustment to the Capital Facilities Plan as approved by Council if a project is delayed or deferred. Periodic status reports will be presented to City Council to share project progress and identify significant issues associated with a project.

The City will make capital improvements in accordance with an adopted Capital Facilities Plan (CFP), which is aligned with the City's other long-range plans.

The City will determine the least costly financing method for all new projects.

The City will dedicate an ongoing \$2 million annually for road restoration and rehabilitation.

Cash Management and Investment

The City will invest public funds in a manner which will provide the highest return consistent with maximum security. The City has a separate Investment Policy that governs this activity.

All money collected by any officer or employee is to be transferred to the Department of Finance for deposit. The internal controls established by the Department of Finance includes: segregation, daily processing, timely deposits, and reconciliation of ledgers in a timely manner, physical security procedures, and the use of automated system resources.

The City of Yakima shall process all vendor claims timely and efficiently. All payment of vendor claims shall be in accordance with Washington law and shall be adequately documented and approved.

Purchasing

Purchasing facilitates the timely procurement of goods and services to help customers fulfill their missions by providing cost effective opportunities to purchase quality goods and services at the best value while conducting business in a legal, fair, open, and competitive manner. The City has a separate Purchasing Procedure Manual that governs this activity.

Capital Financing and Debt Management

Policy on Debt Issuance and Management

The City shall work to maintain strong ratings on its debt, including maintaining open communications with bond rating agencies concerning its financial condition.

Long-term Borrowing

Long-term borrowing shall be confined to capital investments 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.

Term of Debt

Debt payments shall not extend beyond the estimated useful life of the project being financed. To the maximum extent possible, the City will fund its capital needs on a pay-as-you-go basis.

Interim Financing

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.

Utility Improvements

Financing of utility improvements will be consistent with the utility master plans, Council rate policies, and other factors in order to balance the effect of major improvements on utility rates. System development charges, grants, and low interest loans to fund capital projects shall be used when possible. Overall, the utilities should maintain a debt-to-equity ratio of 60/40. The City shall strive to maintain minimum debt service "coverage" in accordance with bond covenants.

Debt Issue

The City shall strive to use special assessment, revenue, or other self-supporting bonds in lieu of general obligation bonds. 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 Facilities Plan.

General obligation debt should be used when the related projects are of a benefit to the City as a whole. 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. The City should avoid issuing general obligation (non-voted) debt beyond seventy percent (70%) of its general obligation debt capacity in order to maintain a reserve for emergencies.

The City shall use refunding bonds where appropriate to achieve cost savings of approximately 4% net present value (**NPV**), to restructure its current outstanding debt, and/or improve restrictive bond conditions.

The City shall evaluate the best method of sale for each proposed bond issue. When a negotiated sale is used, the City shall consider using an independent financial advisor to advise the City's participants in matters such as structure,

pricing, and fees. These services shall be regularly monitored by the Finance Department.

Debt Issuance Team

In order to effectively plan and fund the City's capital investment projects, a team will be established for each debt issuance. The staff team members shall consist of the City Manager, a Finance Department representative, and applicable department management representative(s) (related to the projects to be financed). External team members shall consist of Bond Legal Counsel and a financial advisor and/or underwriter with demonstrated experience in Washington State debt issuance when appropriate. By state law, Council is required to authorize a debt issuance.

Bond Proceeds

The City shall comply with IRS regulations concerning use of and reinvestment of bond proceeds. 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.

Disclosure

The City shall provide full secondary market disclosure related to outstanding debt.

The City has a separate Debt Policy that governs this activity.

Pension/ Other Post-Employment Benefits (OPEB) Liabilities

The City has pension obligations for retired police officers and firefighters hired prior to March 1, 1970. The Washington Law Enforcement Officers and Firefighters Retirement System (LEOFF 1) pays pension benefits for eligible employees working when that system was established. However, LEOFF 1 statutes call for the employing agency to cover 100% of medically necessary costs for the life of the employees working on March 1, 1970 and hired before the closing of the LEOFF 1 system in 1977.

City has contracted for actuarial studies to be done every 2 years for these benefit programs (Police and Fire pensions and medical obligations). Historically, these benefits have been funded on a "pay-as-you-go" basis, which is substantially below the actuarial determined contributions.

The City will strive to increase its funding level of pre-LEOFF pension and LEOFF 1 medical obligations.

REFERENCE DOCUMENTS

Investment Policy – Administrative Code 3-700

Purchasing Policy – Administrative Code 3-400

Equipment Rental and Replacement Fund Policy – Administrative Code 3-150

Capital Asset Policy – Administrative Code 3-175

Fund Balance Policy – Administrative Code 3-200

Delegation of Authority – Administrative Code 2-200