



FINANCIAL MANAGEMENT POLICIES

CITY OF FERNDALE, WASHINGTON



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City of Ferndale
Financial Management Policies
Element #1

BUDGET POLICIES & 6-YEAR FINANCIAL PLAN

BACKGROUND, PURPOSE & CONTEXT

The stewardship of public funds is one of the greatest responsibilities given to the officials and managers of the City of Ferndale. Therefore, the establishment and maintenance of fiscal policies enables the City to protect public interests and maintain public trust. This document incorporates policies 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 direction in the management of the City's financial affairs.

OVERALL FINANCIAL PLANNING

The City shall develop and maintain a 6-year financial forecast that estimates resources and expenditure behavior for the five (5) years beyond the current budget period. This forecast will provide the City's decision makers with an indication of the long-term fiscal impact of current policy and budget decisions. This planning tool will recognize the effects of economic cycles on the demand for services. To this end, the forecast should differentiate between revenue associated with one-time activities and revenue derived as a result of base economic growth.

Due to the importance of the 6-year financial forecast and its interplay with the budgeting process, it shall be the policy of the City of Ferndale to update the 6-year financial forecast concurrent with the City mid-year financial report so the information is available for the annual budget process that begins in the fall of each year.

GENERAL BUDGET POLICIES

The budget is the central financial planning document which embodies all operating revenue and expenditure decisions. It establishes the level of services to be provided by each department and embodies the City Council's collective prioritization of service delivery options. To this end, the City has established the following general budget guidelines:

Operating Deficits – Current revenues will be sufficient to support current expenditures. Revenue estimates will be realistic and debt financing will not be used to support current operating expenses.

Interfund Loans & Transfers – Any interfund transfers and/or loans will be completed only after specific Council approval or inclusion in the approved annual budget.

Resources Greater than Budgeted Expenditures – Resources (fund balances) greater than budgeted expenditures in any fund shall be considered "one-time" resources and shall not be used to fund ongoing service delivery programs.



Budget Adoption Level – Budget adoption by the City Council shall be at the fund level. Any changes in appropriations at the fund level shall require City Council approval.

Full Time Equivalent (FTE) Budgeting – As a tool for Council consideration, all adopted budgets of the City will list the actual and proposed FTE allocation on a department/fund basis.

Public Safety Services – Public safety is a top priority, and as such, unmet needs in this area should have a priority over other service areas.

Current Service Levels – To aid in the prudent management of City affairs, City service levels will be established, monitored, and reviewed so a determination of required resources (both personnel and non-personnel) can be made for the ensuing budget year.

New Programs that are Primarily Funded by Additional Fees or Grants – New programs that are funded through a specific dedicated and/or restricted revenue source (i.e., non-tax revenue), will receive consideration.

Expenditures that Delay Future Cost Increases – When practical, resources should be allocated for selective expenditures whose purpose is to avoid even larger costs in the future.

Expenditures that Forestall Adding Permanent Staff - Recognizing that personnel-related expenditures represent the largest portion of the City’s budget, methods to increase efficiency should receive priority funding if it can forestall the addition of permanent staff.

Future Fiscal Effect of Programs or Personnel – Whenever programs or personnel are proposed, the current and future fiscal impact (as reflected in the 6-year financial forecast) shall be determined and reported to the City Council to aid in their deliberations.

Commitments that Can Reasonably be Maintained Over the Long Term – Funding for new programs and services should be limited to the extent that they can be funded over the near-to-long-term given the current revenue stream.

Overhead and Full Cost Allocation – Department and Fund budgets shall be prepared in a manner that reflects the full cost of providing services.

Maintenance of Quality Service Programs – If expenditure reductions are necessary, elimination of selective services is preferable to across-the-board cuts.

Distinguished Budget Presentation – The City will seek to comply with the suggested criteria of the Government Finance Officers Association in producing a budget document that meets the Distinguished Budget Presentation program.



FORMULATION & APPROVAL OF BUDGETS

State law designates the timeline for budget formulation and adoption. The City of Ferndale will adhere to these guidelines while striving to complete the budget adoption process prior to the December 31 deadline. It shall also be the policy of the City to target adoption of the ensuing year budget by the end of November annually.

BUDGET LINE-ITEM TRANSFERS

The transfer of line-item budget authority shall be done administratively and approved by the Mayor when the following circumstances exist:

- The transfer does not alter the Department's (within Current Expense) or the Fund's total expenditures
- The transfer does not allow for the purchase of additional Capital Expenditures or Personnel
- The transfer equals less than 25% of the Department/Fund expenditure budget
- The transfer does not authorize a project, expenditure, or item not originally included within the approved budget.

Transfers between Departments and/or between Funds are not permitted. For those transfers that fit into the above criteria, City staff will report any such transfers to the City Council during the quarterly financial report. In addition, any transfers that exceed the administrative threshold listed above will only be considered during the City's quarterly budget amendment public hearing process or sooner if circumstances dictate.

BUDGET AMENDMENTS

Amending the City budget occurs whenever the requested changes will cause the existing appropriation levels for the Fund to change. This situation generally occurs when the City Council authorizes additional appropriation through out the year. Budget amendments are completed through an ordinance that amends the original budget and states the sources of funding for the incremental appropriations.

It is the policy of the City of Ferndale to bring to the attention of the City Council, as they become apparent, any and all expenditures that are deemed necessary but not included in the original budget. In those instances, City staff will inform the Council if the additional expenditures can be accomplished within the existing budgetary authority of the fund or if a budget amendment is necessary. Nothing shall preclude City Administration from bringing to the attention of the Council any emergency expenditure that requires the expenditure of funds not included in the budget.

Furthermore, it is the intent of the City to include all additionally authorized expenditures in one of possibly four quarterly scheduled budget amendments. City staff will review the need for budget amendments with the City Council and prepare budget amendments to the extent that they become necessary.



City of Ferndale
Financial Management Policies
Element #2

REVENUE, EXPENDITURE & RESERVE POLICIES

REVENUE POLICY

1. All revenues will be conservatively estimated as a basis for preparation of the annual budget.
2. Current revenues will be sufficient to support current expenditures.
3. All fees for service shall be reviewed on an annual basis.
4. Revenues of a 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.
5. Grant applications to fund new service programs will be reviewed with due consideration being given to whether locally generated revenues will be required to support these programs when outside funding is no longer available.
6. Whenever possible, charges for services shall be set at an amount that reflects the actual cost of service delivery.

EXPENDITURE POLICY

1. Expenditures approved by the City Council define the City's spending limits for the upcoming fiscal year. The City will maintain an operating philosophy of cost control and responsible financial management.
2. Budgeted annual expenditures will be maintained within the limitations of annual revenues.
3. All interfund borrowings shall only be completed following approval by the City Council.
4. Short-term borrowings (less than 5 years and less than \$20,000) will not be done without full financial analysis and the Council shall be informed of all such borrowings. Such borrowings may include commercial lines of credit, equipment loans, and capital leases.



5. All long-term borrowings (greater than 5 years and \$20,000) shall include full life-cycle financial analysis and prior approval by the City Council.
6. All authorized positions will be budgeted for a full year and with the maximum allowable benefit rate unless specifically designated by the City Council as a partial-year position.

RESERVE & CONTINGENCY POLICY

Adequate reserve levels are a necessary component of the City's overall financial management strategy and a key factor in external agencies' measurement of the City's financial strength. Prudent use of reserve funds enable the City to defray future costs, take advantage of matching funds, and other beneficial (but limited) opportunities. Reserve funds provide the city with the ability to exercise flexible financial planning in developing future capital projects. Reserve funds are necessary to enable the City to deal with unforeseen emergencies.

General Fund Contingency Reserve – The City will establish a General Fund Contingency Reserve to meet any unforeseen municipal expense. This Fund will be considered a “rainy day” fund for the City. Annual contributions to this fund will be budgeted from Current Expense Fund resources. All expenditures from this fund shall have prior approval of the City Council. The target reserve fund balance shall be 10% of the Current Expense Fund's annual expenditure budget and annual contributions shall equal at least 5% of the reserve fund's target balance.

Facilities Capital Reserve – The City will establish a Facilities Capital Reserve Fund to address unforeseen City facilities capital expenditures. Annual contributions to the Facilities Capital Reserve Fund will be budgeted from Real Estate Excise Tax resources and/or Current Expense Fund resources. All expenditures from this fund shall have prior approval of the City Council. The target reserve fund balance shall be \$300,000 and annual contributions shall equal at least 5% of the reserve fund's target balance.

Unreserved Fund Balances – It is the City's policy to maintain an unreserved fund balance within all operating funds in a reasonable amount for emergency or unforeseen needs. The target ending fund balance will be at least 10% of the budgeted revenues for the Current Expense Fund and at least 5% of the budgeted revenues for the other City operating funds and annual contributions shall equal at least 10% of the ending fund balance target amount.



City of Ferndale
Financial Management Policies
Element #3

CAPITAL IMPROVEMENT PLAN (CIP) POLICIES

CAPITAL IMPROVEMENT PLAN POLICIES

Ferndale’s city government is accountable for a considerable investment in buildings, parks, roads, sewers, equipment, and other capital investments. The preservation, maintenance, and future improvement of these facilities are a primary responsibility of the City. Planning and implementing sound capital improvement policies and programs today will help the City avoid emergencies and major costs in the future. A number of important policy considerations are the basis for the Capital Improvement Plan (CIP).

1. The City will establish and implement a comprehensive multi-year CIP.
2. For each project on the CIP, both the anticipated costs (one-time or multi-year) and the anticipated revenue sources shall be listed.
3. The CIP will be prepared and updated annually.
4. Financial analysis of funding sources will be conducted for all proposed capital improvement projects to determine the adequacy and potentiality of revenues.
5. The CIP will be consistent with the Capital Facilities Element of the Comprehensive Plan.

Relationship of Long-Range Plans to the CIP – Virtually all of the projects included in the CIP are based upon formal long-range plans that have been adopted by the City Council. This ensures that the City’s CIP, which is the embodiment of the recommendations of these individual planning studies, is responsive to the officially stated direction of the City Council. Examples of these long-range plans include; the City’s 6-Year Street Plan, Water Comprehensive Plan, and Sewer Comprehensive Plan.

CIP Coordinating Team – The CIP Coordinating Team is a cross-departmental team which participates in the review and recommendation of the CIP program to the City Council. The Team will review proposed capital projects in regards to accurate costing (design, capital, and operating) congruence with City objectives, and prioritize projects by a set of deterministic criteria. The Public Works Director will serve as the lead for the Team.



Establishing CIP Priorities – The City uses the following basic CIP project prioritization and selection process:

1. CIP priorities are established by staff in conjunction with City Council priorities and input from citizens, and associated City boards and commissions (if applicable).
2. Designated personnel within City departments recommend project expenditure plans to the CIP Coordinating Team.
3. The Finance Department determines revenue projections available in consultation with various revenue-generating departments
4. The CIP Coordinating Team evaluates the various CIP projects and selects those with the highest priority.
5. A Preliminary CIP is developed and is recommended to the City Council.
6. The City Council reviews the Preliminary CIP, holds a public hearing(s), considers possible alterations, and then officially adopts the CIP.
7. Within available funding, the highest priority CIP projects are then selected and included in the annual budget.

Types of Projects Included in the CIP

The CIP will display, to the extent possible, all major capital improvement projects in which the City is involved. It is difficult to define precisely what characteristics a project would have before it is included or excluded in the CIP. However the following criteria will be used to guide the CIP Coordinating Team in determining projects for City Council review and approval:

1. A CIP project is generally defined to be any project that possesses ALL of the following characteristics:
 - A. The project or sum of components exceeds an estimated cost of \$50,000; and
 - B. Involves totally new physical construction, reconstruction designed to gradually and systematically replace an existing system on a piecemeal basis, replacement of a major component of an existing facility, or acquisition of land or structures; and
 - C. Involves City funding in whole or in part, or involves no City funds but is the City's responsibility for implementation, such as 100% grant-funded projects or 100% LID funded projects; and



- D. Involves the skills and construction needs beyond those needed for a general repair and/or maintenance project.

Timing of CIP Preparation

The CIP shall be monitored on an on-going basis and shall be revised annually in conjunction with the annual budget of the City. The annual process of CIP development shall begin in May of each year when work on the City's 6-year Street Plan is begun. The annual CIP shall be included in the preliminary and final budget document of the City.

Predesign & Cost Estimations

For some projects, it is difficult to develop accurate cost estimates when no preliminary engineering or community contact has been performed. To address this problem, some CIP projects are initially proposed and funded for only preliminary engineering and planning work whose completion will refine the anticipated project construction costs

Project Timing, Cost and Scope

Every effort will be made to accurately estimate all project start dates, completion dates, cost and scope. The predictability of project timing may be important to specific private developers, such as the provision for street improvements or the extension of water and/or sewer lines, without which development could not occur. As such, once a project has been included in the CIP, project scheduling is a priority.

CIP Maintenance & Operating Costs

CIP projects shall have a funding plan for maintenance and operating costs identified in the project description. These costs will be included in the City's long-range financial plan.

Preserve Existing Capital Infrastructure Before Building New Facilities

It is the City's policy to ensure that adequate resources are allocated to preserve the City's existing infrastructure before targeting resources toward building new facilities that also have maintenance obligations. This policy addresses the need to protect the City's investment in capital facilities and to avoid embarking on a facility enhancement program which, together with the existing facilities, we cannot afford to adequately maintain.

Balanced CIP Plan

The CIP is a balanced six-year plan. This means that for the entire six-year period, revenues will be equal to project expenditures and all sources of revenues to fund the projects will be specifically identified.



It is possible that, in specific years, expenditures will be more than revenues and that interim financing will be proposed to fund the shortfall. Over the life of the six-year plan however, all planned interim financing will be repaid and all plan expenditures, including interest costs, will be provided for with identified revenues. Any project funding plan, in which interim financing and/or debt is NOT retired within the current six-year plan, must have specific City Council approval to move forward.

Use of Debt in the CIP

The CIP is viewed as a long-term program that will continually address capital requirements far into the future. As such, the use of long-term debt should be minimized, allowing the City to put money into actual projects rather than into interest payments to financial institutions. There may be exceptions to this policy for extraordinary circumstances where debt must be incurred to achieve major City goals that otherwise could not be achieved, or would have to wait an unacceptably long time. Issuance of long-term debt must receive City Council authorization. Any debt envisioned to fund elements of the CIP shall include a description of the dedicated funding for serving debt payments.

Development of “Mini CIP” list

Realizing that a complete listing of all anticipated capital improvement projects serves the needs of the City, it is the policy of the City to maintain a “mini CIP” consisting of projects that, due to their dollar amount (less than \$50,000), are not included on the annual CIP. This mini CIP list will include those project that otherwise would be included on the CIP if not for there relatively low dollar cost. This list will be for management use and will not include anticipated funding sources or detailed timelines.



City of Ferndale
Financial Management Policies
Element #4

DEBT MANAGEMENT POLICY

The amount of debt issued by the City is an important factor in measuring its financial performance and condition. Proper use and management of borrowing can yield significant advantages. From a policy perspective, the City of Ferndale uses debt in two ways: 1) As a mechanism to equalize the cost of needed improvements between present and future citizens; and 2) As a mechanism to reduce the annual costs of substantial public improvements.

The basic objectives of the City's debt management policies are to:

1. Achieve the lowest possible cost of borrowing.
2. Ensure access to capital markets to adequately provide the long-term financial needs of the City.
3. Be received by the markets as a strong and sound credit which has fully demonstrated its commitment to meet all obligations in a timely fashion.
4. Monitor and control capital spending in such a way so that capital market entry can be planned.
5. Maintain a level and structure of outstanding indebtedness that does not lead to erratic and excessive debt service requirements, thereby avoiding unnecessary strain on the operating budgets.
6. To smooth the use of debt so that debt service payments will be predictable and manageable part of the operating budget.
7. To plan for entry into the capital markets to coincide with the long-term financial needs of the City as presented in the Capital Improvement Plan.

To carry out these objectives, the following debt management policies are adopted:

1. City Council approval is required prior to the issuance of debt.
2. The City will use the services of certified and credible legal counsel and underwriting firms in the preparation of all long-term debt representations.



3. The City will not use long-term debt to support current operations.
4. Long-term borrowing will only be used for capital improvements that cannot be financed from current revenues.
5. Short-term borrowing will only be used to meet the immediate financing needs of a project for which long-term financing has been secured but not yet received.
6. The repayment term for long-term shall be for a period not to exceed a conservative estimate of the asset's useful life.
7. Noncapital furnishings, supplies, and personnel will not be financed from long-term debt proceeds.
8. When restructuring its current outstanding debt, the City will use refunding bonds or other instruments where appropriate.
9. To assure the greatest degree of equity and specific benefit, assessment debt will be issued in place of general obligation debt where feasible.
10. Under most circumstances, the maturity of assessment debt shall not exceed 15 years and the maturity of general obligation debt shall not exceed 20 years.
11. To be considered for long-term debt financing, the project shall be included on the City's Capital Improvement Plan.



City of Ferndale
Financial Management Policies
Element #5

CASH MANAGEMENT & INVESTMENT POLICY

Careful financial control of the City's daily operations is an important part of Ferndale's overall fiscal management program. Achieving adequate cash management and investment control requires sound financial planning to ensure that sufficient revenues are available to meet current expenditures of any one operating period. Once steps are taken to ensure that the City maintains a protected cash position in its daily operations, it is to the municipality's advantage to prudently invest idle funds until such time as they are required to make expenditures. To this end, the following policies are adopted:

1. The city's idle cash will be invested on a continuous basis.
2. The Finance Department will develop, maintain, and consistently seek to improve cash management and the timely and accurate accounting of all City funds. All cash received by City departments will be deposited within 24 hours of receipt.
3. The city will invest all funds based upon the following order of priority:
 - A. Legality
 - B. Safety
 - C. Liquidity and Yield
4. Investments shall not be made for the purposes of speculation.
5. The City is prohibited from investing in derivative financial instruments.
6. An analysis of the City's cash position will be prepared at regular intervals through the year.
7. Sufficient cash shall be maintained to provide adequate funds for current operating expenditures.
8. The city may invest in any of the securities identified as eligible investments as defined by RCW 35A.40.050. In general these include: Certificates of Deposit, United States Securities, Bankers' Acceptances, Repurchase Agreements and Certificates, and Notes and Bonds of the State of Washington.



INVESTMENT POLICY

It is the policy of the City of Ferndale to invest public funds in a manner that will provide the highest investment return with maximum security while meeting the daily cash flow demands and conforming to all Washington statutes governing the investment of public funds.

Scope:

This investment policy applies to all financial assets of the City of Ferndale. These funds are accounted for in the City's annual report and include:

1. General Fund
2. Special Revenue Funds
3. Capital Project Funds
4. Enterprise Funds
5. Trust and Agency Funds
6. Any new fund created by ordinance of the City Council, unless specifically exempted.

Strategy and Objectives:

The primary investment *strategy* will be to invest excess idle cash within the constraints of this policy in order to increase interest earnings. This will be done in a manner that supports the City's primary purpose of providing services to the public.

Investments will be made with judgment and care to the degree which persons of prudence, discretion, and intelligence would exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived.

The standard of prudence to be used by the investment officer will be the "prudent person" and shall be applied in the context of managing an overall portfolio. The investment officer acting in accordance with this policy and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided deviations from expectations are reported in a timely manner and appropriate action is taken to control adverse developments.

The primary *objectives*, in priority order, of the City's investment activities shall be:

Safety:

Safety of principal is the foremost objective of the City. Investments of the City of Ferndale shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. The primary objective of safety will be measured in terms of cash, as opposed to accounting terms, where different, and in terms of the portfolio as a whole, as opposed to any single transaction. This means, for example, that a single transaction that generated an accounting loss but actually increased the amount of cash received in the portfolio would be considered to have increased capital, and not decreased it.



Liquidity:

The City’s investment portfolio will remain sufficiently liquid to enable the City to meet all operating and debt service requirements that might be reasonably anticipated.

Return on Investment:

The City’s investment portfolio will be designed with the objective of attaining a market rate of return throughout the budgetary and economic cycles, taking into account the City’s investment risk constraints and the cash flow characteristics of the portfolio. Investment of tax exempt borrowing proceeds and of any debt service funds will comply with the “arbitrage” restrictions of section 148 of the Internal Revenue Service Code of 1986.

Delegation of Authority:

Management responsibility for the investment program is hereby delegated to the Clerk-Treasurer. The Clerk-Treasurer will be responsible for all transactions undertaken. A system of controls and standard operating procedures is in place to regulate activities of subordinates delegated investment related tasks during the absence of the Clerk-Treasurer.

Ethics and Conflicts of Interest:

Officers and employees involved in the investment process shall refrain from personal activity that would conflict with proper execution of the investment program, or which could impair their ability to make impartial investment decisions. Employees and investment officials shall disclose to the Council any material financial interests in financial institutions that conduct business with the City. They shall further disclose any large personal financial investment positions that could be related to the performance of the City’s portfolio. Employees and officers shall subordinate their personal investment transactions to those of the City of Ferndale, particularly with regard to the time of purchases and sales.

Authorized Financial Dealers and Institutions:

The Clerk-Treasurer is authorized to conduct investment transactions with several competing, reputable investment securities broker\dealers and financial institutions. Security dealers and financial institutions may include “primary” or regional dealers that qualify under Securities and Exchange Commission Rule 15C3-1 and investment departments of local banks on the list of Qualified Public Depositories approved by the Washington Public Deposit Protection Commission as authorized to provide investment services. R.C.W. 39.58.080.

Authorized Investments:

- Certificates, notes, bonds or other obligations of the United States. RCW 43.84.080; 36.29.020.
- Obligations of U.S. agencies or of any corporation wholly owned by the government of the United States. RCW 43.84.080; 36.20.020.



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- Federal Home Loan Bank notes and bonds. RCW 43.84.080; 36.29.020.
- Federal Land Bank Bonds. RCW 43.84.080; 36.29.020.
- Federal National Mortgage Association notes, debentures and guaranteed certificates of participation. RCW 43.84.080; 36.29.020.
- Notes or bonds secured by mortgage that the Federal Housing Administrator has insured or made a commitment to insure in obligations of national mortgage associations. RCW 39.60.010.
- Debentures issued by the Federal Housing Administrator. RCW 39.60.010.
- Bonds of the Homeowner's Loan Corporation. RCW 39.60.010.
- Obligations of any other government-sponsored corporation whose obligations are or may become eligible as collateral for advances to member banks as determined by the board of governors of the Federal Reserve System. RCW 43.84.080; 36.29.020.
- Bonds of the State of Washington and any local government in the state of Washington, which bonds have at the time of investment one of the three highest credit ratings of a nationally recognized rating agency. RCW 39.59.010.
- General obligation bonds of a state other than the State of Washington and general obligation bonds of a local government other than the State of Washington, which bonds have at the time of investment one of the three highest ratings of a nationally recognized rating agency. RCW 39.59.010.
- Bonds or other obligations issued by a housing authority pursuant to the housing authorities' law of this state or issued by any public housing authority or agency in the United States. RCW 39.59.220.
- Bonds or warrants of the State of Washington. RCW 35.39.030.
- Washington State Housing Finance Commission bonds. RCW 43.180.190.
- Port district bonds and notes issued under the authority of Chapter 54.24 RCW.
- Bonds or other obligations issued by a metropolitan corporation pursuant to Chapter 35.58 RCW. RCW 35.58.510.
- State, county, municipal, or school district bonds, or warrants of taxing districts of the state. Such bonds and warrants shall be only those found within the limit of indebtedness prescribed by law for the taxing jurisdiction issuing them and to be general obligations. RCW 43.84.080.



- General obligation or utility revenue bonds or warrants of any city or town in the state. RCW 35.39.030.
- The City's own bonds or warrants of a local improvement district that are within the protection of the local improvement guaranty fund law. RCW 35.45.150.
- Interim financing warrants of a local improvement district that is within the protection of the local improvement guaranty fund law for the benefit of the General Fund. RCW 35.39.034.
- Subject to the arbitrage provisions of Section 148 of the federal Internal Revenue Code or similar provision concerning the investment of state and local money and funds, the following mutual funds and money market funds:
 1. Shares of mutual funds with portfolios consisting of only United States government or United States government guaranteed bonds issued by federal agencies with average maturities of less than 4 years, or bonds described in RCW 39.59.020 (1) or (2), except that bonds otherwise described in RCW 39.59.020 (1) or (2) shall have one of the four highest ratings of a nationally recognized rating agency.
 2. Shares of money market funds with portfolios consisting of only bonds of states and local governments or other issuers authorized by law for investment by local governments, which bonds have at the time of investment one of the two highest credit ratings of a nationally recognized rating agency.
 3. Shares of money market funds with portfolios consisting of securities otherwise authorized by law for investment by local governments. RCW 39.39.030.
- Bankers' acceptances purchased on the secondary market. RCW 43.84.080; 36.29.020.
- Any investment authorized by law for the treasurer of the State of Washington or any local government of the State of Washington but, except as provided in Chapter 39.58 RCW, such investments shall not include certificates of deposit (CD) of banks or bank branches not located in the State of Washington. RCW 39.59.020.

Safekeeping and Custody:

All security transactions, including collateral for repurchase agreements, entered into by the City of Ferndale shall be conducted on a delivery-vs.-payment (DVP) basis. Securities will be held by a third party custodian designated by the Clerk-Treasurer.



Repurchase agreements may be entered into on a safekeeping basis only if a master agreement with the bank or trust department providing the safekeeping is first obtained and it very clearly establishes that the bank\trust is acting as third party agent for the Clerk-Treasurer, not the broker\dealer arranging the repurchase agreements.

Such third party safekeeping arrangements will be documented with a signed agreement between the Clerk-Treasurer and the bank\trust involved assuring that the Clerk-Treasurer has absolute control over the securities once they are delivered to safekeeping and that the dealer does not have access to them under any circumstances.

Diversification:

It is the policy of the City to diversify the investment portfolio to the extent necessary to maximize the return on investment while minimizing the risk of loss and to retain sufficient liquidity to meet cash flow obligations. To achieve this balance, the maximum percentage of the investment portfolio invested in a specific type of instrument and at a specific type of institution is set forth below. Nothing herein should be construed as a mandate to place investments with any specified number of firms or financial institutions or to distribute investments among firms or financial institutions based on a ratio of total funds to be invested. Safety, liquidity and return should be the determining factors, along with ease of working with a given broker\dealer or financial institution, in placement of investment funds.

Diversification by instrumentality:

1. U.S. Treasury Obligations and U.S. Agency Securities and Instrumentalities of Government Sponsored Corporations: 50%
2. Municipal Bonds: 25%
3. Bankers' Acceptances (BA): 10%
4. Certificates of Deposit (CD)
 - A. Commercial Banks: 50%
 - C. Savings and Loan Associations: 10%
5. Pooled Investments LGIP: 100%
6. Money Market Funds: 100%
7. Repurchase Agreements: 10%

Diversification by institution type:

1. Bankers' Acceptances: no more than 10% at any given institution.
2. Certificates of Deposit: no more than \$100,000 at any institution.
3. Local Government Investment Pool: Up to 100% of total portfolio.
4. Money Market Funds: Up to 100% of portfolio at one institution.
5. Municipal Bonds: no more than 10% of portfolio in any one issue or in multiple issues of a single municipality.
6. U.S. Government and government agencies: no more than 50% of portfolio.



Maturities:

To the extent possible, the City will attempt to match its investments with anticipated cash flow requirements. Unless matched to a specific cash flow, the City will not directly invest in securities maturing more than four years from the date of purchase.

Internal Control:

The Clerk-Treasurer shall establish a process of independent review by an external auditor. This review will provide internal control by assuring that policies and procedures are being followed.

Such review may also result in recommendations to change operating procedures to improve internal control.

Performance Standards:

The City of Ferndale investment strategy shall lean toward conservative and passive investments. The consideration of investment yields will use, as a benchmark, the average rate of return of the Local Government Investment Pool of the State of Washington. This performance standard shall take into account the City's investment risk constraints and cash flow needs. The intent shall be to have 100% of the City's cash available for investment invested at all times.

Reporting:

The Clerk-Treasurer will provide the Mayor and/or City Administrator and Council with a quarterly report of investment holdings and activity.

Monitoring:

The Clerk-Treasurer will routinely monitor the contents of the portfolio, the available markets, and the relative values of competing instruments. Securities will be bought and sold to obtain market yield through both transactions gains and interest earnings when the option is available.

Internal Purchases and Sales:

The Clerk-Treasurer may buy and sell investments between funds to meet monthly cash flow requirements. Earned interest on investments other than "Treasurer's cash" shall be credited to the fund holding ownership of the investment at the time the interest is earned.



City of Ferndale **Financial Management Policies** *Element #6*

ACCOUNTING & FINANCIAL REPORTING POLICY

The City of Ferndale recognizes the need for ensuring accountability for the collection, management, and expenditure of all public funds under its jurisdiction. To this end, a basic City accounting system and policy has evolved with a number of critical objectives including:

- Accountability for money and property under control of the city
- Compliance with governing laws, ordinances, and procedures
- Providing timely and accurate information on the financial status of the City
- Maintaining financial systems to monitor expenditures, revenues, and performance of all municipal programs
- Reporting and providing information to City officials, City Council, and taxpayers.

To further these objectives, the following policies are adopted:

1. The City of Ferndale will establish and maintain a high standard of accounting practices. Accounting and budgetary systems will, at all times, conform to Generally Accepted Accounting Principles (GAAP), the State of Washington's Budgeting Accounting Reporting System (BARS), and local regulations.
2. A comprehensive accounting system will be maintained to provide all financial information necessary to effectively operate the City.
3. The City will meet the financial reporting standards set by the Governmental Accounting Standards Board (GASB).
4. Full disclosure will be provided in all City financial reports and bond representations.
5. An annual audit will be performed by the State Auditor's Office to include the issuance of a financial opinion.



City of Ferndale
Financial Management Policies
Element #7

GENERAL UTILITY POLICIES

The City will establish enterprise funds (i.e. – utility funds) when the following conditions exist:

1. The intent of the City is that all costs of providing service should be financed primarily through user charges, and
2. The fund purpose will be to account for City-operated utility services.

Fiscal Stewardship – It is incumbent on utility fund management that complete and accurate fiscal management of utility operations be provided to allow management to make prudent fiscal decisions.

Self-sufficient Funding – Each utility shall remain a self-supporting enterprise fund. The revenues of each utility fund comes from customer charges based upon established rates. State law requires that utility funds be only used for utility purposes. Since each utility has somewhat differing service areas, it is essential for rate payer equity that they are kept financially separate and accountable.

Comprehensive Planning Policies – Comprehensive Plans for Water and Sewer Utilities shall be completed or updated every six (6) years, using a 20-year planning horizon or greater and considering life-cycle costs to identify funding needs. Comprehensive Storm, Flood, and Surface Water Plans will be completed and updated as required using similar criteria for planning infrastructure needs.

Capital Investment Program Policies – The Utilities CIP will provide sufficient funds from a variety of sources for implementation of both short-term and long-term capital projects identified in each Comprehensive Plan and the City-wide CIP as approved by the City Council.

Funding Levels – Funding for capital investments shall be sustained at a level sufficient to meet the projected 20 year capital improvement needs as outlined in the Comprehensive Plan(s). The primary on-going source for future capital improvement needs shall be from Capital Connection Fees.



Funding from rate revenues shall fund current operations and to the extent possible, debt service. Rate revenue shall be set at a level that can sustain operational costs as determined by the 6-year financial forecast model.

Use of Debt – The utilities should fund future capital investments from amassed Capital Connection Fees to the extent possible. Customers will pay less over the long-term if debt is avoided. However, the use of ultra low interest debt such as the Public Works Trust Fund loans, by offering repayment terms below market rates, below investment earnings, or even inflation, should be viewed as a form of extreme low interest financing. When available, such sources should be preferred over other forms of debt funding and may be used instead of using existing capital reserves. In those instances where capital reserves would generate more in interest earnings than the alternative cost of the loan, the City’s customers would be assumed to benefit from incurring such debt.

Operating Reserves – For all utility funds, an operating reserve shall be established – See the UTILITY OPERATING RESERVE POLICIES section for more information. This operating reserve shall be carried as beginning/ending fund balance within each utility fund. Sources of operating reserves shall primarily be from rate revenue in excess of current operating needs.

Capital Improvement Reserves – For all utility funds, a capital improvement reserve shall be established – See the UTILITY CAPITAL RESERVE POLICIES section for more information. Revenues of the Utility Reserve Fund may include one-time transfers from the utility operating funds, unplanned revenues from other sources, Capital Connection Fees, and interest earned on existing monies.

Monies from the Utility Reserve Fund shall be used for improvements identified in the Utility CIP. Because these funds are invested, they may be loaned for other purposes provided repayment is made at appropriate interest rates.

The Utility Reserve Fund will accumulate large levels of funds in advance of major expenditures. These funds will provide rate stability over the long-term when used for capital improvement purposes and should not be used for rate relief since this could lead to the need for the use of excessive debt to fund the actual capital improvement needs when they occur.

UTILITY SYSTEM EXPANSION AND CONNECTION POLICIES

Responsibilities – Those seeking or who are required to have utility service are responsible for extending and/or upgrading the existing utility system(s) prior to connecting. The extensions or upgrades must be constructed to City standards and requirements. This can be accomplished through the use of a Developer Extension Agreement together, when appropriate, with a Latecomer Agreement.



When the cost to extend and/or upgrade the system to accommodate development or redevelopment is beyond the means of a single developer and when there is benefit to areas in addition to those to be served by the extension/upgrade, the City may employ alternative means of financing the improvement including the formation of Local Improvement Districts and/or through the use of capital surcharge fees.

Cost Recovery – All utilities shall establish fees and charges to recover utility costs related to development services and capital facilities that provide services to a property developer. The intent of this policy is to fully recover these costs, so as to reimburse the general rate payer. The utility may enter into Latecomer Agreements with developers for recovery of their costs for capital improvements, which benefit other properties in accordance with State law. The utility shall add an administrative charge for this service.

Use of Revenues – All capital-related revenues such as Capital Connection Fees, Latecomer Agreement administrative charges, and interest earned on these funds, shall be deposited into the Utility Capital Reserve Fund

UTILITY RATE POLICIES

Rate Levels – Rates shall be set at a level sufficient to cover current and future expenses and operating reserves consistent with these policies and long-term financial forecasts. Changes in rate levels should be gradual and uniform. Cost increases or decreases for wholesale services shall be passed directly through to Ferndale customers. At the end of the budget cycle, fund balances that are greater than anticipated may be transferred into the Utility Capital Reserve.

Debt Service Coverage Requirements – Existing revenue bond covenants legally require the City’s utilities to generate more in rate revenue than is needed to actually cover the required debt service – this is referred to as “debt coverage”. While there are different debt coverage ratios, the more restrictive ratio relates to coverage without the inclusion of Capital Connection revenues. With this said, it is the policy of the City to set the debt service coverage ratio (excluding connection fees) at a minimum of 1.25 and a target of 2.00. This policy will help ensure that the necessary coverage requirements are met, that other utilities will not be unfairly burdened, and that sufficient coverage is available if the utility needs to incur additional debt.

Frequency of Rate Increases – Utility rates shall be evaluated annually and adjusted to meet budgeted expenses including wholesale cost increases and to achieve financial policy objectives.

Utility Rate Equity – The rate structure shall fairly allocate costs among the different customer classes. Funding of the long-term CIP also provides for rates that fairly spread costs over current and future customers.



Rate Uniformity – Rates shall be uniform for all utility customers of the same class and level of service throughout the service area. However, special rates or surcharges may be established for specific areas both within and outside of the current Ferndale City limits.

Rate Assistance – Rate assistance programs shall be provided for specific low-income customers as permitted by State law.

GENERAL UTILITY RESERVE POLICIES

It shall be the policy of the City of Ferndale to have two (2) separate utility reserve funds – an Operating Reserve Fund that will be included in beginning/ending fund balance within the utility fund and a Capital Reserve Fund that will be a separate fund from the utility fund.

Realizing that funding for both the Operating Reserve Fund and the Capital Reserve Fund may come from rate revenues as well as other sources, the management of the utilities and the resulting customer rates and other charges will need to be sufficient to cover: A) current year operating needs, B) current year contributions to Operating Reserves, and C) current year contributions to Capital Reserves.

UTILITY OPERATING RESERVE POLICIES

Operating Reserve Fund These reserves shall be carried as beginning and ending cash and investments and as such, will become part of the annual determination of total resources available for appropriation. Setting aside these budgeted resources in the fund’s beginning/ending fund balance will help ensure continued rate stability and will protect utility customers from service disruptions that might otherwise result in unforeseen economic or emergency events.

The operating reserves are defined in terms of the following three (3) separate components:

- Working Capital Reserve – Used to accommodate normal cyclical financial fluctuations within the bimonthly billing cycle and during the budget year. By having a Working Capital Reserve within beginning/ending fund balance, we can assure the utilities ability to fully pay all vouchers submitted for payment on a timely basis.
- Operating Contingency Reserve – Protects against adverse financial performance due to variations in revenues or expenses. Since utility revenues are directly related to variations in water demand, an Operating Contingency Reserve protects the financial health of the utility brought about by unforeseen changes in utility demand.



- Plant Emergency Reserve – Provides financial resources for protection against system failure at some reasonable level. This reserve component of beginning/ending fund balance is not meant to provide funds to recover from a major disaster (flood, earthquake, etc.) but is rather embedded in fund balance to provide funds in the event of a major break or component failure.

Operating Reserve Levels – The following Operating Reserve minimums and targets are established for the three (3) components listed above:

- Working Capital Reserve – A minimum of one (1) month’s average utility expenses and a target of three (3) month’s average utility expenses is set for this component.
- Operating Contingency Reserve – A minimum of (1) month’s average utility expenses and a target of two (2) month’s average utility expenses is set for this component.
- Plant Emergency Reserve – A minimum of (1) month’s average utility expenses and a target of two (2) month’s average utility expenses is set for this component.

Management of Operating Reserves – A working range of operating reserves is established with a minimum and maximum target level. Management of reserves will be based on the level of reserves with respect to the following thresholds. The primary source of operating reserves shall be rate revenue.

- Above Target – Operating reserve levels will be reduced back to the target level by transferring excess to the Capital Reserve Fund or modifying the utility rates.
- Between Minimum and Target – Rate increases would be imposed sufficient to ensure that: 1) operating reserves would not fall below the minimum; and 2) operating reserves would recover 50% of the shortfall from target levels in a normal year.
- Below Minimum – Rate increases would be imposed sufficient to ensure that even with adverse financial performance, operating reserves would return to at least the minimum at the end of the following year. To meet this “worst case” standard, a year of normal performance would be likely to recover operating reserve levels rapidly to target levels.



- Negative Balance – Reserves would be borrowed from another fund to meet operating reserve needs (working capital). Similar to the “below minimum” scenario, rate increases would be imposed sufficient to ensure that even with adverse financial performance, operating reserves would return from the negative balance to at least the minimum target at the end of the following year, which would allow for loan repayment within that time frame.

UTILITY CAPITAL RESERVE POLICIES

Capital Reserve Fund – The utilities annual budget recommendations (including estimated number of new connections) shall provide funding for capital reserves. The purpose of capital reserves shall be for the ongoing expansion and/or major maintenance and improvement to the utility’s infrastructure. Infrastructure expansion is primarily driven by expanded customer base while major improvements and maintenance to existing infrastructure are a function of age and use. The primary source of capital reserves shall be from Capital Connection Charges.

The capital reserves are defined in terms of the following two (2) separate components:

Infrastructure Expansion – Driven primary by population increases, the need to fund future system expansion has brought about the institution of Capital Connection Fees. Under this funding scenario, “growth is paying for growth”.

Infrastructure Maintenance/Improvement – The replacement and/or improvement to existing infrastructure is primarily driven by the age of the system and usage by the existing customer base. As a result, the funding of infrastructure should be derived primarily from rate revenue and secondarily from Capital Connection Fees.

Capital Reserve Levels – The following Capital Reserve minimums and targets are established for the two (2) components listed above:

- **Infrastructure Expansion Capital Reserve** – A minimum of 50% of the annual Capital Connection Charges is established with a maximum target of 100% of the annual Capital Connection Charges. There is no maximum amount set for Infrastructure Expansion Capital Reserve balances.
- **Infrastructure Maintenance/Improvement Capital Reserve** – A minimum annual contribution of 10% of the annual expenditure budget and a target of 20% of the annual expenditure budget is set for this component. A maximum balance of 50% of the utility fund’s annual expenditure budget is set for Infrastructure Maintenance/Improvement Capital Reserve balances.



Management of Capital Reserves – A working range of capital reserves are established with a minimum and maximum target level. Management of reserves will be based on the level of reserves with respect to the following thresholds:

- Above Target – No action will be taken on rates or Capital Connection Charge amounts. Excess Capital Connection Charges may remain in the operating fund to mitigate rate increases, while maintaining bond coverage covenant requirements.
- Between Minimum and Target – Rate increases or increases in the Capital Connection Charge would be imposed sufficient to ensure that annual contributions to the capital reserves would not fall below the minimum.
- Below Minimum – Capital Connection Charges and/or Rates would be increased so that, given revised estimations of actual annual new connections; the minimum annual contributions to the Capital Reserve Fund would be achieved.

Establishment of Minimum Operating and Capital Reserve Targets – Monetary targets and estimated new connections needed to achieve the minimum annual reserve amounts will be reviewed and adjusted annually as part of the City budget process.



City of Ferndale
Financial Management Policies
Element #8

CREDIT CARD POLICY

GENERAL FINANCE PROVISIONS

The purpose of this policy is to establish guidelines for the City of Ferndale to provide for the issuance of charge cards to officers and employees for the purpose of covering expenses incident to authorized travel and enabling a cost-effective, convenient and streamlined method of purchasing items. Reports on cardholder activity enable the City of Ferndale to capture information necessary to better manage City of Ferndale purchasing activities.

Authority

The City of Ferndale is authorized to use credit cards as set forth in RCW 43.09.2855 for official City of Ferndale purchases and acquisitions and pursuant policies and procedures adopted by the City of Ferndale Finance Department.

Definitions

Individual Credit Card

A credit card may be issued to an individual who meets the following conditions:

- a) He or she is an employee at the City of Ferndale, and
- b) Said employee agrees to be held liable to the credit card company for all charges while conducting official City of Ferndale business.

Exceptions may be made by the City Treasurer or the City Administrator. Individual credit cards may not be in the name of a contractor, contract employee, or non-permanent City of Ferndale employee.

Institutional Credit Card

A credit card issued in the name of the City of Ferndale whose cardholder agrees to sign a hold harmless document to limit liability to the credit card company for all charges while conducting official City of Ferndale business.

Exceptions may be made by the City Treasurer or the City Administrator. Institutional credit cards may not be in the name of a contractor, contract employee, or non-permanent City of Ferndale employee.



Procedures for Obtaining Credit Cards

1. The City of Ferndale may establish a credit card in the name of a City of Ferndale employee with a financial institution provider for City of Ferndale business use only. The City of Ferndale employee must receive monthly statements from the financial institution provider. More than one card may be obtained for various accounts.
2. The Finance Department shall establish procedures and forms for implementing and monitoring a credit card purchasing program through a financial institution provider that includes, but is not limited to, the following:
 - (a) A dollar limitation on the credit card;
 - (b) A dollar limitation of purchasing authority assigned to the cardholder per transaction made with the credit card;
 - (c) A dollar limitation of purchasing authority assigned to the cardholder for the total of all charges made during each monthly billing cycle;
 - (d) Merchant category blocking.

Authorized Card Use

1. Cardholders are authorized to use the card to purchase merchandise or services required as a function of their duties at the City of Ferndale. Unauthorized and/or inappropriate card use is addressed in the next section of this procedure.
2. A purchase made with a credit card may be made in-store, by telephone, fax, Internet or U.S. mail. A purchase order is required per established Finance Department procedure.
3. If a credit card is issued for the purpose of covering expenses relating to authorized travel, upon billing or no later than thirty days of the billing date, the officer or employee using a credit card issued under this section shall submit a fully itemized travel expense voucher. Any charges against the credit card not properly identified on the travel expense voucher shall be paid by the official or employee by check or salary deduction.

Unauthorized and/Or Inappropriate Card Use

1. Credit cards must never be used to purchase items for personal use or for non-City of Ferndale purposes, even if the cardholder intends to reimburse the City of Ferndale. Unauthorized and/or inappropriate card use includes, but is not limited to:



- (a) Items for personal use;
- (b) Items for non-City of Ferndale purposes;
- (c) Cash or cash advances;
- (d) Food and beverages for an individual employee. (However, authorized cards may allow for food and non-alcoholic beverages for business-related meetings and travel in compliance with system procedures and after obtaining approval for special expenses.);
- (e) Alcoholic beverages;
- (f) Weapons of any kind or explosives (except authorized Police Department purchases)
- (g) Relocation expenses;
- (h) Entertainment; and
- (i) Recreation.

Disciplinary Action

1. A cardholder who makes an unauthorized purchase with the card or uses the card in an inappropriate manner will be subject to revocation of the credit card and disciplinary action including restitution to the City of Ferndale for unauthorized purchases, possible card cancellation, possible termination of employment at the City of Ferndale and criminal prosecution.
 2. If any item purchased with a credit card is not acceptable, arrangements must be made for a return for credit or an exchange. A cash refund or check is prohibited unless the vendor insists that a refund must be by cash or check, then the funds must be deposited immediately with the City of Ferndale.
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2. If, for any reason, disallowed charges are not repaid before the charge card billing is due and payable, the City of Ferndale shall have a prior lien against and a right to withhold any and all funds payable or to become payable to the official or employee up to an amount of the disallowed charges and interest at the same rate as charged by the company which issued the charge card. Any official or employee who has been issued a charge card by the City of Ferndale shall not use the card if any disallowed charges are outstanding and shall surrender the card upon demand of the City Treasurer or auditing officer. The City of Ferndale shall have unlimited authority to revoke use of any charge card issued under this section, and, upon such revocation order being delivered to the charge card company, shall not be liable for any costs.



Responsibility and Accountability

It is the responsibility of each individual cardholder to:

1. Safeguard the credit card and credit card account number at all times; lost or stolen credit cards must be reported immediately to the credit card agency and the City of Ferndale Finance Department;
2. Keep credit card in a secure location at all times;
3. Not allow anyone to use the credit card and/or credit card account number who is not authorized to do so;
4. Obtain and retain original itemized receipts for goods and services purchased. All forms of canceled checks and copies of credit card bills do not substitute for original receipts. An employee may be allowed to file an affidavit in lieu of a receipt if the original receipt is lost or a receipt is not obtained;
5. Review in a timely manner monthly statements from the financial institution provider for accuracy and ensuring all transactions posted are legitimate transactions made by the cardholder. Receipts and/or packing slips and the customer's copy of the charges must be attached to the monthly statement. The authorized user of the credit card must sign the statement that the goods have been received;
6. Submit the statement and documentation in a timely manner to the Finance Department for payment processing;
7. Surrender the credit card and corresponding support documentation to the Finance Department upon separation from the City of Ferndale;
8. Take any other steps necessary to ensure that the credit card is used only for authorized purposes.

Periodic Reviews

The City of Ferndale Finance Department shall conduct periodic reviews for proper card use. Credit card records will be audited from time to time.