

# Financial Goals & Policies

The City of Bremerton is accountable to its citizens for the efficient use of public dollars. Resources entrusted to the City should be used in a manner that provides services, public facilities, and infrastructure necessary to meet the needs of the community – both for today and for the future. The following financial goals and policies establish a framework of financial health and stability that is required to meet those expectations.

The goals expressed here define what constitutes a “good outcome” for the city in regards to financial planning and decisions. Goals indicate the objectives - while the policies describe actual boundaries (or measurable) that are deemed necessary to achieve those goals.

## *Goals for Financial Sustainability –*

- Diversified annual resources that are sufficient to provide for the regular and ongoing operations associated with core city services – plus enough additional margins to cover debt service requirements and normal (average) ongoing capital expenditures.
- Debt financing should be used to smooth the effects of unusual or significant amounts of capital expenditures and/or to finance facilities that are dedicated to the benefit of limited users (for example – Local Improvement District “LID”).

## *Policy -*

- The budget and financial plans of the City shall balance recurring operating expenses, debt service, and average ongoing capital requirements to recurring operating revenue. Average ongoing capital requirements are defined to include payments necessary to the various Internal Service funds (i.e. ER&R, and Information Technology) and average recurring capital expenditures.
- Before the City undertakes capital expenditures or accepts grant funds, the ongoing costs and commitments should be described fully including identification of the revenue sources expected to provide for such ongoing costs- so that proper consideration may be given to the longer term financial sustainability of the project or commitment.
- Where possible, grants or contributions of capital will be identified for proposed City expenditures.
- Deficit financing and borrowing will not be used to support on-going City services and operations. Expenses will be reduced to conform to the long-term revenue forecast. Interfund loans are permissible to cover temporary gaps in cash flow, but only when supported by a clear expectation and schedule for repayment over a short duration of time (3 years or less) and with interest assessed based on the current

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Washington State Local Government Investment Pool rate.

- Cash balances in excess of the amount required to maintain strategic reserves may be used to fund one-time or non-recurring costs. Preference should be given to uses that reduce ongoing expenses (for example - early retirement of debt).
- Replacement Reserves based on expected replacement cost will be collected and placed in the Equipment Rental and Reserve Fund (ER&R) for equipment (other than computer equipment) or vehicles (other than fire engines) with a value of \$20,000 or more if it is expected to be a continued need beyond its estimated initial useful life. The cost of computer equipment replacement will be included in the annual payments made to the Information Technology Fund (IT) for each computer by its using department. These payments are based on an expected five-year replacement schedule. In addition to ER&R and IT, other internal service funds may be established to appropriately account for and collect expenses for specific costs with the approval of the Director of Financial Services and the City Council. An amount equal to the annual fractional estimated cost of replacement based on the expected useful life of an asset will be included in the service charges paid by City departments to the various Internal Service funds (i.e. Equipment Rental & Reserve fund and Information Technology). Replacement cost will be reevaluated periodically throughout the life of the asset and replacement reserve charges adjusted accordingly. Assets with an initial value

less than \$20,000 may be included in the Equipment Rental and Reserve Fund upon request by the using department with the approval of the Director of Public Works and Utilities and the Director of Financial Services.

- Long-term borrowing will be confined to significant capital improvements (or similar projects) which have an extended life and when it is not practicable to be financed from current revenues. All other available and appropriate sources of financing should be exhausted before long term borrowing is pursued.
- Bonds cannot be issued for a longer maturity schedule than a conservative estimate of the weighted average useful lives of the assets to be financed. The City will keep the average maturity of general obligation bonds at or below twenty years.
- Where possible, the City will use special assessment revenue, or other self-supporting bonds instead of general obligation bonds.
- The City Utility Systems shall strive to maintain a minimum debt service coverage (annual gross revenues less annual operating and maintenance expenses divided by annual debt service) of the combined Utilities (Water, Wastewater, Stormwater) of at least 1.5x.

#### *Goals for Financial Flexibility –*

- Sufficient operating reserves (working capital) to manage monthly and daily cash flow variability.
- Adequate liquidity to provide for limited

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interruptions in revenues (natural disasters, unexpected loss of revenue source, etc).

- Contingency and reserve funds should be available for use in the event of emergency and/or unforeseen events.

- ◇ meet regulatory requirements
- ◇ provide core city services
- ◇ contribute to the achievement of stated goals and policies
- ◇ or undertaken in anticipation of an emerging requirement.

*Policy –*

- The City will maintain reserves required by law, ordinance, and/or bond covenants.
- The City will strive to maintain ending cash and investment balances in the General Fund of no less than 8.5% of total planned annual operating expenses.
- The City will strive to maintain ending cash and investment balances of no less than 12% of total planned annual operating expenses for the Gold Mountain Golf Complex, Water Utility, Wastewater Utility, and Stormwater Utility.
- The City will strive to maintain a balance of at least \$1,000,000 in the Contingency Reserve fund as a provision for unforeseen or catastrophic events and emergencies.

*Policy –*

- Budget managers will provide sufficient documentation to support requested budget appropriations and in a manner that clearly demonstrates that the expenditure is necessary to either meet regulatory requirements, provide core city services, or contributes to the achievement of stated goals or policies of the City.
- A comprehensive multi-year (minimum of six years) plan for City capital improvements will be prepared and updated annually. The Capital Improvement Plan will be consistent with and support the City's Comprehensive Plan. The Comprehensive Plan service level goals should be included in the Capital Improvement Plan.

*Goals for Stewardship of Public Funds –*

- Maintain public trust and confidence by utilizing resources in the most efficient manner possible.
- Expenditures should be necessary to either:

*Goals for Accountability –*

- Reports demonstrating the status of financial activity and results should be prepared on a timely basis and in compliance with BARS and GAAP accounting requirements.
- Reports showing the status of financial policy compliance should be provided periodically.

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- Ensure the legal use of public assets through an effective system of internal controls. To ensure all local, state, and federal rules are followed.

*Policy -*

- An annual audit will be performed by the State Auditor's Office and include the issuance of a financial opinion. A Comprehensive Annual Financial Report shall be prepared in accordance with generally accepted accounting principles (GAAP) and shall be distributed to the City Council, Mayor, Director of Financial Services, Department Directors, City Audit Committee, and any other interested party.
- Quarterly a budget status report will be prepared and distributed to the City Council, Mayor, and Department Directors providing an overview of financial activities for the City with comparison to the approved budget. Information on the status of compliance with financial policies will be provided in this report.
- Regular monthly financial statements will be prepared on a timely basis and posted for review on the City's internet and intranet site.
- The City will maintain a budgetary control system to ensure compliance with the approved budget.
  - The City will maintain adequate internal controls to safeguard public assets. The Director of Financial Services will work cooperatively with the City's Internal Auditor and the Audit Committee to iden-

tify and address material deficiencies in internal controls.

- The City shall manage and invest its residual cash through the City Treasurer on a continuous basis in accordance with the City's investment policies and within the guidelines established by the Washington State Statutes based upon the following order of priorities: 1) safety, 2) liquidity, and 3) yield.

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