

Log #	Section	Comment/Question	Staff Response
01	1	Will the Policies help the City staff “develop the biennium budget?” I know Sect. 1 currently says that they serve as a “blueprint for City staff to achieve goals set forth in budget work plans.” If helping to develop the budget is different, and if the Policies will be used by the City staff to develop the budget, should that difference be identified in the first sentence?	Yes. With consensus of the majority of the City Council, the first sentence will be revised to reflect that the Policies will guide efforts to draft a biennial budget.
02	1	<p>In the next paragraph, there is an effort to describe how the Policies will be interpreted and prioritized relative to authority granted to the CM. Should there be a statement that if any of the Policies conflict with state, federal law or with regulations promulgated thereunder, that those laws and/or regulations shall supersede the Policies?</p> <p>Or Sect. 1 could state that if the Policies conflict with state, federal law or with regulations promulgated thereunder, then the Policies will be interpreted to the maximum extent possible without being in conflict.</p>	With consensus of the majority of the City Council, section one will be revised to include the clause “if the Policies conflict with state, federal law or with regulations promulgated thereunder, then the Policies will be interpreted to the maximum extent possible without being in conflict.”
03	2	I agree with maintaining a “long-term” view. Question – would it make sense to state the “horizon” in terms of years that is envisioned when speaking about “long-term” and “short-term?” Perhaps, reference Sect. 7 to direct readers to what the City means by way of “long term” planning, i.e., a 6-year time horizon.	Staff recognizes the benefit of defining “long-term,” but hesitate to add a definition to the second sentence of Section 2. This section lays out the underlying philosophy guiding financial planning, which considers both “current and future generations.”
04	2.6	Question – Is Sect. 2.6 necessary? Isn't this sentiment covered in Sect. 2.4 and Sect. 2.7? Plus, Sect. 2.6 seems to be at a slightly lower elevation than the other Sections.	The ad hoc committee found section 2.6 distinct from 2.4 and 2.7. It recognizes judicious financial management includes recognition of the shared responsibility between the City and the Unions who represent staff when addressing employee compensation. Staff recommends keeping 2.6 separate.
05	3.1	Changed the end of Sect. 3.1 to read, “. . . of the initial fiscal year of the biennium budget-cycle” (or something similar)	With consensus of the majority of the City Council, this is a straight-forward revision that adds clarification and can be included in the final version.
06	3.4	I assume there is buy-in by all the dept. heads?	Yes.
07	3.4	Because the CM may allow a dept. head to retain 1/3rd of the savings to fulfill the dept. mission, the last sentence might be changed as follows, “The amount of such savings that are not returned to a City department, as described in the immediately preceding sentence, will be returned to the General Fund Balance . . .”	With consensus of the majority of the City Council, the final sentence in section 3.4 can be revised to state “The amount of such savings not returned to a City department, as described above, will be returned to the General Fund Balance to replenish City reserves and support the Emerging Innovations Reserve, consistent with adopted policies.”
08	3.5	I would change Sect. 3.5 to require the CM to report back to the Council at least a minimum number of times, e.g., once every 6 months. The CM report	With consensus of the majority of the City Council, the final sentence of section 3.5 could be revised to “The City Manager will report back to the City Council on work plan progress during the biennium and

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		doesn't have to be elaborate, but the Council needs to be apprised of any potential problems in a timely manner.	report any potential issues in a timely manner..." or something to this effect. The City Manager does not support a prescriptive policy that dictates a set frequency.
09	4.3/4.4	In order to more clearly distinguish Sect. 4.3 and Sect. 4.4, should "current revenues" be defined as revenue derived from on-going sources, e.g., REET, B & O Tax, in contrast to one-time revenue like ARPA funds?	<p>The intention is not to associate "current revenues" solely with "on-going revenues." Statement 4.3 is distinct from 4.4, but the two points should be taken together.</p> <p>Statement 4.3 explains that expenditures within a two-year budget should be adequately covered by anticipated revenues within the same period.</p> <p>Statement 4.4 is a direct statement from the current City Council emphasizing one-time revenues should not be used to cover ongoing expenses.</p>
10	4.10	<p>I am curious if "cost effective" means that whether or not grants are sought after by the City will include a requirement that the grant provide funds needed to meet all City staffing needs (comp and benefits) for implementing the new services funded by the grant. If that requirement is assumed within Sect. 4.10, then no change to Sect. 4.10 is needed.</p> <p>However, if that requirement is not part of the grant application process, should Sect. 4.10 be amended to include such a requirement or state it as an aspirational goal?</p>	<p>Good clarification. With consensus of the majority of the City Council, a sentence can be added to the end of statement 4.10 to the effect, "The City will place a preference on grant opportunities that include the costs to administer said grants."</p>
11	4.13	I suggest that the word "will" in the first line of Sect. 4.13 be changed to "may" to provide greater flexibility relative to any excess investment earnings. While I cannot think of any, there might be other uses for the excess earnings than what is stated in Sect. 4.13.	<p>Good revision. Staff is comfortable with this revision with consensus of the majority of the City Council.</p>
12	4.15	Do you really need the term "evidence-based" in Sect. 4.15? In my opinion, it adds little and is unnecessary.	<p>Evidence-based provides minor though helpful direction to staff that a recommendation to revise reserve targets must be grounded in some degree of analysis.</p>
13	5	While the Transportation Improvement Program (TIP) is part of the CIP, should it be specifically referenced somewhere in this Section?	<p>Good revision. With consensus of the majority of the City Council, staff will add a new bullet to section 5 that states, "Per State law, the City is required to develop and annually adopt a six-year Transportation Improvement Program (TIP), which becomes a component of the CIP (RCW 35.77.010)."</p>

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14	5	Should this Section refer to the fact that the CIP and TIP are required under state law? Might be good to cite to the applicable statute and any applicable state regulations.	See above.
15	5	Not sure where to insert this suggestion (perhaps in Sect. 5.5 or Sect. 5.9) – I would like to see the inclusion in the evaluation of each capital investments by the City Council that is part of the CIP (and TIP) information through the sustainability “lens” (tapping into the expertise of Ross Freeman and others) and through a “DEI” lens.	<p>If a majority of the City Council desires to evaluate all capital projects through a sustainability lens, then sustainability policies should be developed to guide that review. Those policies would likely be separate from the Financial Management Policies document.</p> <p>At present, the sustainability policy guidance does not currently exist making this request difficult to implement and the outcomes may be somewhat subjective. Currently, the Sustainability Analyst is supporting select capital projects and assisting with scope development.</p> <p>Similar to the above, if the majority of the City Council desires to review capital projects or other work items through a DEI lens, then specific policies should be developed to guide this work. Those policies would likely be separate from the Financial Management Policies document. The City does not currently have staff resources or expertise on staff to perform this type of work, so additional support resources will be needed to fulfill this request.</p>
16	6.0.2	My apologies if this is covered elsewhere in the Policies – Should the Policies require the City to periodically review the adequacy of the funds in Reserves so that the City is in keeping with the then best practices of cities in this area? Could be addressed in Sect. 6.0.2.	The City Council can address Fund Balance and Reserve targets at any point in time. At minimum, target funding levels should be reviewed and updated with the Financial Management Policies every 5-7 years, as outlined in Section 1 of the Policies.
17	6.2	<p>With respect to Sects. 6.2.9 through 6.2.14, is the Policy saying that the funds remaining over and above the amount needed to reach the target levels are to be paid only to the item described in Sect. 6.2.9 and only after the sinking fund liabilities have been replenished 100% then any remaining amount goes to the item described in Sect. 6.2.10 and only after the one-time investments, projects or studies have been funded 100% will any remaining funds go to the item described in Sect. 6.2.11, etc. If this is the intent of this Policy, it might help to state such allocation more clearly and to explain the prioritization.</p> <p>Or is the intent to give the City Council flexibility in choosing among the items described in Sects. 6.2.9 through 6.2.14, where to allocate the excess funds?</p>	This is one of the central questions facing the City Council for the 8/31 meeting: whether items 6.2.9-6.2.14 make up a prioritized list or alternatively, a list of options in no particular order to spend year-end budget surplus.

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18	8	<p>In order to highlight the Council's role, I think it might be good to include a statement (Policy) that the Council will participate through an established committee in the introductory and exist interviews conducted by the SAO. While the Council does so "informally" and "sporadically," my recollection is that the Council use to have a formal committee (I think I served on it during my initial few years on the Council). Participating in the interviews is informative and allows Councilmembers to ask SAO questions in and out of the presence of City staff.</p>	<p>Staff are unclear on the benefits of forming a committee, particularly when audit information should be available and discussed with the full City Council but welcome a discussion on this matter.</p> <p>The City Council typically elects to forgo a formal Entrance Conference saving staff time and audit costs. The SAO provides the City Council with entrance documents at the beginning of the audit and exit documents at the end of the process. At the conclusion of the audit, the SAO reports their findings to the full City Council in an open public meeting, a practice that was started two years ago and will continue.</p> <p>The City Council always retains the right to raise concerns with the SAO independent of the staff. Individual City Council members may also request to meet with the auditor at any time with or without staff present.</p> <p>As a reminder, the SAO's office bills on an hourly basis, so costs should also be considered.</p>
19	9.1	<p>Did I read somewhere that the "Adopted Investment Policies" have been drafted? If so, are they available for review? If not, when will they be drafted and submitted to the Council for approval? (Sect. 9.1)</p>	<p>The City has an investment policy that was adopted in January 2012. The nine-page document is not currently available on the City's website. A copy is available for the City Council and public to review upon request.</p> <p>Staff intends to revisit this policy and draft an updated version as part of a future Finance Department work plan.</p>
20	9.2	<p>Re Sect. 9.2, is the 45-day period best practices? My vague recollection was that nonprofits should have liquidity to pay for 60-days of normal operations. Should the 60-day period apply to MI?</p>	<p>The GFOA best practice recommendation has changed given the many considerations facing local governments, but at a minimum the fund balance for the General Fund should be no less than what will meet the average cash flow needs.</p> <p>With consensus of the majority of the City Council, staff will revise 9.2 to reflect "no less than 60 days of operating expenditures for the General Fund."</p>
21	10.5.2	<p>The first paragraph talks about maintaining the City's bond credit rating. It looks like the current Moody's bond rating is Aa1, which is just shy of the top Aaa rating. Would it make sense to say, "and maintain the City's bond credit</p>	<p>The is an excellent point. Though this was not discussed with the ad hoc committee, the current language in 10.5.2 was likely included because the Policies are intended to be aspirational. By going with a floor rather than a ceiling, a different message is communicated to</p>

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		rating (not to be lower than _____)”? (plug in a rating lower than Aa1 that MI should at the minimum maintain, e.g. A1)	credit ratings agencies (who will review this document) when the City aspires to a Aaa rating versus “shall not be lower than _____.”  This should be further discussed with the City Council.
22	10.1.2	I find the term “infrastructure improvements” in Sect. 10.1.2 to be a little confusing because when I think infrastructure, I think of capital improvements. Why not delete “of infrastructure improvements.”	Good revision. Staff is comfortable with this revision with consensus from the majority of the City Council.
23	10.2.1	In the Sect. 10.2.1 table, it is a little confusing because at first blush the percentages look more than 7.5%. Would it be better to strike the 2.5% opposite “General Obligation”?	The statutory limitation of General Obligation (GO) debt is 2.5%, which is made up of 1.5% of non-voted GO debt and 1.0% of voted GO debt.  Staff will revise the table to indicate Voted and Non-voted are subtotals of total General Obligation debt.
24	10.2.3	Seems like Sect. 10.2.3 (absent the specific reference to the CIP) is similar to Sect. 10.2.5. If so, would it make sense to drop the specific reference to the CIP in Sect. 10.2.3 (or include the reference to the “effects of that financing projected through six years of the CIP” in Sect. 10.2.2) and combine the remaining policy message of Sect. 10.2.3 with Sect. 10.2.5? If so, it might eliminate one of the many Policies.	Good revision. The final clause of 10.2.3 can be combined with 10.2.2, and the final clause of 10.2.5 can be combined with revised 10.2.3, thereby eliminating the need for 10.2.5.  Staff is comfortable with this revision with consensus from the majority of the City Council.
25	10.2.4	Is there a clear understanding as to the meaning of “economic development” in Sect. 10.2.4? Does it need to be defined? Or is it something like you will know it when you see it?	In this case, it does no harm <u>not</u> defining economic development given the intent of 10.2.4. Staff feels more like the latter – it is something you know when you see it.  Economic development may be better described as public and private capital investments, business and community capacity-building, job creation, job retention, and job training then defined as one thing.
26	10.4.2	Should the “City’s Financial Advisor” be a capitalized term in Sect. 10.4.2 and in Sect. 10.4.4? I don’t remember seeing a definition in the Policies.	Financial advisor does not need to be defined within the Financial Management Policies and will be revised accordingly.
27	10.4.7	Should the suggested opinion include confirmation of compliance with the City’s Financial Management Policies since the Council will need to approve the debt?	Yes, section 10.4.7 can be revised to reflect compliance with the City’s adopted Financial Management Policies. Staff is comfortable with this revision with consensus from the majority of the City Council.
28	10.5.2	With respect to Sect. 10.5.2, see my comment No. 1 under Section 10, about whether it makes sense to reference a “floor” that the City will seek to avoid.	These policies are intended to be aspirational. For reasons listed above, staff recommends keeping the current language.
29	10.6	In Sect. 10.6 there is a reference to “Mercer Island’s Investment Policy.” Does the City have such a written Investment Policy? If so, is it available for review? If not, when will it be drafted and submitted to the Council for approval?	See response to question 19.

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30	10.6.2	While I like the additional flexibility that Sect. 10.6.2 gives the City, you would think it highly unlikely that the City will use the proceeds other than as stated in bond ordinance, contract, etc. I suggest that the beginning of this Section be amended to read "The City will, unless otherwise permissible and justifiable, use bond proceeds . . ."	Good revision. Staff is comfortable with this revision with consensus from the majority of the City Council.
31	10.6.4	Since I am not aware of all of the actions that the City might need to take other than filing and paying all necessary rebates to maintain the tax-exempt status of bonds issued by the City, should the scope of the first sentence of Sect. 10.6.4 be expanded? For instance, "The City will take all necessary steps to preserve the tax-exempt status of its outstanding debt including, but not limited to, filing and paying all necessary rebates when due."	Good revision. Staff is comfortable with this revision with consensus from the majority of the City Council.
32	Appendix	<p>I assume there is a rationale why the Fund Balance for various Funds for cash flow purposes is based upon different time periods, e.g., 45 days, 60 days, and 90 days.</p> <p>Should there be a brief explanation why a particular time-period applies to a particular Fund?</p>	<p>Target amounts for operating reserves were set based on the typical operations paid for by each Fund and the potential community impact should cash flow management become an issue.</p> <p>For example, the Water Fund has a 90-day operating Fund Balance target, and the Sewer Fund has a 60-day Fund Balance target given sewage service and clean water are essential services.</p> <p>The other operating Fund Balance targets ensure adequate funding levels with 45-day reserves based on historical cash flow needs.</p>
33	6.2.9	Please remind me what "reduce liabilities related to sinking funds" means and provide an example or two.	<p>The City maintains several sinking funds for the gradual repayment of debt or the replacement of an asset or infrastructure with a waning useful life.</p> <p>Sinking funds have committed resources. For example, the computer replacement reserve is funded by internal service charges to each department. The field replacement reserve is funded by a portion of user fees charged to use the synthetic turf fields at South Mercer Playfields and Island Crest Park.</p> <p>For all sinking funds, it is important to recognize committed resources are at times inadequate. For example, MISD is the primary user of the synthetic fields, however they do not pay user fees. The impacts of new, incremental systems, equipment, or facilities are also likely to increase required funding in sinking funds overtime which may outpace the resources that have been committed.</p>

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34	Appendix	Reference is made to 12.5% target for contingency fund. Please remind me of the levels of this target for the last few years.	<p>The Contingency Fund is the City's rainy-day fund to address significant one-time emergencies. The current threshold is 12.5% of budgeted General Fund (GF) expenditures. This amount is capped by state law at 37.5 cents per \$1,000 of the City's total assessed valuation.</p> <p>Year-end balance for the City's Contingency Fund (Fund 130):</p> <ul style="list-style-type: none"> <li>• FY 2020 year-end balance was \$3.85 M, 12.60% of the FY 2021 GF expenditure budget of \$30.53 M.</li> <li>• FY 2019 year-end balance was \$4.13 M, 12.61% of the FY 2020 GF expenditure budget of \$32.74 M.</li> </ul>
35	6.2	<p>I was looking through the Financial Management Policies Package. Is it possible to get a spreadsheet that shows the financial impact of implementing the reserves and fund balances changes? For example, the water fund balance is proposed to be 90 days of operating reserve and a capital reserve of 1% of total asset value. I assume there will also be other reserves. There was at the end of 2020 \$17,451,236 in the fund. What happens to the rest of the money? I think it would be beneficial to see in the real world how these policies would affect each fund. If there were short falls where the money would come from and if they are over funded where the money would go. Maybe nothing happens to the water fund because of its restrictions but it would be nice to see what would actually happen to each fund.</p> <p>I realize that you are currently suggesting the money go to the following in order of priority:</p> <ul style="list-style-type: none"> <li>6.2.9 reduce liabilities related to sinking funds</li> <li>6.2.10 Fund one-time investments, projects, or studies</li> <li>6.2.11 Make one time contribution to the Emerging Innovations Investment Reserve</li> <li>6.2.12 Increase funding for capital purposes</li> <li>6.2.13 Restore previous program service reductions</li> <li>6.2.14 Create program services enhancements</li> </ul> <p>My question about this list are you being too restrictive in both categories and priority. What happens if you pressing needs outside this list? Why not just have a reserve fund and guidelines as you have listed, with a catch all</p>	<p><u>Part 1 – Reserves</u></p> <p>Of the ten reserves the ad hoc committee recommended be sunset, five include funds that will be spent in the foreseeable future. A description of these Reserves is below.</p> <p>The six Working Capital and Operating Reserves were established for cash flow purposes. Rather than maintain distinct reserves, which entails significant time in financial administration, the ad hoc committee recommends replacing these reserves where needed with an Operating Fund Balance. This is an established best practice for addressing cash flow concerns that minimizes backend accounting and still provides the buffer necessary to manage each Fund's cash flow needs.</p> <ul style="list-style-type: none"> <li>• The DSG Tech Reserve's \$80,302 balance is for technology improvements related to online permit submittal and electronic plan review services. It was funded by a 3% tech surcharge on development-related permits. As of January 2021, this tech fee is no longer charged over and above the permit fee but is instead baked into the permit fee schedule. The remaining balance will be expended on permit-related and plan review work software and hardware improvements, after which the reserve will go away.</li> <li>• The JAG Reserve's \$79,473 balance is a result of proceeds from the sale of a Bellevue property and must be used for</li> </ul>

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		<p>category so the council can use the money or save the money as they see fit. If you did this you may not need an "Emerging Innovations Investment Reserve Fund" which seems like a good idea in theory but unnecessary.</p>	<p>misdemeanant jail costs. The property which was originally intended for a new Eastside jail site. This money has gone unspent for years and instead of continuing to track budget cycle to budget cycle, it will be used to offset the annual expense for Jail services.</p> <ul style="list-style-type: none"> <li>• The Police Camera Replacement Reserve's \$25,710 balance is to replace Police vehicle in-car cameras. It was previously funded by \$12,000 annual transfer from the General Fund. Contributions were postponed 2019-2022, until the next replacement cycle. Funds will be expended on the next replacement cycle. The cost for future technology replacements will be captured by the Police department's operating budget IT rates.</li> <li>• The 800 MHz Radio Replacement Reserve's \$398,442 balance is meant to replace radios used by Police, Fire, and Maintenance staff. The Reserve is funded by internal service charges to each department. Radio communications will soon transition to the Puget Sound Emergency Radio Network (PSERN), a voter-approved effort to upgrade and expand the current King County Emergency Radio Communications System. The remaining balance is earmarked for costs associated with transitioning to PSERN. Once the transition is complete, this reserve will no longer be required.</li> </ul> <p><u>Part 2 – Section 6.2.9 – 6.2.14</u>                      A core policy question facing the City Council will be to discuss the different uses outlined in this section and whether an order of priority is desired. There is no connection with this section and the ten Reserves that are scheduled to sunset.</p>