City of Oak Harbor
Department of Finance
Departmental Financial Management Policy
Introduction

Sound financial stewardship and the prudent use of public funds are two of the primary responsibilities given to the officials and managers of the City of Oak Harbor. Having been entrusted with this responsibility by our citizens, the establishment and maintenance of wise fiscal policy enables City officials to protect public interests and ensure public trust. The overall financial strategy of the City of Oak Harbor is to develop a sound financial resource base for the purpose of ensuring public safety, maintaining the physical infrastructure and surroundings of the City, and promoting the social well-being of the citizens of Oak Harbor.

This Comprehensive Financial Management Policy document incorporates past financial practices in defining the current policies to be used by the City to meet its obligations and operate in a financially prudent manner. These policies have been established to provide general fiscal guidelines and are intended to provide sound direction in the management of the City's financial affairs.

Purpose

The Comprehensive Financial Management Policy assembles all of the City’s financial policies in one document. These policies are a tool to ensure that the City maintains a high level of financial solvency in order to meet the City’s immediate and long-term service objectives. The purpose of the individual policies contained herein is to serve as guidelines for both the strategic long-term-financial planning and internal financial management processes of the City.

The City of Oak Harbor is accountable to its citizens for the use of public funds. The City’s resources must be wisely used to ensure adequate funding for the services, public facilities, and infrastructure necessary to meet the community's present and future needs. 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 interests of the citizens of the City of Oak Harbor, this Comprehensive Financial Management Policy has been adopted as the guiding management principle to be applied in the management of the City's finances.

The City’s policies are categorized in the following sections:

General Revenue Policies
Expenditure Policies
Reserve Policies
Accounting and Financial Reporting Policies
Performance Measurement Policies

General Revenue Policies

a) Current revenues will be sufficient to support current expenditures.

b) A well-diversified and stable revenue system will be maintained to shelter public services from short-run fluctuations in any particular revenue source. Because revenues, especially those of the General Fund, are sensitive to both local and regional economic activities and legislation, revenue estimates should be calculated using an objective, analytical process, and will be neither overly optimistic nor overly conservative. Revenue estimates will be as realistic as possible based on the best available information.

c) Revenue forecasts will encompass all resources that can be utilized for public services. Should economic downturns develop which could result in revenue shortfalls or fewer available resources, the City will immediately compensate by making adjustments in anticipated expenditures.

d) Revenues of a one-time, limited or indefinite term will be used for capital projects or one-time operating expenditures to ensure that no ongoing service program is lost when such revenues are reduced or discontinued.
e) The City will project revenues for the next three years and will update this projection annually. The Finance Department will annually review and make available to the Finance Committee an analysis of each revenue source.

f) The City will not utilize deficit financing or short-term borrowing as a revenue source to finance current operating needs without full financial analysis and prior approval of the City Council. Interfund loans are permissible to cover temporary gaps in cash flow, but only when supported by a well-documented repayment schedule of short duration.

g) In order to assist decision makers in prioritizing support for various City program alternatives, and tier system consisting of three levels shall be utilized. Tier 1 programs will consist of programs critical to core business functions of the City. Tier 2 programs shall consist of programs not necessarily belonging to a core business function, but shall consist of those programs assigned a high priority in meeting specific City objectives. Tier 3 programs shall consist of those programs receiving consideration as funds are available, and after all business core functions and high priority programs have been considered. As part of Council’s mission statement objectives, and specific dollar amount or percentage of the annual operating budget shall be established as a not to exceed threshold for the aggregate cost of Tier programs.

Grant Revenues

a) All potential grants shall be carefully examined for matching requirements. If local matching funds are not available, some grants may not be accepted. Grants may also be rejected if programs must be entirely funded with local resources after the grant program is completed.

b) When considering grants for the purposes of capital construction or other projects of an acquisition nature, an analysis will be made of the City’s ongoing ability to maintain, repair, or commit the facilities to a specific economic purpose. In all cases, an analysis will be performed regarding the City’s ability to comply with any restrictions or long-term commitments included as a stipulation of receiving the grant award.

Enterprise Revenues

a) To ensure that the enterprise funds remain self-supporting, user fees and rate structures will be incorporated to support the total direct and indirect costs of operations, capital facilities maintenance, debt service, depreciation, and pass-through rate increases from source of supply vendors.

b) Revenues received for enterprise purposes will be restricted to the respective funds.

User Fee Revenues

a) The City will establish all user fees and charges at a level related to the cost of providing the service. Every year, the City will regularly revise user fees with a review by the Mayor to adjust for the effects of inflation and increases in operating costs.

b) As much as is reasonably possible, authorized City services that provide direct benefit to a specific group, organization, or citizen should be supported by fees and charges to recover the costs of providing such benefit. The goal of this is to provide maximum flexibility in the use of general City taxes to meet the cost of services of broader public benefit. Charges for services that benefit specific users should recover full costs, including all direct costs, capital costs, department overhead, indirect cost allocation, and City-wide overhead. Departments that impose fees or service charges should prepare and periodically update cost-of-service studies for such services.
General Expenditure Policies

a) A high level of priority will be given to expenditures that will reduce future operating costs, such as increased utilization of technology, equipment, personnel, and prudent business methods.

b) The City of Oak Harbor strives to ensure its service programs are of high quality. If expenditure reductions are necessary, complete elimination of a specific service is preferable to lowering the quality of programs provided.

c) All City personnel share in the responsibility of looking at and understanding the City’s long-term financial viability, its general spending trends, its projected incomes, and educating themselves, division heads, and employees on the necessary short and long-term balance between revenues and expenditures. Department heads are responsible for ensuring departmental expenditures under their control are in accordance with City Council’s authorized expenditure authorization.

d) Before the City undertakes any agreements that would create fixed ongoing expenses, the cost implications of such agreements will be fully determined for current and future years through the use of strategic financial planning models.

e) Organizations that are not part of the City, but which receive funding from the City, shall not have their appropriation carried forward from year to year unless expressly authorized and directed by City Council. Performance measures will be established for each program receiving to ensure support is in conformance with City objectives. Annual review to include a report from the program sponsor and reauthorization of funding is required.

f) All externally mandated services provided by one fund for another, for an outside source, or for which full or partial funding is available will be fully costed out to allow for reimbursement of expenses. The estimated direct costs of providing the service will be budgeted and actual costs charged to the fund performing the service. Interfund service fees charged to recover these direct costs will be recognized as revenue to the providing fund.

g) The City will maintain expenditure categories according to state statute and administrative regulation.

Personnel

a) Emphasis is placed on improving individual and workgroup productivity rather than adding to the work force. The City will hire additional personnel only after the need for a new employee is substantiated and documented.

b) All compensation negotiations will focus on total compensation including direct salary, health care premiums, pension contributions, and other benefits of a non-salary nature. Cost analysis of salary increases will include the effect of such increases on the employer-share of related fringe benefits.

Maintenance and Replacement

The budget process will include a multi-year projection of vehicle replacement requirements. The budget will provide sufficient funding for adequate maintenance and orderly replacement of capital plant, equipment, and vehicles. Future maintenance needs for all new capital facilities will be costed out and included as decision criteria.
Short-Term Debt Policies

a) Short-term debt covers a period of one year or less.

b) The City may use short-term debt to cover temporary cash flow shortages that may be caused by a delay in receipting tax revenues or issuing long-term debt.

c) The City may issue interfund loans rather than outside debt instruments to meet short-term cash flow needs. Interfund loans will be permitted only if an analysis of the affected fund indicates excess funds are available and the use of these funds will not impact the fund's current operations. All short-term borrowing will be subject to Council approval by ordinance or resolution, and will bear interest based upon prevailing rates.

Long-Term Debt Policies

a) The City will confine long-term borrowing to capital improvements that cannot be financed from current revenues.

b) Acceptable uses of bond proceeds can be viewed as items that can be capitalized and depreciated. Refunding bond issues designed to restructure currently outstanding debt is also an acceptable use of bond proceeds.

c) Where possible, the City will use special assessment revenue, or other self-supporting bonds instead of general obligation bonds.

d) The City will not use long-term debt for current operations.

e) The City will maintain good communications with bond rating agencies about its financial condition. The City will follow a policy of full disclosure on every financial report and bond prospectus.

f) General Obligation Bond Policy

1) 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.

2) Bonds cannot be issued for a longer maturity schedule than a conservative estimate of the useful life of the asset to be financed.

Limited Tax General Obligation Bond Policies

1) As a precondition to the issuance of limited tax general obligation bonds, all alternative methods of financing should have been exhausted.

2) Limited tax general obligation bonds should only be issued under certain conditions:
   - A project in progress requires monies not available from alternative sources;
   - Matching fund monies are available which may be lost if not applied for in a timely manner; or
   - Catastrophic conditions.
Reserve Policies

Fund Balance Policy

One of the most significant policies envisioned for the City’s budget is to begin each year with a targeted fund balance. The long-term goal is to obtain a rolling beginning fund balance in each operating fund equal to ten percent of the fund’s operating budget, excluding the beginning fund balance, building permit revenue and any significant one-time revenue. As a short-term objective, the 2007-2008 Biennial Budget begins with an estimated beginning fund balance of 12%, with a planned increase in the targeted fund balance of 1% per year until the long-term minimum goal of 15% is reached.

Technology Reserve Fund

The Technology Reserve Fund is to be utilized as a sinking fund in which to set aside the necessary resources to finance the purchase or replacement of new technology or highly specialized equipment for the operational needs of the City. Each fund or operation of the City will prepare an inventory of computers, network servers, and other technological equipment. This list will include a schedule of planned retirement of such assets, and a schedule of periodic payments to be made to the Technology Reserve Fund for the purpose of replacing outdated equipment as they are retired from the City inventory.

Equipment Replacement Reserve Fund

The Equipment Replacement Reserve Fund is to be utilized as a sinking fund to set aside the necessary resources to finance the purchase or replacement of vehicles and equipment for the operational needs of the City. For each listed piece of equipment, a schedule will be made outlining the project future cost of replacement, a listing of the current contributions made towards replacement, and the estimated service charges for maintenance. Funds or departments that participate will make regularly scheduled payments to ensure that adequate funds are available. Should a department require equipment that has not previously been scheduled, the initial acquisition of the equipment will be budgeted for and purchased from the department’s own budgetary schedule. The equipment will then be donated to the equipment replacement fund. Under no circumstances will funds be withdrawn from the reserve for other operating purposes unless a corresponding reduction in the equipment listing is made by the department requesting the withdrawal.

Current Expense Reserve Fund

The Rainy Day Reserve's primary purposes are to protect the City's essential service programs during periods of economic downturn that may temporarily reduce actual resources or cut the growth rate of City resources below that necessary to maintain pre-existing service levels. Disbursement of funds will only be made upon approval of Council. The long-term goal is to reserve an amount equal to five percent of the annual General Government expense budget in this fund.

LEOFF I Post-retirement Benefit Fund

The LEOFF I Post-retirement Benefit Fund is to provide actuarial-sound fund balances to match the post-retirement liabilities accrued for covered fire and police personnel. An actuarial study is commissioned every five years to assess the status of the pension plan and to set new reserve targets as required. The pension plan is expected to service retirees until approximately the year 2040.

Cumulative Reserve 1st Quarter Percent REET Fund

The City created the Cumulative Reserve 1st Quarter Percent REET Fund to finance the repair, maintenance, and acquisition of park, library, recreational, cultural, and civic improvements; and land. The proceeds from the 1st Quarter Percent REET are authorized by RCW 82.46.010.

Cumulative Reserve 2nd Quarter Percent REET Fund
The City created the Cumulative Reserve 2nd Quarter Percent REET Fund to finance a package of improvements that will be funded from a second 1/4 percent real estate excise tax. This tax was specifically enacted as a part of the state’s growth management statutes, which call for the provision of resources for capital facilities that relate directly to growth. The long-term goal of this fund is to accumulate sufficient cash for capital needs deemed appropriate within the scope of the Growth Management Act.

**Cumulative Reserve Utilities Fund**

A cumulative reserve shall be established by the Water, Wastewater, Solid Waste, and Storm Drain Funds to replace utility capital, plant and equipment. This reserve will be adjusted biennially by the current year's depreciation expense less bond reserves, principal paid on outstanding debt, and purchases of replacement capital. The long-term goal of this fund is to accumulate sufficient cash for capital needs deemed appropriate within the scope of operations and the Growth Management Act.

Bond reserves shall be created and maintained by the Water, Wastewater, Solid Waste, and Stormwater Utilities in accordance with the provisions set forth in the bond covenants.

**Paths and Trails Reserve**

The purpose of this reserve is to establish and maintain paths and trails for bicyclists, equestrians and pedestrians. The basis for revenue is a one-half of one percent of Motor Vehicle Fuel Taxes received by the Street Fund. Funds must be expended for the purpose required within ten years of receipt.

**Accounting, Financial Reporting, and Auditing Policies**

The City of Oak Harbor will establish and maintain a high standard of accounting practices. Accounting and budgetary systems will, at all times, conform to Generally Accepted Accounting Principles, the State of Washington Budgeting Accounting Reporting System (B.A.R.S.) and local regulations.

A comprehensive accounting system will be maintained to provide all financial information necessary to effectively operate the City.

The City will meet the financial reporting standards set by the Governmental Accounting Standards Board. Full disclosure will be provided in all City financial reports and bond representations.

An annual audit will be performed by the State Auditor's Office and will include the issuance of a financial opinion as to the financial position and the results of operations of the City.
PRODUCTIVITY AND PERFORMANCE MEASUREMENT

As the demands for new services and improvements to existing programs have strained the City's capacity to provide these in an era of fiscal restraint, new techniques for stretching resources have been developed and tested by municipalities throughout the country.

To this end, it is the policy of the City of Oak Harbor to develop a comprehensive productivity/work measurement program throughout City government to improve the efficiency and effectiveness of service delivery. The primary objectives of this City initiative should be:

a) Developing accurate and fair measures of quality and effectiveness of service delivery in each City department and agency;

b) Training City managers and employees to conduct performance measurement studies, to help design and implement an overall performance evaluation program, and to utilize this program on an ongoing basis

c) Integrating the work standards and measures produced by the performance evaluation effort into the City's existing budgetary and accounting systems; and

d) Saving City dollars and resources in providing existing and new municipal services.

In implementing each of the phases of this performance measurement program, the City will seek to maximize the reporting and analysis of data that demonstrates progress and area for further refinement. The City believes the development of accurate and realistic productivity measures, and the integration of these measures into its budgetary and accounting systems, will enable future City Councils, City Administrations, and management personnel to make resource allocation decisions which reflect the financial requirements of all activities as well as hard information on the quality and quantity of services being delivered.