



Building a Sustainable, Inclusive,
and Resilient Future

FISCAL POLICIES

CITY OF REDMOND | 2026

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1.0 Building a Sustainable, Inclusive and Resilient Future

1.1 Fiscal Policies Purpose and Framework

The City of Redmond's Fiscal Policies establish a framework for managing public finances in a sustainable, transparent, and responsible manner. By maintaining sound financial management practices, the City supports long-term financial health, sustainable service delivery, and strong credit quality. The policies guide consideration of equity and long-term community impacts in resource allocation decisions, helping to sustain a strong economic and social foundation for Redmond.

The policies are adopted by the City Council and shall be applied to all City funds and interpreted in a manner consistent with applicable laws, regulations, and any more specific fund-level or legally required policies.

The fiscal policies are intended to:

- Promote long-term financial stability
- Support equitable allocation of resources
- Maintain public trust and accountability
- Preserve an excellent credit rating and sound fiscal condition
- Ensure compliance with applicable laws and standards

1.2 Fiscal Policies Development and Maintenance

The Fiscal Policies are developed based on recognized best practices in public financial management, including frameworks recommended by the Government Finance Officers Association (GFOA). Input from City leadership, City Council, and departmental stakeholders is incorporated to ensure the policies reflect program requirements.

- The Finance Director is responsible for maintaining the policies and ensuring alignment with the City's financial goals, regulatory requirements and long-range planning efforts.
- The Finance Department shall work with the Mayor, City Council, and departments to ensure consistent application and effective implementation of the policies across the organization.
- The City shall review and update the policies biennially unless there is an urgent need for an adopted change.

2.0 Biennial Budget Policies

2.1 Biennial Budget Policies Purpose and Framework

The biennial budget is the City of Redmond’s comprehensive two-year financial plan. It aligns forecasted revenues with expenditures required to deliver services and maintain infrastructure. A preliminary biennial budget is developed by the Mayor and City leadership for review and adoption by City Council.

The development of the biennial budget must:

- Align resources with community priorities
- Measure progress toward desired outcomes
- Promote efficient use of public resources
- Encourage continuous improvement and innovation
- Build regional coordination and partnerships
- Promote equitable compensation

2.2 Biennial Budget Adoption

- City Council shall adopt a balanced biennial budget in which total resources, including revenues and beginning fund balance, are equal to or greater than total expenditures.
- All ongoing appropriations will lapse at the end of the budget cycle and unspent appropriations will not be carried forward.

2.3 Biennial Budget Amendments

- City Council shall adopt amendments to the biennial budget as necessary to:
 - Recognize reconciled beginning fund balances
 - Accept new revenue
 - Add additional position authority
 - Address unforeseen expenditures
 - Approve additional appropriation requests or capital projects
 - Correct budget entries
- City Council must receive a comprehensive overview of requested budget amendments that includes rationale, financial assessment, and recommended funding sources if required.
- During periods of economic downturn, the City may implement budget reductions or other financial strategies designed to minimize impacts of core service levels and maintain financial stability.

2.4 Forecasting and Financial Planning

- Multi-year financial planning shall be used to support long-term decision-making and identify potential financial risks.
- The City will maintain an annual Community Investment Rate (CIR) between five and five and one-half percent (5.0% - 5.5%).
- 6-Year revenue and expenditure forecasts will:
 - Be maintained and updated biennially.
 - Be prepared using an objective, analytical, and transparent process, consistent with best practices established by the Government Finance Officers Association (GFOA).
 - Include clearly documented assumptions, methodologies, and data sources.
 - Consider economic, legal, and operational risks.
 - Use economic assumptions 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.
 - Use conservative forecasting practices for economically sensitive revenues to minimize the risk of revenue shortfalls.
- Budget practices that compromise long-term financial stability will be avoided.

3.0 Revenue Policies

3.1 Revenue Policies Purpose and Framework

The City of Redmond's revenue policies guide decisions related to the generation, collection, forecasting, and management of financial resources. These policies ensure a diverse, stable, equitable, and sustainable revenue base.

The City will:

- Evaluate all available revenue options within the limits of state law.
- Consider economic competitiveness and community impact when evaluating revenue changes.
- Review revenue policies biennially.
- Encourage departments and programs to identify and pursue opportunities to diversify revenue sources where appropriate.
- Collect all legally entitled revenues efficiently and timely.

3.2 Revenue Structure and Diversification

- 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.
- City Council will consider revenue changes as part of the biennial budget process and when new opportunities are available to pursue.
- Revenue sources may include, but are not limited to:
 - Taxes
 - User fees and service charges for licenses and permits
 - Utility rates and surcharges
 - Intergovernmental revenues and grants
 - Contract revenues
 - Development Agreements
- The City will consider the following when evaluating new or modified revenue sources:
 - Legal authority and compliance with state law
 - Stability and predictability of the revenue source
 - Administrative feasibility and cost of collection
 - Economic and equity impacts on residents and businesses
- The City will plan for revenue volatility by:
 - Maintaining adequate reserves
 - Avoiding over-reliance on economically sensitive revenues
 - Aligning expenditures with sustainable revenue levels

- One-time or non-recurring revenues will not be used to fund long-term ongoing operating expenditures or positions.

3.3 User Fees and Charges

- The City will establish user fees and service charges to recover the full cost of providing the related services.
- Fees shall be designed to:
 - Recover full cost of service
 - Promote fairness between users and non-users
 - Support policy objectives
- Full cost recovery shall consider:
 - Direct and indirect costs
 - Cost of service delivery and fee administration
 - Administrative and overhead costs
- Deviation from full cost recovery shall be documented with a clear policy rationale.
- The City will:
 - Adjust all user fees and charges annually based on either the Consumer Price Index (CPI) or the Cost-of-Living Adjustment (COLA), whichever amount is greater. This applies to:
 - Administrative fees
 - Business License fees
 - Operating fees
 - Service charges
 - User fees
 - Conduct comprehensive cost-of-service studies at least every five years.
 - Periodically test user fees and charges to ensure cost recovery.
 - Create new fees for Council approval when appropriate

3.4 Enterprise Fund Revenues

- Enterprise revenues shall be managed to ensure long-term financial sustainability and compliance with bond covenants.
- The City shall establish rates and charges for enterprise funds at levels sufficient to fully support:
 - Operating expenses
 - Capital costs and depreciation
 - Debt service obligations

- Rate-setting shall be informed by financial modeling and include evaluation using:
 - Net Income Test
 - Cash Flow Test
 - Coverage Test (minimum 1.2x annual debt service unless otherwise required)

3.5 Grants and Intergovernmental Revenues

- The City will actively pursue grant funding opportunities that align with City priorities and financial policies.
- Prior to applying for grants:
 - Departments must obtain approval from the Mayor, Mayor designee, Grants Oversight Committee or Governance Committee
 - Long-term financial and operational impacts must be evaluated
- Grant funding is considered one-time revenue, unless it has been received for two consecutive budget cycles (four years).
- Grant management practices shall ensure:
 - Compliance with all grant requirements
 - Accurate tracking of grant-funded revenues and expenditures
 - Identification of funding expiration and associated service impacts
- Grant-funded programs shall not create ongoing financial obligations unless a sustainable funding source has been identified.
- Acceptance of grants that require budget adjustments shall be approved through the formal budget amendment process.

4.0 Operating Expenditure Policies

4.1 Operating Expenditure Policies Purpose and Framework

Expenditures will be proactively managed to ensure that the City's cost of providing services sustainable and are monitored consistently for compliance with adopted or amended budgets.

Expenditure policies are intended to achieve the following objectives:

- Ensure that personnel budgets and the compensation structures to attract and retain a talented workforce are sustainable
- Provide guidelines and targets for non-labor costs
- Allow for expenditures to be forecasted in the short-term and long-term
- Create a framework for evaluating new and current programs that considers cost and performance.

4.2 Operating Expenditure Budget Development Standards

- Baseline budget plans will include:
 - Expenditures for current programs and services forecasted based on historical data, current conditions, and documented assumptions.
 - Operating expenditure impacts of completed capital projects.
 - Carryforward funding needed to complete approved one-time service enhancements.
- Departments will budget expenditures in accounts they are expected to occur and review historical spending patterns to improve accuracy.
- Recognizing that adding new positions creates a long-term commitment for the City, prior to adding positions emphasis will be placed on:
 - Repurposing current or vacant positions
 - Increasing efficiencies to create capacity
 - Implementing technology improvements
- The City shall maintain assets to preserve value and minimize lifecycle costs.
- An equipment replacement needs forecast shall be maintained and updated biennially.
- An indirect cost allocation plan for distributing general government's costs to other funds shall be maintained and updated biennially.
- All positions funded through capital programs will charge time directly to appropriate capital projects. Positions will not be allocated to capital programs via the HR Personnel Action Notice (PAN) process.

5.0 Capital Investment Programs Policies

5.1 Capital Investment Programs Policies Purpose and Framework

The City of Redmond shall manage and invest in capital assets to provide services in a cost-effective, sustainable, and timely manner. The City shall preserve existing assets and plan for future investments, including associated operating and maintenance costs.

The City manages capital investments through two coordinated programs:

- Capital Investment Program (CIP)
- Business Technology Investment Program (BTIP)

The CIP is the primary planning and budgeting tool for infrastructure investments. The BTIP provides a structured framework for planning, prioritizing, funding, and managing technology investments across the organization.

The goals for the development of the capital investment programs include:

- Preserve and enhance the City's assets and systems
- Support reliable, efficient, and secure service delivery
- Align investments with strategic priorities and long-range plans
- Ensure financial sustainability and accountability
- Incorporate lifecycle cost planning and risk management

5.2 Prioritization of Capital Investments

- Priority shall be given to maintaining existing assets while balancing new investments with financial capacity.
- Projects shall be prioritized based on service delivery standards and strategic priorities.
- The following criteria shall be considered in the prioritization of capital investment projects (listed in no order):
 - Legal or regulatory requirements
 - Public health and safety impacts
 - Asset preservation and replacement needs
 - Cost-effectiveness and lifecycle cost reduction
 - Availability of external funding or partnerships
 - Alignment with the City's Comprehensive Plan and strategic priorities
 - Improvement in service delivery and community outcomes

5.3 Capital Program Funding Appropriations

- Capital funding sources may be appropriated for:
 - Infrastructure projects that cost at least \$50,000 with a useful life of at least five (5) years.
 - Technology projects that cost at least \$10,000 with a useful life at least three (3) years.
 - Approved, coordinated, and ongoing programs.
 - Allowable non-capitalizable costs such as assessments, studies, plans, and monitoring of capital asset performance, which will be expended in the operating budget, but funded by transfers from the capital program.
- The City will identify the estimated costs and potential funding sources for each capital project.
- The City will determine the least costly financing method for all capital investments while ensuring cash flow needs are still met.
- City Council will approve the capital investment program plans and project appropriations in two-year increments for inclusion in the biennial budget.
- Funding commitments for the future years will be reconfirmed during future budget processes.
- Capital projects are typically multi-biennial projects implemented in phases with automatic carryover of budget from one biennium to the next.
- Capital investment project budgets will be approved by City Council in total. Budgets for project phases will be managed by project managers.

5.4 Managing Capital Project Financial Risk

- To mitigate project-level risks, contingent appropriation authority shall be included at the project level to ensure on-schedule completion of projects. The contingency amount shall be adjusted as the risk factors are assessed in the planning and design phases.
- Each capital program shall document the methodology for budgeting contingency at the project level.
- Any program or project considering use of an alternate project delivery method which requires approval by the State of Washington Capital Projects Advisory Review Board under RCW 39.10.280 shall seek City Council approval during the planning phase.
- A material change to a Transportation Benefit District (TBD)-funded project shall be defined as a significant modification to the project's scope, schedule, or budget. The following conditions shall constitute a material change:
 - Scope

- A substantial revision to the project’s purpose, design, or intended outcomes that alters the originally approved level of service, functionality, or community benefit.
 - Schedule
 - A delay in the project schedule of more than three hundred sixty-five (365) days, or
 - Any delay that significantly impacts the timing, sequencing, or funding of other TBD projects.
 - Budget
 - A projected increase in total project cost of more than twenty percent (20%) compared to the originally approved project budget.
 - When a material change is identified:
 - The City shall conduct a public hearing to solicit community input on the proposed changed and potential alternatives.
 - City staff shall provide a comprehensive analysis to the City Council that includes:
 - Description of the proposed change
 - Causes and contributing factors
 - Financial and programmatic impacts
 - Impacts to other TBD projects or funding capacity
 - Recommended course of action
 - City Council shall review and approve any material change prior to implementation.
- Technology projects with an estimated project cost of \$10,000 or less, and funded out of the operating budget, shall be established as discrete projects in the City’s financial system for accountability and transparency.

5.5 Operating Impact of Capital Investments

- The near- and long-term support, maintenance and operating costs associated with a capital project proposal shall be estimated and included to evaluate life cycle costs.
- The capital project approval process must ensure that necessary funds can reasonably be assumed to be available for increased operating costs stemming from project completion.

5.6 Capital Investment Funding

- 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 biennial budget.
- General Fund transfers for capital projects will be made on a reimbursable basis.
- Real estate excise tax (REET) will be used for one-time capital project funding. It will not be used for general maintenance of the City’s infrastructure.

- All impact fees and capital facilities charges will be increased annually based on the Consumer Price Index (CPI).
- The City shall conduct comprehensive updates for all impact fees and capital facilities charges at least every five years.
- Business Tax will be increased annually based on the CPI.
- Applications for capital 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 Governance Committee.

Short-Term Debt

- Short-term debt encompasses a payback period of three years or less.
- The City may use short-term debt or interfund loans to meet temporary 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.
- Interfund short-term borrowing will be subject to City Council approval and will bear interest based upon prevailing rates.
- The City will not use short-term debt for current operations.

Long-Term Debt

- Long-term debt encompasses a payback period of more than three years.
- 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.
- 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%).
- 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.
- 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).
- The City will not use long-term debt for current operations.

General Obligation Bonds

- Every project proposed for financing through general obligation debt shall be accompanied by a full analysis of the future support, maintenance and operating 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 shall be included in the Capital Investment Program. The source of funds should describe the intended use of bond financing.
- No general obligation bonds issued for one or more capital projects shall exceed 50 percent of the total project funding without voter approval.

Limited Tax General Obligation Bonds

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

Revenue Bonds

- 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.

Financing of Lease Purchases

- Lease purchase financing may be used as an alternative method to fund capital acquisitions when it is determined to be in the City's best financial and operational interest.
- The City shall evaluate lease purchase financing based on the following criteria:
 - Cost effectiveness
 - Asset characteristics
 - Budget and cash flow impacts
 - Flexibility and risk
- Lease purchase agreements shall comply with applicable Washington State Law governing municipal debt and financing authority.

- The term of any lease purchase agreement shall not exceed the useful life of the asset being financed.
- Lease purchase obligations shall be used solely for the acquisition of capital assets with a defined useful life and shall not be used to finance recurring operating expenditures.

Long-Term Interfund Loans

- The City may utilize interfund loans rather than outside debt instruments to finance capital investments. 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.
- 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 investments. Such an assessment will be reviewed by the City's Financial Advisor, who shall provide an objective analysis and recommendation to the City Council.

5.7 Capital Investment Financial Management

- The City will maintain a long-term Capital Investment Strategy (CIS) that addresses the capital needs of the community consistent with the City's vision, comprehensive plan, and functional area plans.
- The City will develop six-year capital investment plans, including related support and maintenance & operations costs. Financial plans shall be updated annually to ensure continued available resources to fund projects.
- Infrastructure investment forecasts will consider changes in population, real estate development, and economic conditions.
- Technology investment forecasts will consider factors such as emerging technologies, cybersecurity risks, and the evolving digital service needs of the community.

6.0 Operating Reserves Policies

6.1 Operating Reserves Policies Purpose and Framework

- The City of Redmond shall maintain operating reserves to maintain a prudent level of financial resources to protect against reducing service levels or raising taxes and fees due to temporary revenue shortfalls or unpredicted one-time expenditures.
- Reserves will be reviewed on an ongoing basis for sufficiency and relevance.
- Any General Fund surplus at the end of the biennium will be used to meet or increase reserve requirements first. The remaining balance will be used to fund one-time expenditures and to provide additional funding for the capital investments.
- A surplus is defined as the difference between the actual beginning fund balance and the originally budgeted 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 above what was budgeted in the prior biennium.
- The Operating Reserve, Economic Contingency, and the Revenue Stabilization Fund are all calculated based on revenues. All remaining reserves are calculated based on expenditures, as is GFOA best practice.

6.2 General Operating Reserve

- This reserve shall be created and maintained to provide sufficient cash flow to meet daily financial needs and to sustain City services when there is a catastrophic event.
- The City shall maintain a General Operating reserve at a level of twelve percent (12%) of total General Fund budgeted revenues in the current year, excluding beginning fund balances, development review revenues, and any significant one-time revenues.
 - The target was increased in 2022
 - The City is incrementally increasing the level of reserves each biennial budget and is currently at nine percent (9%)
- The reserves are held separately from the General Fund in the Operating Reserves Fund.
- City Council approval is required prior to use of the reserves.
- In no event shall the reserves be used to support City services longer than two years.

6.3 Other Operating Reserves

- The City shall maintain operating reserves at a level of twelve percent (12%) of total budgeted expenditures in the current year, excluding ending fund balance, development review expenditures, and any significant one-time expenditures in all operating funds.
- Exceptions may occur when code requirements or risk assessments determine acceptable reserve levels for specific funds or programs.
 - Stormwater Operating Fund - Five percent (5%)
 - King County Wastewater Treatment - Three percent (3%)
- Operating reserves are held in fund balance in the respective funds.
- Depreciation reserves are transferred from the utility operating funds to the utility capital investment funds as part of the biennial budget. The reserves are used to maintain significant investments in utility capital assets.
- The City shall maintain a revenue stabilization reserve for the Water and Wastewater utilities. The required reserve balance shall be set at fifteen percent (15%) of the annually budgeted water and wastewater revenues collected through monthly rates, excluding King County wastewater treatment revenue.
- The revenue stabilization reserve can be used to supplement operating revenues when there is a revenue shortfall. If used, the revenue stabilization reserve shall be replenished within two years.
- Debt service reserves must be created and maintained in accordance with provisions set forth in bond covenants.
- The City shall maintain sufficient reserves to meet all statutorily required reserve funds to guarantee debt service.
- Development review reserves shall be maintained to manage revenue fluctuations and ensure continuity of development review services and shall be used solely for costs associated with those services.
- The City shall maintain a vacation accrual reserve.
- The City shall maintain a reserve to stabilize contributions to state retirement systems due to temporary fluctuations in state rates.
- The City shall maintain the following equipment replacement reserves:
 - City Fleet
 - Fire equipment
 - Capital Equipment Replacement Reserve (CERF) for general asset replacement

- The Equipment Replacement Reserves shall be maintained at a level sufficient to meet scheduled equipment replacements that reserve an acceptable level of municipal services.
- Where deficits in reserves exist, a gradual correction over a multi-year period may be preferable to a large one-time increase.

6.4 Economic Contingency

- The reserve shall be maintained to fund 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.
- The City shall maintain an Economic Contingency of at least five percent (5%) of primary General Fund revenues.
- Restoring or increasing the Economic Contingency to its target level is priority when there is a General Fund surplus at the end of a biennium.
- The contingency is held in the fund balance of the General Fund.
- 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.

7.0 Financial Compliance Policies

7.1 Financial Compliance Policies Purpose and Framework

The Financial Compliance Policies establish standards to ensure the City's financial practices are accurate, consistent, transparent, and compliant with applicable laws, regulations, and professional standards.

The City shall:

- Maintain clear, consistent and documented accounting practices
- Ensure transparency and accountability in financial reporting
- Comply with all applicable federal, state, and local financial requirements

7.2 Accounting and Budgeting Standards

- All budgeting and accounting practices shall comply with Generally Accepted Accounting Principles (GAAP).
- The City shall maintain its accounting system in accordance with:
 - Standards for local government accounting
 - The State of Washington Budgeting, Accounting, and Reporting Systems (BARS)
- The City shall budget and account for revenues and expenditures using the modified accrual basis for governmental funds, consistent with GAAP.
- The City shall establish and maintain Special Revenue Funds in accordance with GASB Statement 54 to account for restricted or committed revenue sources.
- The City shall maintain expenditure classifications consistent with:
 - State law
 - Administrative regulations
 - The City's chart of accounts
- The City shall avoid the use of negative revenues except where required by accounting standards.
- Financial policies and procedures shall be documented and maintained to support consistent application across departments.

7.3 Internal Controls

- The City shall establish and maintain a system of internal controls designed to:
 - Safeguard public assets

- Ensure accuracy and reliability of financial records
- Promote operational efficiency
- Ensure compliance with applicable laws and policies
- Internal controls shall include, at a minimum:
 - Segregation of duties where feasible
 - Authorization and approval processes
 - Regular reconciliations and reviews
 - Protection against fraud, waste, and abuse
- The City shall periodically review and update internal control practices to address risks and improve effectiveness.

7.4 Financial Reporting

- The City shall prepare and present quarterly financial reports to the City Council summarizing revenues and expenditures, with a particular focus on the General Fund.
- The City shall monitor actual financial results against the adopted budget and provide variance analysis as part of regular reporting.
- In the event of a significant economic downturn or material revenue shortfall that cannot be absorbed within the adopted budget:
 - The City shall provide monthly financial reports to the City Council until conditions stabilize.
- Financial reports shall be made available to the public on the City's website to promote transparency.

7.5 Annual Comprehensive Financial Report

- The City shall prepare an Annual Comprehensive Financial Report (ACFR) in accordance with GAAP and standards established by GFOA.
- The ACFR shall:
 - Present the City's financial position and results of operations
 - Include all required disclosures
 - Support compliance with secondary market disclosure requirements for outstanding debt
- The City shall strive to maintain eligibility for GFOA's Certificate of Achievement for Excellence in Financial Reporting.

7.6 Annual State Audit

- The City shall ensure that its financial records and operations are audited annually by the Washington State Auditor's Office.
- Audit results shall be:
 - Presented to City leadership and City Council
 - Made publicly available on the City's website
- The City shall:
 - Address audit findings in a timely manner
 - Develop and implement corrective action plans as needed
 - Monitor programs on audit recommendations.

7.7 Asset Management

- The City shall maintain a comprehensive fixed asset system to track:
 - Asset inventory
 - Location
 - Condition
 - Useful life
 - Depreciation
 - Disposition
- The City shall:
 - Conduct periodic physical inventories of assets
 - Establish capitalization thresholds consistent with accounting policies
 - Ensure assets are properly recorded, maintained, and safeguarded
- Asset management practices shall support:
 - Accurate financial reporting
 - Lifecycle planning
 - Long-term capital investment decisions

8.0 Investment Policies

8.1 Investment Policies Purpose and Framework

Investment policies define the parameters within which funds are to be invested by the City of Redmond. These policies also formalize the framework of the City's policies and procedures to provide the authority and constraints for the City to maintain an effective and judicious management of funds within the scope of this policy.

These policies are intended to be broad enough to allow the Finance Director or authorized designee to function properly within the parameters of responsibility and authority, yet specific enough to adequately safeguard the investment assets.

These policies establish standards and guidelines for direction, management and oversight for all of the City of Redmond's investable cash and funds. Funds must be invested prudently to assure preservation of principal, provide needed liquidity for daily cash requirements, and provide a market rate of return. All investments must conform to federal, state, and local statutes governing the investment of public funds.

8.2 Governing Authority

The City of Redmond's investment authority is derived from RCW Chapters 35A.40.050 and 35.39.032. The investment program shall be operated in conformance with Washington Revised Statutes and applicable federal law. All funds within the scope of these policies are subject to regulations established by the State of Washington.

8.3 Investment Policy Scope

These policies apply to activities of the City of Redmond regarding investing the financial assets of the City. The City commingles its funds to maximize investment earnings and to increase efficiencies regarding investment pricing, safekeeping, and administration. Investment income will be allocated to the various funds based on their respective participation and in accordance with generally accepted accounting principles (GAAP). The city maintains the right to separate certain funds and exclude them from the scope of this policy. Should bond covenants be more restrictive than this policy, funds shall be invested in full compliance with those restrictions.

8.4 Investment Policy Objectives

All funds will be invested in a manner that is in conformance with federal, state and other legal requirements. In addition, the objectives, in order of priority, of the investment activities will be as follows:

8.4.1 Safety

Safety of principal is the primary objective of the City. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. To obtain this objective, funds will be diversified, utilizing highly rated securities, by investing in a variety of securities and financial institutions. The investment portfolio will be invested in a manner that meets RCW statutes and all legal requirements of the City.

8.4.2 Liquidity

The investment portfolio will provide liquidity sufficient to enable the City to meet all cash requirements that might reasonably be anticipated. Therefore, the investments shall be managed to maintain a minimum balance to meet daily obligations.

8.4.3 Return on Investment

The investment portfolio will be structured with the objective of attaining a market rate of return throughout economic cycles, commensurate with the investment risk parameters and the cash flow characteristics of the portfolio. Nevertheless, return on investment is a lesser objective than safety or liquidity.

8.5 Standards of Care

8.5.1 Delegation of Authority

Governing Body: The ultimate responsibility and authority for the investment of City funds resides with the City Council who has the authority to direct the management of the City investment program.

Authority: Overall management responsibility for the investment program is delegated to the Finance Director, or designee, who shall establish written procedures for the operation of the investment program, consistent with this investment policy. The Finance Director shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate officials.

Investment Advisor: The City may contract with an external non-discretionary investment advisor (Advisor) to assist with the management of the City's investment portfolio in a manner that is consistent with the City's objectives and this policy. Such Advisors shall provide recommendations and advice regarding the City investment program including but not limited to advice related to the purchase and sale of investments by these investment policies.

8.5.2 Prudence

The standard of prudence to be used by the Finance Director or any designees in the context of managing the overall portfolio is the prudent person rule which states: *Investments will be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs not in regard to speculation but in regard to the permanent disposition of the funds considering the probable income as well as the probable safety of the capital.*

The Finance Director and authorized investment officers and employees who act in accordance with the Finance Director's written procedures and the City's investment policies, and who exercise due diligence, shall be relieved of personal responsibility for the credit risk or market price change of an

investment, provided deviations from expectations are reported in a timely fashion and appropriate action is taken to control adverse developments.

8.5.3 Ethics

8.5.3 Employees involved in the City's investment program must avoid conflicts of interest. Association with the investment program in any capacity is considered employee involvement.

Employees must avoid personal business activity that may:

- Conflict with the proper execution of the investment program.
- Impair their ability to make impartial investment decisions.

8.5.3 Employees associated with the City investment program must disclose certain personal information to the Finance Director or designee. All disclosures shall be reported at each Investment Committee meeting.

The disclosure should list:

- Any material interests in financial institutions that conduct business with the City.
- Any personal financial or investment positions that could influence the performance of the City's investment portfolio, particularly regarding the timing of purchases and sales.
- Any related interest or personal financial positions that could be perceived as conflict of interest.

8.6 Safekeeping, Custody, and Controls

8.6.1 Delivery vs. Payment

All trades of marketable securities will be executed (cleared and settled) on a delivery vs. payment (DVP) basis to ensure that securities are deposited in the City's safekeeping institution prior to the release of funds.

8.6.2 Third Party Safekeeping

Prudent treasury management requires that all purchased securities be bought on a delivery versus payment (DVP) basis and be held in safekeeping by an independent third-party financial institution or the City's designated depository.

The Finance Director shall designate all safekeeping arrangements, and an agreement of the terms shall be executed in writing. The third-party custodian shall be required to provide a statement to the City listing at a minimum each specific security, book yield, description, maturity date, market value, par value, purchase date, and CUSIP number.

All collateral securities pledged to the City for certificates of deposit or demand deposits shall be held in accordance with the State of Washington's Public Deposit Protection Commission (PDPC).

8.6.3 Internal Controls

The Finance Director is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the City are protected from loss, theft or misuse. Specifics for the internal controls shall be documented in an investment procedures manual.

The internal control structure shall be designed to provide reasonable assurance that these objectives are met. The concept of reasonable assurance recognizes that the cost of control should not exceed the benefits likely to be derived, and the valuation of costs and benefits requires estimates and judgments by management.

The internal controls shall address the following points at a minimum:

- Control of collusion
- Separation of transaction authority from accounting and recordkeeping
- Custodial safekeeping
- Avoidance of physical delivery of marketable securities
- Clear delegation of authority to subordinate staff members
- Written confirmation of transactions for investments and wire transfers
- Dual authorizations of wire transfers
- Staff training
- Review, maintenance and monitoring of security procedures both manual and automated.

8.6.4 External Controls

The City will have an external review of its investment policies and procedures as needed. The City may enter contracts with third-party investment advisory firms when their services are required.

8.7 Authorized Financial Dealers

8.7.1 Broker/Dealers

- The Finance Director shall maintain and review annually a list of all authorized financial institutions and broker/dealers that are approved to transact with the City for investment purposes.
- The City shall follow GFOA best practices for evaluating and selecting financial institutions and broker/dealers.
- The Finance Director designee may utilize the investment advisor's approved broker/dealer list in lieu of the City's own approved list. The Advisor must submit the approved list to the City annually and provide updates throughout the year as they occur. The Advisor must maintain documentation of appropriate license and professional credentials of broker/dealers on the list.
- The annual investment advisor broker/dealer review procedures include:
 - A. FINRA Certification check:
 - i. Firm profile
 - ii. Firm history
 - iii. Firm operations
 - iv. Disclosures of arbitration awards, disciplinary and regulatory events
 - v. State Registration Verification
 - B. Financial review of acceptable FINRA capital or letter of credit for clearing settlements.

8.7.2 Investment Advisors

Advisors must be registered under the Investment Advisors Act of 1940 and must act in a non-discretionary capacity, requiring approval from the City prior to all transactions.

8.7.3 Bank Institutions

The City will only place funds, exceeding the current FDIC insurance limits, with banks who are currently participating in the Washington State PDPC program. Compliance/listing with the PDPC will be verified by the Advisor or designated investment officer utilizing the Washington State Treasurer's website.

8.7.4 Competitive Transactions

Transactions must be executed on a competitive basis and documented. Competitive prices should be provided from at least three separate brokers, financial institutions or through a national electronic trading platform. If the purchased security is only offered by one broker, then other securities with similar structure may be used for documentation purposes. When an Advisor handles trade executions, they must provide the competitive documentation as requested.

8.8 Authorized and Suitable Investments

8.8.1 Authorized Investments

- Eligible investments are only those securities and deposits authorized by statute (RCW 39.58, 39.59, 43.250, and 43.84.080):
- Among the authorized investments are U.S. Treasury and Agency securities (i.e., obligations of any government sponsored enterprise eligible for collateral purposes at the Federal Reserve), municipal debt, certificates of deposit with qualified public depositories within statutory limits as promulgated by the Washington State PDPC at the time of investment, foreign and domestic bankers acceptances, commercial paper, corporate notes, the Washington State Local Government Investment Pool, and the Department of Revenue's Separately Managed Portfolio Accounts (SMA).
- This policy recognizes S&P and Moody's as major Nationally Recognized Statistical Ratings Organizations (NRSRO). In the case of split ratings, where the major NRSROs issue different ratings, the lower rating shall apply. Minimum credit ratings and percentage limitations apply to the time of purchase.
- All securities must be purchased on the secondary market and may not be purchased directly from the issuer.

8.8.2 Suitable Investments

The City is empowered to invest in the following types of securities:

- **US Treasury Obligations:** Direct obligations of the United States Treasury.
- **US Agency Obligations Primary Issuers:** Government Sponsored Enterprises (GSEs) - Federal Instrumentality Securities include but are not limited to Federal National Mortgage Association (FNMA), the Federal Home Loan Mortgage Corporation (FHLMC), Federal Home Loan Banks (FHLB), and the Federal Farm Credit Banks (FFCB).

- **US Agency Obligations Secondary Issuers:** Other US government sponsored enterprises that are less marketable are considered secondary GSEs. They include but are not limited to: Private Export Funding Corporation (PEFCO), Tennessee Valley Authority (TVA), Financing Corporation (FICO) and Federal Agricultural Mortgage Corporation, (Farmer Mac).
- **Municipal Debt Obligations:** Bonds of the State of Washington, any local government in the State of Washington, General Obligation bonds outside the State of Washington; at the time of investment the bonds must have at a minimum rating of AA- from S&P or Aa3 from Moody's.
- **Supranational Obligations:** United States dollar denominated bonds, notes or other obligations that are issued or guaranteed by supranational institutions, provided, that at the time of investment, the institution has the United States as its largest shareholder.
- **Commercial Paper:** Commercial paper must be rated with the highest short-term credit rating category of any two major Nationally Recognized Statistical Rating Organizations (NRSROs) at the time of purchase. If the commercial paper is rated by more than two major NRSROs, it must have the highest rating from all of them. Any commercial paper purchased with a maturity longer than 100 days must also have an underlying long-term credit rating at the time of purchase in one of the three highest rating categories of an NRSRO.
- **Corporate Notes:** Corporate notes must be rated at least weak single A (A-) or better by all the major rating agencies that rate the note at the time of purchase for inclusion in the corporate note portfolio. The percentage of corporate notes that may be purchased from any single issuer rated AA- or better by all major rating agencies that rate the note is 3% of the assets of the total portfolio. The percentage of corporate notes that may be purchased from any single issuer rated in the broad single A (A-) category from all the major rating agencies that rate the security is 2% of the total portfolio. The individual country limit of non-U.S. and non-Canadian exposure is 2% of the total portfolio. Exposure is determined by the country of domicile of the issuers of portfolio securities.
- **Certificates of Deposit:** Non-negotiable Certificates of Deposit of financial institutions that are qualified public depositories as defined in RCW 39.58.010(2) and by the restrictions within.
- **Time Deposits and Savings Accounts Issued by Banks:** Deposits in PDPC approved banks.
- **Local Government Investment Pool:** An investment Pool managed by the Washington State Treasurer's Office.
- **Separately Managed Account:** An investment portfolio managed by the Washington State Department of Revenue.

8.8.3 Bank Collateralization

The PDPC makes and enforces regulations and administers a program to ensure public funds deposited in banks and thrifts are protected if a financial institution becomes insolvent. The PDPC approves which banks and thrifts can hold state and local government deposits and monitors collateral pledged to secure uninsured public deposits. Under RCW 39.58.240, all public treasurers and other custodians of public funds are relieved of the responsibility of executing tri-party agreements, reviewing pledged securities, and authorizing additions, withdrawals, and exchanges of collateral.

8.9 Investment Parameters

8.9.1 Diversification

The City will diversify the investment of all funds by adhering to the constraints listed in the following table. Investments in securities shall not exceed the following percentages of the total portfolio at the time of purchase.

Total Portfolio Diversification Constraints

Issue Type	Maximum % Holdings	Maximum % per Issuer	Ratings S&P, Moody's, or Equivalent NRSRO
US Treasury Obligations	100%	None	N/A
Primary US Agency Obligations	100%	35%	N/A
Secondary US Agency Obligations	20%	10%	AA-/Aa3
Supranational Agency Obligations	20%	10%	AA-/Aa3
Municipal Bonds	20%	5%	A-/A3
Commercial Paper	25%	3%	A1/P1
Corporate Notes	25%	3%	A-/A3
Certificates of Deposit	25%	10%	Deposits in PDPC approved banks
Bank Time Deposits/Savings	20%	10%	Deposits in PDPC approved banks
Washington LGIP	100%	N/A	N/A
Washington SMA	70%	N/A	N/A

8.9.2 Investment Maturity

The City will not directly invest in securities maturing more than five (5) years from the date of purchase.

- The maximum weighted maturity of the total portfolio shall not exceed 3 years. This maximum is established to limit the portfolio to excessive price change exposure.
- Liquidity funds will be held in the State Pool, PDPC bank deposits, or cash matched securities.
- Investment funds will be defined as the funds in excess of liquidity requirements. The investments in this portion of the portfolio will have maturities between 1 day and 5 years and will be only invested in high quality and liquid securities.

Total Portfolio Maturity Constraints

Maturity Constraints	Minimum % of Total Portfolio
Under 30 days	10%
Under 1 year	25%
Under 5 years	100%
Maturity Constraints	Maximum of Total Portfolio in Years
Weighted Average Maturity	3.00 Years
Security Structure Constraint	Maximum % of Total Portfolio
Callable Agency Securities	25%

- Exception to 5-year maturity maximum: Reserve or Capital Improvement Project monies may be invested in securities exceeding 5 years if the maturities of such investments are made to coincide as nearly as practicable with the expected use of the funds.

8.9.3 Strategic Allocations

8.93.1 Funds and their Allocation

- Liquidity funds for the operating account will be allocated to LGIP, CD's, PDPC Bank Deposits, Bankers Acceptances, and Commercial Paper.
- The structure of the Investment Core Fund will be targeted to a selected market benchmark based on the risk and return objectives of the portfolio.
- Longer term restricted funds will have an identified market benchmark to manage risk and return.

8.93.2 Monitoring and Portfolio Adjustment: As a general practice, securities will be purchased with the intent to hold to maturity. However, it is acceptable for securities to be sold under the following circumstances:

- A security with a declining credit may be sold early to protect the principal value of the portfolio.
- The portfolio duration or maturity buckets should be adjusted to reflect better the structure of the underlying benchmark portfolio.
- A security exchange that would improve the quality, yield and target maturity of the portfolio based on market conditions.
- A sale of a security to provide for unforeseen liquidity needs.

8.9.4 Prohibited Investments

8.94.1 The City shall not lend securities nor directly participate in a securities lending or reverse repurchase program.

8.94.2 The City shall not invest in:

- a. Mortgage-backed securities
- b. Derivative Products
- c. Securities that leverage the portfolio or are used for speculation of interest rates
- d. Mutual Funds
- e. Repurchase Agreements
- f. Reverse Agreements

8.10 Reporting Requirements

8.10.1 Reporting

The Finance Director shall be responsible for investment reporting. At a minimum, quarterly reporting shall be made to the City Council including but not limited to securities holdings, cash balances, and market values in the investment portfolio.

Specific Requirements:

- Book Yield
- Holdings Report including mark-to-market and security description
- Transactions Report
- Weighted Average Maturity

8.10.2 Performance Standards

The portfolio shall be managed to obtain a fair rate of return and earnings rate that incorporates the primary objectives of protecting the City's capital and assuring adequate liquidity to meet cash flow needs.

The investment portfolio will be invested into a predetermined structure that will be measured against a selected benchmark portfolio. The structure will be based upon a chosen minimum and maximum duration (average maturity) and will have the objective to achieve market rates of returns over long investment horizons. The purpose of a benchmark is to appropriately manage the risk in the portfolio through interest rate cycles. The investment portfolio is expected to provide similar returns to the benchmark over interest rate cycles but may underperform or outperform in certain periods. The portfolio will be positioned to first protect principal and then achieve market rates of return. The benchmark used will be a US treasury 0-3-year index or US treasury 0-5-year index and comparisons will be calculated monthly and reported quarterly.

The liquidity component yield will be compared quarterly to the LGIP average yield.

8.10.3 Compliance Report

A compliance report will be generated quarterly comparing the portfolio positions to this investment policy.

8.10.4 Accounting Method

The City shall comply with all required legal provisions and Generally Accepted Accounting Principles (GAAP).

The accounting principles are those contained in the pronouncements of authoritative bodies including but not necessarily limited to the Governmental Accounting Standards Board (GASB).

Pooling of Funds:

Except for cash in certain restricted and special funds, the City will consolidate balances from all funds to maximize investment earnings. Investment income will be allocated to the various funds based on their respective participation in the investment program and in accordance with generally accepted accounting principles.



The City of Redmond assures that no person shall, on the grounds of race, color, national origin, or gender, as provided by Title VI of the Civil Rights Act of 1964 and the Civil Rights Restoration Act of 1987, be excluded from participation in, be denied the benefits of, or be otherwise subjected to discrimination under any program or activity. For more information about Title VI, please visit redmond.gov/TitleVI.

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