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CITY OF TUMWATER FINANCIAL POLICIES

SECTION 1 PURPOSE

Tumwater is a full-service City that provides police and fire services, maintains parks and other public facilities, offers recreational programs and activities, conducts urban planning, issues construction permits, and makes sure residents have safe transportation options. These services are considered general government services. The City also operates three utilities that provide clean drinking water, remove and recycle wastewater safely and manage storm water conveyances and ponds to prevent flooding, and to protect the environment; and, it operates a Transportation Benefit District (TBD) which is a special purpose district dedicated to the maintenance of streets and sidewalks. In addition, the City has the Tumwater Metropolitan Park District (TMPD) to support and expand parks. Furthermore, all of these services utilize internal support services such as finance, human resources, community relations, equipment purchases and maintenance, and administration. The City has the authority to impose taxes, such as property taxes, sales taxes and business taxes, as well as fees for specific services, which pay for the cost of these services. The City has to be accountable for the use of all public funds and keep its service promise.

These written policies are approved by Council and apply to all City funds and activities, including general government, utility and internal services, and for any special districts. Special policies for a sub-set of services will be called out. They are intended to be adaptable to changing needs and support Council strategies and goals long-term while ensuring financial protection and sound fiscal practices.

The intent here is to establish written policy and not procedures. Policy is a philosophy or thought process and provides a framework for procedures and day to day decision making. The establishment of specific accounting and financial procedures is the responsibility of the Finance Director and should be in the spirit of these policies. They may be established administratively by the ~~City Administrator~~Finance Director.

The policy provides guidance in what should be done and as such, prevents what should not be done. It does not state all that should not be done, because that list would be infinite. This policy should be reviewed and updated periodically to be a living document that fits the times.

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SECTION 2 OBJECTIVE

The City strives to:

- Maintain all essential services without major service interruption,
- Obtain equitable and fair revenue sources,
- Build financial stability and sustainability,
- Fulfill all financial obligations,
- Be prepared for growth, economic change, and emergencies,
- Comply with laws and regulations, and
- Maintain a high bond rating.

These following policies are to provide guidance for decisions that have a significant fiscal impact and that are in support of the above goals. They are broken out into the following topics:

- Reserve and Contingency Policies
- Revenue and Other Resources
- Expenditures
- Budget Preparation
- Stewardship Over What the City Owns
- Long-term Financial Planning
- Long-term Operational Financial Planning
- Investments
- Debt
- Auditing, Accounting and Financial Reporting
- Management of Federal Grants

CITY OF TUMWATER FINANCIAL POLICIES

SECTION 3 RESERVE AND CONTINGENCY POLICIES

Reserves reduce financial risk, provide flexibility, add to financial stability, and contribute to good bond ratings. Typically, they are established to manage uneven revenue and expenditure fluctuations, known or planned expenditure spikes, or to provide cash flow for large and long-term strategic goals. The purpose for any reserve should be defined and the reserves should be used according to that purpose. ~~Otherwise, there is no reason to maintain a reserve.~~ Reserves are expected to periodically fall below the ~~target~~required levels and are expected to then be replenished within a reasonable time. A reasonable time will depend on the City's financial situation and is defined as no more than five years or shorter where feasible.

The following reserves are reserves commonly established by government organizations and follow best practices. Each serves a different purpose and uses a different time horizon. The General Fund cash flow reserve, for example, bridges uneven cash flows from the City's normal operations and throughout a normal operating year. The facility reserve is a tool to accumulate funds for known large projects in the foreseeable future. And the Contingency Fund sets aside funds in an attempt to prepare for future emergencies such as an earthquake, an ice storm, or a chemical spill, which could happen tomorrow or in twenty years. When cash is needed, the primary need determines which reserve serves the purpose and should be used to address that need.

General Fund Cash Flow Reserve: The purpose of this reserve is to bridge uneven cash flows throughout a year and in the normal course of operations of the General Fund. ~~This is not a legally separate fund and technically is not a reserve. Rather, it is ending fund balance of a year.~~ The General Fund, at a minimum, should maintain an ending fund balance of seventeen percent (17%) of annual budgeted operating expenditures and debt service payments. The 17% constitutes an estimate for needed cash balance and a commitment of fund balance and is measurable at the end of each year. The commitment percentage can be changed by Council through a Resolution. The reserve may be released by Council through the adoption of a resolution at any time or as part of the regular budget process. This policy helps ensure that the City can meet its obligations throughout a calendar year.

Facility Reserve: The City maintains a reserve fund per Tumwater City Code 3.36.030 for the purpose of providing funds for the repair, major maintenance and replacement of City facilities. These financial policies make reference to the above mentioned City Code section and, specifically, commit a target amount of two million dollars (\$2,000,000). This amount may come from various sources and, at a

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minimum, is to be accumulated from first year property taxes on new construction in excess of \$30 million as a transfer from the General Fund annually. The Capital Facilities Plan (CFP) serves as the project plan and should include the projects that may be funded from this reserve. The CFP is approved by Council.

Contingency Fund (Emergency Reserve): City Code section 3.36.035 establishes a contingency fund for the purpose of providing funds for unanticipated and unbudgeted emergencies as defined in RCW 35A.34.140 [<http://app.leg.wa.gov/rcw/default.aspx?cite=35A.34.140>] and 35A.34.150 [<http://app.leg.wa.gov/rcw/default.aspx?cite=35A.34.150>]. The above Tumwater City Code section and RCWs are made an integral part of these financial policies. In addition, in the case of an emergency not defined in RCW [35A.34.140](#), “council may, upon the adoption of an ordinance by a majority plus one stating the facts constituting the emergency, the estimated amount required to meet it, and declaring that an emergency exists, make the expenditure therefor.”

Permit Reserve Fund: The Permit Reserve Fund is a financial reserve established by the City of Tumwater to provide funds for Community Development activities during economic downturns. Some developments or new buildings may span several fiscal years. A permit that is paid for in year one may require staff time commitments for inspections or other activities in years two and three. If building permit revenue declines, as it did during the Great Recession, the City needs to keep staff working to fulfill the commitments previously made. This reserve is funded by building permit revenue and provides assurance that the City will provide the resources necessary to meet its commitments.

Water Utility Cash Flow Reserve: The purpose of this reserve is to bridge uneven cash flows throughout a year and from year-to-year in the normal course of operations of the Water Utility. The fees for service of the water utility are partially based on water consumption charges. Consumption, and therefore revenues, can fluctuate greatly from month to month and year to year. The Water Utility, at a minimum, should maintain an ending fund balance of twenty percent (20%) of annual budgeted operating expenditures and debt service payments. The 20% is a percentage higher than for the cash flow reserve of the General Fund or other utilities because the water utility has a higher risk of uneven cash flows due to its weather dependence and volumetric service fee structure. This reserve constitutes a commitment of fund balance and is measured at the end of each year. The commitment percentage can be changed by Council through a Resolution. The reserve may expressly be released by Council through the adoption of a resolution at any time or as part of the regular budget process. The reserve may fall below required levels during normal operations. Any need for replenishment will become part of the biennial revenue requirement

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forecast and rate setting assessment. This policy helps ensure that the City can meet its obligations throughout a calendar year and from year to year.

Wastewater Utility Cash Flow Reserve: The purpose of this reserve is to bridge uneven cash flows throughout a year in the normal course of operations of the Wastewater Utility. The utility, at a minimum, should maintain an ending fund balance of seventeen percent (17%) of annual budgeted operating expenditures and debt service payments. This reserve constitutes a commitment of fund balance and is measured at the end of each year. The commitment percentage can be changed by Council through a Resolution. The reserve may expressly be released by Council through the adoption of a resolution at any time or as part of the regular budget process. The reserve may fall below required levels during normal operations. Any need for replenishment will become part of the biennial revenue requirement forecast and rate setting assessment. This policy helps ensure that the City can meet its obligations throughout a calendar year and from year to year.

Storm Water Utility Cash Flow Reserve: The purpose of this reserve is to bridge uneven cash flows throughout a year in the normal course of operations of the Storm Water Utility. The utility, at a minimum, should maintain an ending fund balance of seventeen percent (17%) of annual budgeted operating expenditures and debt service payments. This reserve constitutes a commitment of fund balance and is measured at the end of each year. The commitment percentage can be changed by Council through a Resolution. The reserve may expressly be released by Council through the adoption of a resolution at any time or as part of the regular budget process. The reserve may fall below required levels during normal operations. Any need for replenishment will become part of the biennial revenue requirement forecast and rate setting assessment. This policy helps ensure that the City can meet its obligations throughout a calendar year and from year to year.

Equipment Rental and Reserve Fund Cash Flow Reserve: The purpose of this reserve is to bridge uneven cash flows throughout a year in the normal course of business in the Equipment Rental and Reserve Fund (ER&R). The ER&R fund should maintain an ending fund balance of eight percent (8%) of annual budgeted operating expenditures and debt service payments. This reserve constitutes a commitment of fund balance and is measured at the end of each year. The commitment percentage can be changed by Council through a Resolution. The reserve may expressly be released by Council through the adoption of a resolution at any time or as part of the regular budget process. The reserve is over and above funds set aside for the planned replacement of equipment and other capital assets in the ER&R fund. Any need for replenishment will become part of the biennial revenue

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requirement forecast and rate setting assessment. This policy helps ensure that the ER&R fund can meet its obligations throughout a calendar year.

The City maintains several other special revenue funds such as for the prevention of domestic violence, safekeeping of forfeited and seized property, development fees, Barnes Lake maintenance, the Lodging Tax Fund, and others. The purpose of these funds is to use all such designated revenue and fund balances for the designated special purposes. These funds tend to hold relatively small amounts of cash, with revenues that are highly variable and expenditures that can be scaled back if revenues do not meet expectations. Thus, no reserve policy is established in this document. The Council and City management may establish additional such special purpose funds at any time.

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SECTION 4 REVENUE AND OTHER RESOURCES

The City has certain resources available to deliver its services. These resources consist of on-going revenues, one-time revenues, and fund balances. The City also makes a distinction between one-time expenditures, such as acquisition of capital assets, and on-going expenditures, such as compensation and purchases for day-to-day operations.

On-going revenues should pay for all on-going expenditures. They may also fund one-time projects.

One-time revenues and fund balance should only pay for one-time projects and should not be relied upon for ongoing operations. One-time revenues are defined as: sale of assets, interest, special distributions, grants, and any other revenue that is extraordinary, such as a legal settlement or retroactive sales taxes.

The City seeks to recover the full cost of operating all business-type and internal service funds, such as the utilities, the Equipment Rental and Reserve Fund, and the Tumwater Valley Municipal Golf Course through fees for service. These funds provide a direct services to Tumwater residents and businesses for which they charge a service fee. The service fees should ultimately recover the full cost of service. Full cost includes the cost of ongoing operations and ongoing infrastructure repair and maintenance, as well as necessary infrastructure expansion, and the estimated cost of future equipment and building replacements (including any debt service payments and depreciation), that are not funded through other designated capital funding sources, such as connection fees. Connection fees are intended for the acquisition of new infrastructure capacity capital assets only.

The City also provides direct services in its general government funds, such as issuance of permits, building inspections, recreational classes, public records requests, and more. It strives to charge service fees to recover the full cost of these services but also recognizes that it is not always feasible, legal or advisable.

The City strives to stay economically competitive in the community and to be a City of choice for residents and businesses. A full cost recovery of all costs of governmental services may, therefore, be less than one hundred percent (100%) and be outweighed by other considerations that benefit the broad public good. The City actively pursues new revenue opportunities, especially those that add financial diversification and stability, as long as they are derived fairly, equitably, and from a broad base for broad services, or from a specific narrow group when only that group will benefit.

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The City may solicit sponsorships and pursue fund raising and donation revenue options by taking a programmatic approach and for a purpose that benefits both, the sponsor and City or the sponsor and the Public equally. It may also accept individual donations and endowments that are to be put to public use, benefit its general government purposes, or provide support to the economically disadvantaged, and do not award special financial or economic advantage to the donor.

A firm approach to collecting old and outstanding balances is applied while balancing the cost of those collections with the recovered revenues. With that approach City staff may turn over past-due accounts and amounts to a collection agency or file a lien. City staff may take non-payment due to a hardship under special consideration and may make arrangements for payments over time for up to twelve months, waive any penalties and late fees, and suspend otherwise normal collection procedures. A hardship case is defined as a serious accident, long-term illness or disability, natural disaster, loss of livelihood, loss of home, or other life-changing occurrence. The Finance Director is to approve any special arrangements in advance and these decisions should be documented for accountability. Staff is encouraged to offer the City's utility assistance program to those customers who are eligible and provide contact information for other help organizations, including the City-sponsored utility assistance program.

Debt proceeds are a one-time resource and can be used for one-time investments into infrastructure, such as for the purchase of land, construction of capital projects or for the purchase of long-lived capital equipment, as long as the City has identified a revenue source to make the debt service payments.

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SECTION 5 EXPENDITURES

Any City is primarily a service organization and, thus, personnel costs are a large portion of overall expenditures. The City strives to be an employer of choice in the community and attract quality employees that represent the organizational values of the City. Therefore, it strives to set compensation levels that are competitive in the public service sector.

The human resources department personnel review the City's salary and grade schedule periodically and assess its competitiveness with comparable governmental entities. It strives to establish pay grades that fit into the median range of comparable positions. Council must approve pay grade and position changes with a Resolution at any time or through the regular budget process.

Bonuses are not permitted except as signing or referral bonuses used for recruitment purposes and as approved by Council.

The City should only incur those ongoing expenditures for which it can pay from ongoing revenues.¹

The City strives to follow its written procurement procedures and adhere to all State and Federal purchasing and bidding rules where applicable. The City receives federal grants from time to time and is committed to follow 2 CFR 200, the Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, where it applies.

The City has several administrative functions that provide shared administrative services, such as executive management, public affairs, human resources, accounting, treasury and finance, legal, risk management, and more to all City departments and funds. The cost of those services is charged to the business-type and special purpose funds (the utilities, equipment rental and replacement fund, Golf, Barnes Lake Benefit District, Transportation Benefit District, and any other special purpose district the City may form) based on factors that reasonably estimate a fair share. It implements a full cost approach for the funds that receive the benefit. These shared services are not charged to other general government funds and departments to avoid the double accounting of expenditures, offset by internal revenue. The Finance Director makes recommendations on the appropriate allocation and the Finance Department administers the cost allocation.

¹ This is not intended to preclude paying project oversight costs from one-time capital funds.

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SECTION 6 BUDGET PREPARATION

The City budget should be a reflection of the Mayor's and Council's strategies and goals. Under the direction of the City Administrator and the Finance Director, the heads of individual funds and departments have the primary responsibility to formulate preliminary budget proposals that meet Mayor and Council direction to the extent feasible.

The financial policies documented here are also to be applied to the preparation of the City's budget.

The budget is prepared on the modified [accrual](#) basis of accounting. This is the same as the official financial reporting basis of accounting for governmental services funds, but differs from the full accrual basis of accounting for the official financial reports of the business-type funds. The budget for the latter group of funds includes expenditures, such as outlay for capital projects and payments for debt principal, which are instead reported as addition to fixed assets and reduction in liability, respectively, in the official financial statements. Additionally, depreciation and amortization are expenses reported on official financial statements, but are not budgeted.

The budget represents a spending authority that should not be exceeded by the end of the budget period. The level of spending authority is at the fund level, where the General Fund and general fund sub-funds² may be combined. The amount of spending authority should not exceed the sum of an estimated beginning fund balance and budgeted revenues. This encourages that spending authority stays within planned resources and it presents a balanced budget.

The Finance Department is responsible for the coordination and overall preparation and administration of the City's budget. Revised Code of Washington Chapter 35A.34 applies and has very specific requirements as to the timing of budget estimates, budget proposal, publication and adoption, as well as public notices, to name a few examples. The Finance Director coordinates the budget process so that the City follows all statutes.

² The Levy Lid Lift fund, K-9, emergency reserve, e-link fund are all examples of General Fund sub-funds. They were established to ensure these funds are expended for specific purposes. They have separate budgets, but are combined into the General Fund for external financial reporting purposes.

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The Finance Department assists department budget managers in the preparation of their respective budgets, particularly when it comes to inter-fund charges and personnel costs. The Finance Department assists with solutions and alternatives so that the budget is also a useful tool for budget managers. All reserves and contingencies should be presented in the City's budget.

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SECTION 7 STEWARDSHIP OVER WHAT THE CITY OWNS

As a matter of policy, the City prefers electronic money transactions, whether it makes or receives payments. It observes internal control procedures for the receipting of coins, bills or electronic cash, including the segregation of duties, the physical safeguard of checks, coins and bills, assignment of direct responsibility for daily cash handling, daily cash counts, and monthly cash reconciliations. The City only pays and accepts payments recognized as legal tender by the U.S. government. It does not accept, or pay with, cryptocurrencies such as Bitcoin.

It is regarded as preferable internal control to maintain one high-volume and main transaction bank (or check-writing) account into which all receipts are recorded, from which all checks are written, and all electronic payments are made. This is with the recognition that other low-volume bank accounts may be required or advisable, such as for the state-required advance travel-~~advance~~ account, performance bonds, funds held in trust, and other fiduciary monies. Accumulated cash may be invested in lawful investment vehicles. The Finance Director is responsible for the implementation of effective controls over all bank and investment accounts.

The City owns and maintains land, buildings, rights-of-ways, infrastructure, equipment and other long-lived assets, also known as capital assets. Capital assets are individually identified and recorded in a capital asset system and depreciated over their useful lives, in accordance with Generally Accepted Accounting Principles (GAAP) and Governmental Accounting Standards Board (GASB) requirements~~per generally accepted accounting rules~~. The City may set a significance threshold so that items at or above the threshold are recorded as capital assets, and items below the threshold are expensed. The City set the threshold to \$105,000. The Finance Department estimates the useful lives to be consistent over years and among similar items. Information about additions to the capital asset records are provided at least annually to the City's insurance carrier for property and liability insurance coverage.

The City maintains two equipment rental and reserve funds (ER&R), as prescribed in ~~Tumwater City Code~~TMC 3.36.060 and TMC 3.36.065 to be used for the expenditures of salaries, wages and operations required for the repair, replacement, purchase and operation of all motor vehicles as well as other portable equipment which the city shall decide to maintain and replace through this fund.". In Fund 501 the City includes all motorized and other rolling stock. Fund 502 contains computers and IT assets. The Finance Director, or delegate, together with management staff of the ER&R fund, develops annual estimated operating and annual replacement costs of the existing equipment complement. These costs are charged to the users and

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collected in the fund. At times additions are made to the existing complement of equipment. Additions require a transfer of funds to the ER&R fund from the acquiring fund or department in the amount of the initial purchase cost. Annual replacement fees begin in the first year after the year of acquisition. Replacement fees continue until the equipment is replaced regardless of the initial estimated life expectancy. The annual estimated replacement cost schedule for each category of equipment shall be established by the Finance Director in consultation with the City Administrator and department director. This schedule may be periodically adjusted based on actual operating experience. The annual depreciation expense will be used as a minimum estimate of the annual replacement cost.

The departments that own the assets must take a periodic inventory of all fixed assets. The fixed asset inventory is taken at least every two years, but can be taken more often at the discretion of the department director ~~and/or~~ Finance. Departments shall retain documented proof of the inventory count and retain it for five (5) years. In addition, they shall inform the finance department when: (1) the inventory count is complete, (2) if there are assets that need to be removed or added to the ERP system, and (3) of any significant impairments to any fixed assets.

City staff make purchases of a variety of long-lived items, such as furniture, equipment, containers, trailers, power tools, to name a few, with a cost of less than \$10,000. They are recorded as an operating cost, not as a capital asset and are not depreciated. A sub-group of these items, called small and attractive assets, are considered to be at high risk of premature and undetected loss. This is because they are small or light, used infrequently, are easily removed from the premises without anyone noticing, and could be disposed without approval, be converted to personal use, and could result in personal gain. The department directors (or designees) maintain a list of common small and attractive assets based on the above attributes. The current threshold is \$1,000 per item. Department directors should implement a reasonable safeguard and tracking mechanism for small and attractive assets, including a periodic inventory. As with capital assets, departments perform the physical inventory count at least once every two years, and should inform the Finance Department when the inventory has been completed,

The City disposes of certain capital and non-capital assets from time to time. The Council is to declare all such items surplus through approval of a resolution. City staff disposes of any surplus items with positive value (see below) through negotiated sale, auction, transfer to another government entity, or donation to a non-profit agency. At times, capital and non-capital items become obsolete or the cost of storage, disposition, or repair exceeds the remaining value. In that case the surplus item has either no or a negative value to the City. The ~~City Administrator~~Finance Director,

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or delegate, may approve disposition of such surplus items through the responsible disposal as refuse. Nothing herein shall be interpreted to authorize the gifting of any capital or non-capital items to a city employee, employee family member, or other private person.

These same policies apply to equipment originally acquired for a City utility. RCW 35.94.040 sets rules for the disposal of utility property to be leased, sold, or conveyed. This policy assumes that an item has to have a value to be leased, sold, or conveyed and that RCW 35.94.040 does not apply to items with a zero or negative value.

SECTION 8 LONG-TERM CAPITAL FACILITIES FINANCIAL PLANNING

The Growth Management Act requires a Capital Facilities Plan (CFP) be part of the City's Comprehensive Plan. The Public Works Department should present to Council a CFP for major transportation projects, parks and other general government projects, and for major utility (water, wastewater, storm water) projects every other year, for a six-year forecasting period, at a minimum, that begins with an even-numbered year. For a biennial budget cycle, that aligns the beginning for the CFP forecasting period with the second year of the biennial budget.

The CFP must include appropriate funding each year to balance resources with planned project expenditures. Appropriate funding could be restricted revenue such as that for the Transportation Benefit District, loan or bond proceeds, real estate excise tax, impact fees, grants, developer or other contributions, motor vehicle fuel tax, and general transfers from other funds. The City has committed the utility tax from private utility ~~and City utility enterprises~~ (6% at the time of the writing of these policies) to the General Fund (Fund 001) and each of the two Capital Facilities funds (fund 303 and 304) as follows: of the six percentage points (6%), three and seven tenths percentage points (3.7%) to the General Fund, one and a half percentage points (1.5 %) to the General Government Capital Facilities Fund 303, and ~~one and a half eight tenths of one~~ percentage points ~~(1.50.8%)~~ to the Transportation Capital Facilities Fund 304. ~~Although expected to be rarely done, these allocations may be adjusted by the Council as part of the budget process. For the Water, Sewer, and Stormwater utilities the utility tax is 12% and is committed as follows: nine percent (9%) to the General Fund, one and a half percent (1.5%) to Fund 303, and one and a half percent (1.5%) to Fund 304. Although expected to be rarely done, these allocations may be adjusted by the Council as part of the budget process.~~

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SECTION 9 LONG-TERM OPERATIONAL FINANCIAL PLANNING

The revenues, expenditures and fund balances for the general fund should be forecasted each year, about mid-calendar-year, for the current and next 5 years, making it a rolling five-year forecast, as an early look at changing economic conditions and possible unfavorable consequences, such as declining revenues and increasing costs. This enables the City to be flexible, and make choices to adjust its expectations and/or service levels as early as possible.

The utilities should strive to work towards a forecast for revenues, expenditures and fund balances for a six-year period, updated every two years and on the same update-cycle as the Capital Facilities Plan (CFP). The CFP is the basis for the amounts of planned capital spending for those six years. The plan should also include reasonable revenue and operating cost assumptions, as well as minimum funding for all reserves as established by these policies.

Estimates and forecasts of all revenues and expenditures should be cautious in a slow economic environment, taking a financially restrained approach. Estimates and forecasts of revenues and expenditures may become less restrained at a time of a more growth-oriented outlook.

The utilities' financial plans should assume that they support themselves through fees for service and that they do not receive financial or economic support from the General Fund.

The utilities should make every effort to set service fees that recover full life-cycle costs which may lead to periodic accumulations of fund balances. The accumulation of fund balance is regarded as competent long-term planning tool for foreseeable needs. This tool helps temper annual rate increases and enables the City to fund a large portion of its projects with cash or to position the City well for long-term debt issues.

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SECTION 10 INVESTMENTS

Most funds hold some amount of cash since the timing of expenditures seldom matches the time of receipt of revenue. This cash accumulates and can be invested. The Finance Director acts as the investment officer and has the authority to invest accumulated cash with the objective of safety first, liquidity second, and third, a market rate return that can reasonably be expected given these objectives, while complying with State law.

Accumulated cash includes funds over and above the minimum required reserves as described in the policy.

The investments must adhere to the requirements of RCW Chapter 35A.40 Section 050 Investment of Funds [<http://app.leg.wa.gov/RCW/default.aspx?cite=35A.40.050>], RCW Chapter 39.59 Public Funds-Authorized Investments, and RCW Chapter 39.59 Section 040 Authorized investments-Bonds, warrants, certificates, and other investments [<http://app.leg.wa.gov/RCW/default.aspx?cite=39.59.040>]. These chapters define specific investments by types, quality and maturity. The most current Washington State Investment Board (WSIB) investment policies adhere to these RCW Chapters and are, herewith, made an integral part of these policies as guidance for City investments. The most current WSIB policies went into effect as of September ~~15, 2016~~21, 2023, and are attached (see Exhibit B).

The investment officer must remain impartial in all investment decisions and must not pursue a personal activity that creates a conflict of interest in the execution and management of the City's investment program. A conflict of interest arises; when the investment officer could in fact or appearance, either directly or indirectly, benefit financially or economically from his or her influence or decision. This requirement extends to any employee, committee member, or Council member who could significantly influence an investment decision.

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SECTION 11 DEBT

The City issues debt infrequently and primarily for large capital purchases and infrastructure projects. It takes a conservative approach in the sense that it keeps debt maturities as short as possible and complies with RCW Chapter 35A.40 [<http://app.leg.wa.gov/rcw/default.aspx?cite=35a.40>], RCW Chapter 43.80 [<http://app.leg.wa.gov/RCW/default.aspx?Cite=43.80.100>], as minimum requirements. The City will also observe any other laws and regulations pertaining to debt.

~~Debt payments limit the City's ability to respond to ongoing operational needs and unexpected expenses. For this reason, it is advisable to limit the amount of debt and associated debt payments. The debt limits prescribed by the RCWs are shown in the table below. The City further voluntarily limits its debt exposure by adopting more stringent debt limits at a level half of that required by the RCWs. The limits are stated as percentage of the City's assessed property values.~~

Type of Debt	RCW Limits	City Policy	2016 Actual
General Obligation ¹ :	2.50 %	1.25%	0.1165%
— Non Voted	1.50 %	0.75 %	0.0977%
— Voted	1.00 %	0.50%	0.0188%
Open Space, Parks	2.50 %	1.25%	0.1706%
Utilities	2.50 %	1.25%	0.0036%
Revenue ² bonds	no limit	no limit ²	-
Local Improvement District ³	no limit	no limit ²	-

~~—¹Proceeds may be used for any City function, fund, or department~~

~~—²The ability to pay and debt coverage ratios will set a natural debt limit here.~~

~~—³Statutory limits do not apply, because the City's general revenue or taxing authority are not pledged.~~

The City may issue debt for the acquisition of long-lived assets, where the maturity of the debt does not exceed the estimated useful life of the asset and where the asset or existing revenue serves as security for the debt. Any debt issue should be paired with a known and adequate revenue flow from which principal and interest are paid.

When the Capital Facilities Plan or any other long-term plan includes the proceeds of a debt issue, the plan will also identify and include the source of making annual payments for principal and interest.

The Finance Director is responsible for the analysis of debt requirements. This includes the timing, calculation of outstanding debt, debt limits, future debt burden,

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and revenue requirements. The Finance Director is also responsible for the coordination of debt issues and subsequent required disclosures. The water, ~~sewerwaste water~~, and storm-water utilities are combined as one water services utility for debt issuance purposes.

The City may issue the following types of debt: General Obligation bonds, voted and non-voted for any City purpose; Certificates of Participation³ and full faith and credit bonds for any City purpose, revenue bonds for the utilities and special districts with or without the backing of the City's full faith and credit⁴, and short-term loans in anticipation of long-term bonds, all subject to RCW limitations and other relevant City policies. The City may also enter into long-term finance leases ~~that constitute in substance a debt financed purchase, a so-called capital lease~~.

The Finance Director assesses the lowest cost debt financing option for any debt issue. The Finance Director is responsible for the solicitation and selection of professionals, who are required to issue and administer City debt, such as bond counsel, financial advisor, underwriter, and fiscal agent.

A refinancing is a practice of selling new bonds to replace or combine existing bonds. Typically this is done when interest rates have fallen below an existing issues' effective interest rate. The City considers it best practice to initiate a refinancing when the net present value savings are at least three percent (3%). The Finance Director shall periodically evaluate bond issues and recommend a refinancing for this reason, as well as for other reasons, such as when the timing of anticipated revenues changes, or when it is in the City's best interest to modify bond covenants. A refinancing and a new issue may be combined.

An advance refunding is a practice of placing funds into escrow, and entirely relinquishing control over such funds, for the future repayment of bonds. Typically this is done when the bond security⁵ no longer qualifies as security, such as through

³ The State of Washington facilitates bond issues where the debt needs of several small jurisdictions may be combined into one debt issue. Each jurisdiction holds a proportion of that debt issue through a Certificate of Participation or COP and makes the debt service payments to the State. It reduces issuance and interest costs to the COP holders, and minimizes subsequent disclosure requirements.

⁴ The general fund may lend its creditworthiness to the utilities, for example, when utilities issue revenue bonds. It minimizes interest costs and debt coverage ratio requirements.

⁵ Examples of bond securities are land, a building, or equipment that is typically acquired with the bond proceeds. For tax-exempt bonds, the underlying security has to be used for almost all public and very minor private purposes.

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conversion⁶, sale or impairment⁷, or when the issuer desires to extinguish the debt. The Finance Director shall recommend an advance refunding when it is in the best interest of the City.

The preferred method of debt issuance is the competitive process because it generally helps obtain a low total interest cost. However, negotiated sales, direct placements, and other allowable methods of issuing debt are acceptable. Market conditions often determine the most appropriate and lowest cost of obtaining financing. ~~A negotiated debt placement is permissible in special cases, such as in a volatile interest rate environment, under extenuating time pressure, or for an issue requiring special underwriter skills.~~

The three utilities of water, sewerwastewater and storm water are considered to be one water utility for debt purposes. The City will strive to set service fees for the utilities that are estimated to maintain a minimum revenue bond debt coverage ratio of 1.25.

The City must identify revenue for any new debt and should associate it with a specific community benefit, so that the residents of Tumwater know what they are paying for.

The City strives to have a General Obligation bond rating of A or better (based on the S&P credit rating tiers, see Exhibit A) and is committed to filing all required subsequent debt disclosures according to applicable debt covenants and Security and Exchange rules.

Unused debt proceeds are invested according to the City's investment policy and any resulting arbitrage rebates are to be filed as required.

The City may use inter-fund borrowing when the lending fund has cash available and both funds benefit. Such inter-fund borrowing shall be in writing, with loan terms that include principal, annual interest, and payment schedule, and be approved by Council. The interest rate charged for such borrowing should be no less than what the lending fund would earn if its accumulated cash was invested in accordance with the policies in Section 10.

⁶ An example of a conversion is when an old City Hall is converted from public use to private use, such as commercial offices.

⁷ An example of impairment could be a building damaged in a fire. Insurance proceeds could be used to either repair and rebuild or retire the associated debt early, because the building will not be recovered.

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SECTION 12 AUDITING, ACCOUNTING AND FINANCIAL REPORTING

~~Section 21.2 of~~ Council Rules established a standing Budget and Finance Committee. Its stated purpose is to develop and review policy issues and make recommendations regarding budget amendments, financial contracts, social and health services funding, financing, and budget development not otherwise covered by other committees or the full Council. The Mayor and three Council members form the Budget and Finance Committee. The Budget and Finance Committee has also acted as oversight committee over the City's annual audit engagement, audit reports, and any necessary follow-up, and should continue to do so. It should also receive information about unusual developments, and cases of fraud, waste and abuse.

The Finance Department is responsible for the establishment and accounting of all funds, and fund assets, liabilities, revenues, expenditures, and expenses using the double-entry accounting method. The funds are established according to Generally Accepted Accounting Principles (GAAP), the Budgeting, Accounting and Reporting System (BARS) manual, and are further described in the Tumwater Municipal Code chapter 3.36.

The Finance Department prepares GAAP-compliant annual financial statements including footnotes, known as. ~~It does not prepare~~ an Annual Comprehensive Financial Report (ACFR). It does not prepare the Management Discussion and Analysis (MD&A) which requires certain additional budget comparative data and statistical information, the cost of which is deemed to outweigh the benefit at the time these policies are written. This may be reconsidered at any time.

The Tumwater accounting records should be designed to support financial reporting per GAAP and to support all required filings with the Washington State Auditor's Office (SAO). The Governmental Accounting, Auditing, and Financial Reporting (GAAFR, or 'Blue Book') of the Government Finance Officers' Association (GFOA) and the SAO Budgeting, Accounting and Reporting System (BARS) manual serve as guidance for Chart of Accounts structure, GAAP implementation, audit preparation, and best accounting practices.

The Finance Department is also responsible for issuing timely internal reports for the Mayor, Council, City Administrator, and Directors.

The Finance Director is the internal control officer of the City and should design and implement internal controls to prevent errors and omissions, and loss of assets, including through segregation of duties, physical security over cash, assignment of

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direct responsibilities for cash and bank record handling, secure access to bank accounts, purchase approval processes, periodic interim financial reviews, periodic reconciliations, and inventory taking.

The Finance Director has the responsibility to establish a fund and account structure as required by SAO, GAAP or other laws and regulations. At the same time, the decision to add funds or accounts should follow an emphasis on simplicity and accountability, whenever possible. Funds and accounts require annual maintenance and essentially exist forever. It is prudent to keep the number of funds and accounts to those that are required and financially significant, or are of particular interest to the Public, Council, commissions and committees, or management long-term.

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SECTION 13 MANAGEMENT OF FEDERAL GRANTS

The City applies for federal grants where possible and advisable, to fund transportation, law enforcement, water/sewer/storm drainage utility infrastructure projects, to name a few. When the City receives federal grants it strives to administer those grants in conformance with 2 CFR 200: Uniform Administrative Requirements, Cost Principles, and Audit requirements for Federal Awards, when it applies. Key elements for that compliance are:

- Written Internal Controls over the grant funds and ability to demonstrate that the policies are being followed (2 CFR 200.303);
- Written procedures to minimize the time lag between advance payments by the granting agency (draws) and related disbursements (2 FCR 200.305);
- Written procedures to avoid a conflict of interest (2 CFR 200.318);
- Written Procurement Policies (2 CFR 200.320); and,
- Oversight and assurance that only Allowable Costs are claimed and ability to demonstrate the oversight (2 CFR 200.403).

The City's internal controls over federal funds take the Internal Control Integrated Framework of the Committee of Sponsoring Organizations of the Treadway Commission (COSO) as guidance and strive to be able to demonstrate that it follows Federal statutes, regulations, and the terms and conditions of the Federal awards through oversight or monitoring, that it takes prompt action when non-compliance is identified, and that it takes reasonable measures to safeguard private personal and otherwise sensitive and confidential information.

The City strives to obtain grant funds as a reimbursement of expenditures. This means that any grant eligible invoices and internal labor costs have been paid by the City from City funds, and are billed to the granting agency subsequently and in the same amount as previously paid. In the unlikely event, that funds are drawn in advance of the expenditures, such as in the case of inadequate working capital, the draw is made as reasonably close to the expenditure timing as is administratively possible.

The City's procurement policies, adopted by Council, require the absence of employee or agent conflict of interest during the selection, award and administration of contracts, and include actions to be taken in the case of a violation.

The department managing a project, which is funded by direct or indirect federal funds, is responsible for the ability to demonstrate that it follows procedures that assure that only allowable costs are claimed.

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SECTION 14: EXHIBIT A CREDIT RATING TIER CHART OF THREE MAJOR RATING AGENCIES

Moody's		S&P		Fitch		Rating description	
Long-term	Short-term	Long-term	Short-term	Long-term	Short-term		
Aaa	P-1	AAA	A-1+	AAA	F1+	Prime	
Aa1		AA+		AA+			
Aa2		AA		AA			
Aa3		AA-		AA-			
A1	P-2	A+	A-1	A+	F1	High grade	
A2		A		A			
A3		A-		A-			
Baa1		BBB+		BBB+			
Baa2	P-3	BBB	A-3	BBB	F3	Upper medium grade	
Baa3		BBB-		BBB-			
Ba1	Not prime	BB+	B	BB+	B	Lower medium grade	
Ba2		BB		BB			
Ba3		BB-		BB-			
B1		B+		B+			
B2		B		B			
B3		B-		B-			
Caa1		CCC+	C	CCC	C	Non-investment grade speculative	
Caa2		CCC				Extremely speculative	
Caa3		CCC-				Default imminent with little prospect for recovery	
Ca		CC					
C		C					
/		D	/	DDD	/	In default	
				DD			
				D			

We are here

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SECTION 14: EXHIBIT B

WASHINGTON STATE INVESTMENT BOARD INVESTMENT POLICIES

Refer to WSIB website for details. <https://www.sib.wa.gov/index.html>

WSIB Policy page <https://www.sib.wa.gov/policies.html>

WSIB Policy updated 9/21/23 https://www.sib.wa.gov/docs/policies/2_05_500.pdf