FISCAL POLICIES
CITY OF REDMOND, WASHINGTON

Background and Purpose

The City of Redmond's fiscal policies serve as crucial framework for effectively and sustainably managing public finances. These policies arise from the necessity to balance the demands of community services with available resources, ensuring adequate funding for essential functions such as public safety, education, and infrastructure maintenance.

By establishing clear guidelines for revenue generation and expenditure management, the City can enhance transparency, foster community engagement in decision-making, and build public trust. Ultimately, these policies aim to create a stable economic environment that promotes growth, allocates resources fairly, and upholds fiscal responsibility, contributing to an improved quality of life for all residents.

1. General Financial Goals

a. To provide a financial base sufficient to sustain municipal services to maintain the social well-being and physical conditions of the City.

b. To be able to withstand local and regional economic trauma, to adjust to changes in the service requirements, and to respond to other changes as they affect the community.

c. To maintain an excellent credit rating in the financial community and assure taxpayers that Redmond city government is maintained in sound fiscal condition.

d. To consider and provide for the needs of future generations in the Redmond community.

e. To create a workplace where all employees feel valued and are compensated fairly and equitable for their contributions.

2. Operating Budget Policies

a. The operating budget is the City's comprehensive two-year financial plan which provides for the desired level of city services as defined by the City's priorities. A budget will be developed every two years.

b. The goals of the budget process are:
   - Align the budget with community priorities
   - Measure progress towards priorities
   - Get the best value for each tax dollar
   - Foster continuous learning in the City
   - Build regional cooperation
   - Ensure pay equity across all departments

c. The development of the operating budget should reflect sustainable levels of service.

d. "One-time" expenses require specific authority to be carried forward into subsequent budgets.

e. Revenues and expenditures for the General Fund and all major operating funds shall be projected for the current biennium and the ensuing four years.

f. The biennial operating budget should include any maintenance and operating costs associated with completed capital projects.

g. The City will maintain all its assets at a level that protects the City's capital investment and minimizes future maintenance and replacement costs.

h. The City will maintain an equipment replacement and maintenance needs analysis for the life cycle of the equipment and will update this projection every two years consistent with budget development.

i. All general government current operating expenditures will be paid from current revenues.

j. The city will avoid budgetary and accounting procedures which balance the current budget at the expense of future budgets.

k. The City of Redmond defines a balanced budget as current biennium budgeted revenues (including fund balances) being equal to or greater than current biennium budgeted expenditures.

l. The City will not use one-time resources to fund ongoing operating costs.

m. All supplemental appropriation requests for programs following the adoption of the original budget will be considered based on need and the availability of a new funding source (e.g., unanticipated grant). All supplemental appropriations will conform to the budget process for the biennium.

n. Budget Calendar

- The Mayor will propose a biennial budget calendar by the first regular City Council business meeting in April in every even year.
- The calendar will be comprehensive in nature and generally provide for a process that resembles the Best Practices for municipal budgets as published by the Government Finance Officers Association.

3. Revenue Policies

a. As permitted by state law, the City will strive to maintain a diversified revenue mix, encompassing elastic and inelastic revenues, to help manage the downside risks associated with economically sensitive revenue sources and to keep pace with expenditure growth. To pursue this policy goal, the City Council will consider revenue changes as part of its review of the City’s Long Range Financial Strategy each biennium.

b. To minimize the impact of an economic downturn on service levels, conservative revenue estimates will be developed for economically sensitive revenue sources.

c. The City will estimate its biennial revenues by an objective, analytical process using best practices as defined by the Government Finance Officers Association. Economic assumptions will be influenced by reliable and relevant sources such as the

Washington State Economic and Revenue Forecast Council and the King County Office of Economic and Financial Analysis.

d. The City will project revenues for the next six years and will update this projection biennially. This projection will be consistent with policy 2d above and the overall "price of government" as described in the Long-Range Financial Strategy.

e. The Finance Department will present to the City Council an analysis of each potential major revenue source as part of the biennial budget process.

f. The City will refrain from making budgetary decisions (specifically allocating resources to be expended) outside of the biennial budget process or the formal budget amendment process.

g. The City will establish all user charges at a level related to the cost of providing the service and within policy parameters established by the City Council.

h. All development user fees and fire operational permits shall be reviewed and adjusted every five years to ensure that rates are equitable and cover the full cost of service.

i. All user fees designed to recover the full cost of service will be adjusted annually based on either the Consumer Price Index (CPI) or the Cost of Living Adjustment (COLA) for salary, whichever amount is greater.

j. Credit card fee surcharges shall be reviewed and evaluated every five years as part of the user fee study process to ensure that the cost of providing service is being recovered.

k. Business license fees will be adjusted biennially based on the Consumer Price Index, with an additional adjustment to account for any cumulative changes in the CPI over the two-year period.

l. In each odd numbered year, the City will review user fees to adjust for the effects of inflation and other factors as appropriate. The City will set fees for user activities, such as recreational services, at a level to support the direct and indirect costs of the activities in accordance with cost recovery policies adopted by the City Council.

m. The City will set fees and user charges for each enterprise fund at a level that fully supports the total direct and indirect cost of the activities, including the cost of annual depreciation of capital assets. For rate modeling purposes, the City will utilize three financial tests: Net Income Test, Cash Flow Test, and Coverage Test to evaluate revenue sufficiency. The results of these tests will be used in the rate setting process to ensure that the enterprise funds generate the appropriate level of revenue to satisfy all operating costs, cash obligations, and the debt coverage requirement of 1.2 times annual debt service.

4. Expenditure Policies

a. The City will maintain expenditure categories according to state statute and administrative regulation. Capital expenditures shall meet the requirements of generally accepted accounting principles (GAAP).

b. The City will forecast its General Fund expenditures biennially for the next six years. The drivers and assumptions used in the forecast will be described.

c. An indirect cost allocation plan will be maintained and updated as a part of each City budget. The cost allocation plan will be the basis for distributing general government costs to other funds or capital projects (also known as indirect costs).

d. The City Council will formally amend the biennial budget as necessary to address unforeseen expenditures. The Finance Department will thoroughly analyze all funding requests. The Council will receive a comprehensive overview that includes the legal and policy rationale for the expenditure, recommended funding sources, an assessment of the fiscal impact, and a review of all reserves and previously approved amendments since the budget was adopted.

5. Capital Investment Budget Policies

a. The City will make capital improvements in accordance with an adopted capital investment program. Capital funding sources may be used for:
    i. Capital projects that cost at least $50,000 and have a useful life of at least five years; or
    ii. Allowable non-capitalizable costs such as studies, plans, and monitoring of capital asset performance; or
    iii. Allowable planning efforts resulting in specific capital improvements identified in the City's Capital Investment Strategy and approved by the Capital Investment Program Governance Committee.

b. The capital investment program and the base operating budget will be reviewed at the same time to ensure that the City's capital and operating needs are balanced with each other, and that the capital investment program is aligned with the City's other long-range plans.

c. The City will develop a six-year plan for capital improvements, including related operations and maintenance costs, and update it every biennium. Capital expenditure forecasts will take into account changes in population, real estate development, and economic conditions in the City and the region.

d. The City will identify the estimated costs and potential funding sources for each capital project proposal before it is submitted to the City Council for approval. The City will use intergovernmental revenues and other outside resources whenever possible.

e. All staff (FTEs) involved with a capital project will charge their time directly to that capital project provided that it is part of the Capital Investment Strategy and approved by the City's Capital Investment Program Governance Committee.

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

g. The City will annually transfer five percent (5%) of discretionary General Fund revenues plus the pavement management contribution to the capital investment program as part of the City's biennial budget.

h. The City will develop and maintain a "Capital Investment Strategy" (also known as the "Vision Blueprint") that addresses the facility and other capital needs of the community consistent with the City's vision, comprehensive plan, and functional area plans (in that order).

j. Real estate excise tax will be used for one-time capital project funding. It will not be used for general maintenance of the City's infrastructure.

k. Applications for grant funding will only be submitted if the project receiving the funding is part of the City's Capital Investment Strategy and/or approved by the Capital Investment Program Governance Committee.

l. The City will utilize the Business Fee and Tax Advisory Committee to advise the City on expenditures from the transportation surcharge portion of the Business License fees as outlined in original City Council Resolution No. 1409 (adopted in July 2014).

6. Short-Term Debt Policies

a. Short-term debt encompasses a payback period of three years or less.

b. The City may use short-term debt to cover temporary cash flow shortages, which may be caused by a delay in receiving tax revenues or issuing long-term debt. The City will not use short-term debt for current operations.

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

7. Long-Term Debt Policies

a. Long-term debt encompasses a payback period of more than three years.

b. The City will utilize long-term borrowing for capital projects that cannot be financed with available cash and/or anticipated cash flows on a pay-as-you-go basis.

c. Current outstanding debt can be refinanced through issuing refunding bonds provided that the net present value (NPV) savings from securing lower interest rates is at least four percent (4%).

d. The City will determine whether self-supporting bonds (such as special assessment improvement district bonds) are in the City's best interest when planning to incur debt to finance capital improvements.

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

f. The City will maintain proactive communications with the investment community, including the secondary market, about its financial condition. In addition, the City will follow a policy of full disclosure on its financial reports and the bond prospectus (also known as the Official Statement).

g. General Obligation Bond Policies

- Every project proposed for financing through general obligation debt shall be accompanied by a full analysis of the future operating and maintenance costs associated with the project.

- Bonds cannot be issued for a longer maturity schedule than a conservative estimate of the useful life of the asset to be financed.
- Before general obligation bond propositions are placed before the voters, the capital project(s) under consideration should be included in the Capital Investment Program. The source of funds should describe the intended use of bond financing.

h. Limited Tax General Obligation Bond Policies

1. As a precondition to the issuance of limited tax (i.e., non-voted) general obligation bonds, alternative methods of financing should also be examined.
2. Limited tax general obligation bonds should only be issued under certain conditions:
    - A project requires monies not available from alternative sources;
    - Matching fund monies are available which may be lost if not applied for in a timely manner; or
    - Catastrophic conditions.

i. Revenue Bonds

a. Revenue bonds are used to finance construction or improvements to facilities of enterprise systems operated by the City in accordance with the Capital Investment Program and are generally payable from the enterprise. No taxing power or general fund pledge is provided as security. Unlike general obligation bonds, revenue bonds are not subject to the City's statutory debt limitation nor is voter approval required.

j. Financing of Lease Purchases

1. Under Washington State law, the public may vote to approve bond issues for general government purposes in an amount not to exceed 2.5% of assessed valuation. Within the 2.5% limit, the Redmond City Council may approve bond issues and/or lease purchases up to 1.5% of the city's total assessed value. In addition, state law provides for an additional 2.5% of assessed valuation for parks and open space purposes with a vote of the public.
2. Lease purchase financing may be used when the cost of borrowing or other factors make it in the City's best interest.

k. Long-Term Interfund Loans

1. The City may utilize interfund loans rather than outside debt instruments to finance capital improvements. Interfund loans will be permitted only if an analysis of the affected fund indicates excess funds are available and the use of these funds will not impact the fund's anticipated operations. All interfund borrowing will be subject to prior approval by the City Council and will bear interest based upon prevailing rates.

2. The decision to use interfund loans rather than outside debt will be based on which is deemed to be the most cost-effective approach to finance capital improvements. Such an assessment will be reviewed by the City's Financial Advisor, who shall provide an objective analysis and recommendation to the City Council.

l. No general obligation bonds issued for one or more capital projects shall exceed 50 percent of the total project funding without voter approval.

8. Reserve Policies

a. The City will increase its General Operating Reserve from 9% to at least 12% of total General Fund budgeted revenues in the current year, excluding beginning fund balance, development review revenues, and any significant one-time revenues, by the end of the 2025-2026 biennium.

   This reserve shall be created and maintained to:

   1) Provide sufficient cash flow to meet daily financial needs.
   2) Sustain City services when there is a catastrophic event such as a natural/manmade disaster (e.g., earthquake, windstorm, flood, and terrorist attack) or a major downturn in the economy.

   City Council approval is required prior to its use. In no event shall the General Operating Reserve be used to support City services longer than two years. If used, the City will endeavor to replenish it as soon as possible. Restoring the General Operating Reserve to its target level will constitute the City's first priority when there is a General Fund surplus at the end of a biennium.

b. The City will increase its Economic Contingency from 4% to at least 5% of total General Fund revenues in the current year, excluding beginning fund balance, development review revenues, and any significant one-time revenues, by the end of the 2025-2026 biennium. This reserve shall be maintained to serve as a hedge against economic fluctuations, to fund future one-time operational and/or capital needs, and to support City services on a temporary basis pending the development of a long-term financial solution.

   City Council approval is required prior to its use. In no event shall the Economic Contingency be used to support City services longer than two years. If used, the City will endeavor to replenish it as soon as possible. Restoring the Economic Contingency to its target level will constitute the City's second priority (after the General Operating Reserve, if it is below its target) when there is a General Fund surplus at the end of a biennium.

a. Any General Fund surplus at the end of the biennium will be used to meet reserve requirements first. Then, any remaining balance can be used to fund one-time operating and/or capital expenditures and to provide additional funding for the Capital Investment Program.

b. A surplus is defined as the difference between the actual beginning fund balance and the originally budgeted beginning fund balance for the current biennium. It consists of unspent budgeted expenditures from the prior biennium, which are not being carried over to the current biennium, and revenues over and above what was budgeted in the prior biennium.

c. The City will maintain operating reserves in the following funds: 12% (55 days) for the Water/Wastewater Operating Funds, excluding King County wastewater treatment expenses; 3% for King County wastewater treatment; 5% for the Stormwater Operating Fund; and 12% for the Solid Waste/Recycling Fund. The operating reserves shall be created and maintained to provide sufficient cash flow to meet daily financial needs and will be based upon total operating expenses. For budgeting purposes, operating expenses will be based on the total expense budgets in each fund, excluding ending fund balances, capital purchases, and the current year's portion of principal paid on outstanding debt.

d. To maintain the significant investments in utility capital assets, transfers will be made from the utility operating funds to the corresponding utility capital project funds for future utility capital projects. The transfers will be based on the current year's depreciation expense, less the annual principal payments on outstanding debt.

e. The City will maintain a revenue stabilization reserve for the Water and Wastewater utilities. The required reserve balance shall be set at 15% of the annually budgeted water and wastewater revenues collected through monthly rates, excluding King County wastewater treatment revenue. The balance of this reserve can be utilized to meet the operating reserve requirement for the Water/Wastewater Operating Funds. The revenue stabilization reserve can be used to supplement operating revenues when there is a revenue shortfall. If used, the revenue stabilization reserve will be replenished within four years.

f. Bond reserves shall be created and maintained by the Water/Wastewater and Stormwater Utilities in accordance with the provisions set forth in the bond covenants. These shall be in addition to the reserves described above.

g. The City shall additionally maintain the following Equipment Replacement Reserves:

    1) Fleet Maintenance Reserve;

    2) Fire Equipment Reserve; and

    3) Capital Equipment Replacement Reserve for general asset replacement.

   The Equipment Replacement Reserves will be maintained at a level sufficient to meet scheduled equipment replacements that preserve an acceptable level of municipal services. An assessment of the adequacy of these reserves will be made during each budget cycle.

h. The City shall also maintain the following Reserves:

   1. All statutorily required reserve funds to guarantee debt service;

   2. A vacation accrual reserve; and

   3. A reserve to stabilize contributions to state retirement systems due to temporary fluctuations in state rates.

No reserve shall be established for sick leave. One-fourth of accrued sick leave is payable only upon qualifying retirement and is not considered material.

9. Investment Policies

   The Finance Director will submit any recommended amendments to the City's investment policy to the City Council for review.

10. Special Revenue Fund Policies

    a. In accordance with Generally Accepted Accounting Principles, the City will establish and maintain Special Revenue Funds to account for specific revenue sources that have restrictions on their use per state statute or City ordinance, resolution, or executive order.

       1) The City will comply with GASB Statement 54 which defines the appropriate use of Special Revenue Funds for reporting purposes. The City Council may determine to separate the General Fund into supporting "sub-funds" for budgeting and management purposes. These "sub-funds" will be combined for financial reporting purposes to comply with GASB Statement 54.

    c. Special Revenue Funds having biennial operating budgets will be reviewed during the budget process.

11. Accounting, Auditing, and Financial Reporting Policies

    a. The City will establish and maintain a high standard of internal controls and accounting practices. The City budgets and accounts for revenues and expenditures on a modified accrual basis in its day to day operations.
    b. The accounting system will maintain records on a basis consistent with accepted standards for local government accounting and the State of Washington Budgeting, Accounting, and Reporting Systems.
    c. Regular quarterly financial reports summarizing revenues and expenditures, with a particular focus on the General Fund, will be prepared and presented to the City Council. If there is a significant economic downturn resulting in a revenue decline that cannot be absorbed within the adopted budget, then a monthly financial status report will be prepared and presented to the City Council for as long as deemed necessary. Such reports will be available on the City's website (www.redmond.gov).
    d. The annual financial report shall conform to Generally Accepted Accounting Principles and be in the form of an Annual Comprehensive Financial Report as described by the Government Finance Officers' Association (GFOA). This report will contain all required information necessary to comply with secondary market disclosures for outstanding bonds (see policy 7f above).

e. A fixed asset system will be maintained to identify all City assets, their location, condition, and disposition.

f. The City will ensure that its financial records are audited annually by the Washington State Auditor's Office. The results of the audit will be made available to the public via the City's website.