

**ORDINANCE NO. 3045**

AN ORDINANCE OF THE CITY OF ISSAQUAH, WASHINGTON ADOPTING AMENDMENTS TO THE CITY FINANCIAL MANAGEMENT POLICY; AND ESTABLISHING AN EFFECTIVE DATE OF APRIL 1, 2024.

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WHEREAS, the City Council adopts financial management policies to provide guidance to City staff and officials and to set internal controls and oversight over financial transactions; and

WHEREAS, the City Council adopted the City's current Financial Management Policy on September 5, 2017 (Ordinance #2805); and

WHEREAS, the Policy has been subsequently amended on January 21, 2020 (Ordinance #2899), September 8, 2021 (Ordinance #2950) March 21, 2022 (Ordinance #2969) and April 4, 2022 (Ordinance #2971); and

WHEREAS, the Administration has recommended amendments to sections of the Financial Management regarding donations to the City, acceptance of grants, contracting authority and thresholds, and disposal of surplus property; and

WHEREAS, the proposed amendments to the Financial Management Policy would: facilitate more efficient procurement and contracting; resolve existing ambiguities; allow the City to accept donations with greater ease; and provide for consistency with other City policies and codes; NOW THEREFORE,

THE CITY COUNCIL OF THE CITY OF ISSAQUAH, WASHINGTON, DO  
ORDAIN AS FOLLOWS:

Section 1. Financial Policy Amended. The Financial Management Policy is hereby amended as set forth in Exhibit A, which is incorporated by this reference as fully set forth herein.

Section 2. Effective Date. This ordinance or a summary thereof consisting of the title shall be published in the official newspaper of the City and shall take effect and be in full force April 1, 2024.

PASSED by the City Council of the City of Issaquah, the 16th day of January, 2024.

APPROVED by the Mayor of the City of Issaquah, the 16th day of January, 2024.

DocuSigned by:  
  
9AA4F54C7B684B0  
LINDSEY WALSH, MAYOR PRO TEM

ATTEST/AUTHENTICATED:

DocuSigned by:  
  
FE989FA7135144C  
TISHA GIESER, CITY CLERK

APPROVED AS TO FORM:

DocuSigned by:  
  
5E52C0D472DB484  
RACHEL BENDER TURPIN, CITY ATTORNEY

PUBLISHED: Jan. 19, 2024  
EFFECTIVE DATE: April 1, 2024  
ORDINANCE NO.: 3045 / AB 8735

Exhibit A: Financial Management Policy



# FINANCIAL MANAGEMENT POLICY

**Adopted: September 5, 2017**

**Ordinance 2805**

**Amended: January 21, 2020**

**Ordinance 2899**

**Amended: Sept. 7, 2021**

**Ordinance 2950**

**Amended: March 21, 2022**

**Ordinance 2969**

**Amended: April 4, 2022**

**Ordinance 2971**

**Amended: Jan. 16, 2024**

**Ordinance 3045**

# CITY OF ISSAQUAH FINANCIAL MANAGEMENT POLICY

## 1.0 INTRODUCTION AND OBJECTIVES

The financial management policy of the City of Issaquah is established by the City Council. The policy is designed to provide guidance to all stakeholders whether they be directly involved in financial processes, internal control oversight, or any financial transaction. The financial management policy is intended to serve as a blueprint to achieve fiscal stability required to accomplish the City's Strategic Plan, Comprehensive Plan, all master plans and City Council goals. The City Council sets forth the authorities, responsibilities, and accountability requirements of those participating in the operations of Issaquah City government at all levels of the organization and endeavors to:

- Set forth financial principles;
- Reduce financial risks to withstand the ups and downs of local and regional economic environments;
- Maintain appropriate financial capacity for present and future levels of service;
- Ensure the legal use of financial resources through an effective system of internal controls;  
and
- Provide financial transparency to the public.

## 2.0 RESERVES AND FUND BALANCE

Fund balance is an approximate measure of liquidity. Reserves are a cornerstone of financial flexibility and provide the City of Issaquah with options to respond to unexpected issues and provide a buffer against minor fiscal challenges. This section defines thresholds and descriptions for fund balances, reserves, and retained earnings of all funds of the City of Issaquah. It is the intent of the City to provide a stable financial environment for which its citizens-residents can depend on a consistent and quality level of service and for planned future expenditures. The ~~Finance~~ Director/Chief Financial Officer is responsible for monitoring reserve levels and reporting current and projected reserves during each budget development cycle.

### 2.1 Fund Balance Definitions

As defined by GASB Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, the City will reserve funds per the following:

#### 2.1.1 Non-spendable Fund Balance

Inherently non-spendable portions of net resources that cannot be spent because of their form or portions of net resources that cannot be spent because they must be maintained intact.

### **2.1.2 Restricted Fund Balance**

Externally enforceable limitations, on the use of funds, that are imposed by creditors, grantors, contributors, or laws and regulations of other governments or limitations imposed by law through constitutional provisions or enabling legislation. Debt Service fund balance will be designated as restricted.

### **2.1.3 Committed Fund Balance**

-Self-imposed limitations, on the use of funds, that are set in place prior to the end of a period. Limitations imposed at highest level of local decision making that requires formal action at the same level to remove. Capital Project fund balances typically will consist of funds designated by City Council for future capital improvement projects.

### **2.1.4 Assigned Fund Balance**

Limitations resulting from intended use that ~~is~~are established by the highest level of decision making or intended use established by the City Council for a specific purpose. The resources for these funds may be acquired through the budgeting process or funds that are deposited with the city for specific purposes. Special Revenue fund balances typically consist of funds assigned by other governmental agency for specific use or by the City Council specific use.

### **2.1.5 Unassigned Fund Balance**

Residual net resources that make up the fund balance in the general fund more than non-spendable, restricted, committed, and assigned fund balance (i.e., surplus) or excess of non-spendable, restricted, and committed fund balance over total fund balance (i.e., deficit). The General operating fund balance typically will consist of unassigned funds for use by the City Council.

## **2.2 Reserve Level Target – General Fund**

A healthy unassigned fund balance is needed to provide cash flow to pay expenditures when due. A fund balance reserve target allows for cash flow while the city waits to receive its tax collections and shared revenues. The unassigned fund balance is also a security against unforeseen changes or needs, i.e. natural disasters, loss of state shared revenues, etc.

The general fund unassigned fund balance should be approximately 15-20% of expenditures of the general fund. The unassigned fund balance of the general fund may never fall below 15% of operating expenditures unless authorized by the City Council.

## **2.3 Conditions for Using General Fund Reserves**

The City shall endeavor to avoid the appropriation of fund balance for recurring operating expenditures. If at any time the utilization of a fund balance to pay for operating expenditures is necessary to maintain the quality or a defined level of services, an explanation of the circumstances for the utilization of fund balance and demonstration of strategy through the long-term financial model on future fund balance targets will be included in the budget transmittal letter prepared by the Mayor in the Proposed Budget and deliberated by the City Council.

Reserves may be used at the discretion of the City Council to:

- Provide temporary resources in the event of an economic downturn while expenditure reductions are implemented or alternate sources of revenue are determined;
- Provide resources to meet emergency expenditures in case of flood, fire, earthquake, landslides or other catastrophic failures; or

- Provide resources for one-time capital outlay expenditures which include capital equipment as part of the capital improvement plan.

## **2.4 Reserve Level Target - Enterprise Funds**

It is the goal of the enterprise funds to cover the cost of operations, debt obligations and capital infrastructure improvements and annual maintenance, to maintain a financially healthy enterprise. Enterprise fund balance is a product of revenues over expenditures over time and consists of the net result of assets minus liabilities. The City will establish utility rates and capital connection fees that are structured to meet several financial requirements. The Enterprise fund balance financial indicators are as follows:

**2.4.1 Capital funding obligations**-as defined through the 5-Year Capital Improvement Plan (CIP) - Utility Categories.

**2.4.2 Debt coverage ratio** – a ratio of 1.5 of net revenues to total debt service.

**2.4.3 Operating reserves**-90 days of operating expenses reserved for water, wastewater and storm water.

**2.4.4 Debt service**-the amount needed to pay for current and future debt (125% or as per bond covenants).

**2.4.5 Emergency capital repairs**-amounts required to pay for unanticipated capital costs.

## **2.5 Reserve Level Target – Special Revenue, Capital Project and Other Fund Types**

The main purpose of special revenue, capital project and debt funds is to account for resources and track spending that is specific to the fund’s purpose and it is presumed that all fund resources will eventually be spent. Capital Project Funds will reflect items represented in the CIP approved during the capital budget adoption process. It is the intent of the City of Issaquah to set aside funds, when operations allow, for large capital projects to help minimize the debt service needs for these projects. Current commitments for Capital Project fund reserves are transportation, parks, sidewalks and trails, utilities, and civic facilities as defined in the Comprehensive Plan – Capital Facilities Plan element.

Special revenue funds by their nature are funds used for specific purposes, and the corresponding fund balance will be used to solely support that purpose. Fund balances in special revenue funds will be monitored to stay consistent with the need and use of the specific purpose of that fund.

### **2.5.1 Seizure Fund**

As defined by Ch. 69.50.505 RCW and inter-local agreement, between the City and County Drug Task Force, law enforcement asset seizure funds shall be used for payment of all expenses of the investigation that led to the seizure, including the proceedings for forfeiture and sale, expenses of seizure, maintenance of custody, advertising, actual costs of prosecuting, city attorney and court costs.

### **2.5.2 REET Fund**

As defined by Ch. 84.46.035 RCW, the City of Issaquah is authorized to levy REET funds and use in accordance ~~to~~with State Law. REET sources are allocated towards various Capital Improvement projects as defined in the 5-year adopted CIP and may be leveraged towards debt service obligations – see Section 6.3.1 of this policy. REET Fund reserves may be

maintained at a level sufficient to ensure viability of future CIP funded projects with a minimum reserve balance authorized by the City Council.

### **2.5.3 Contingency Fund**

The City of Issaquah may establish a separate special revenue fund for contingencies or may adequately set aside assigned or committed reserves within the General Fund for unforeseen expenditures.

## **2.6 Reserve Level Target – Internal Service Funds**

Reserve targets established for internal service funds shall ensure that the fund continues to provide service without interruption including self-insurance and equipment replacement plans. Internal service fund reserves are funded through the City of Issaquah Cost Allocation Plan (CAP). The equipment reserve funds will be maintained at a level sufficient to meet scheduled equipment replacement to sustain an acceptable level of municipal services and prevent a physical deterioration of city assets. If CAP charges are sufficient to cover internal service operations, maintenance and equipment replacement expenditures then the minimum reserve balance may be 30% of the fund's operating budget expenditures.

## **2.7 Replenishment of Reserves**

Should assigned fund balance targets fall below a 15% threshold, **the City will strive toward regaining the minimum threshold during the next budget cycle** and forecast the timing of the unassigned fund balance improvement within the long-term financial plan.

## **2.8 Excess Reserves**

Reserves above the targeted reserve levels may be used for new expenditures, with emphasis on one-time uses that achieve future operating cost reductions, capital asset investments with a long-term benefit or prepaying existing debt. **Use of excess reserves will be determined by the City Council through the next available budget cycle or budget amendment defined through an agenda bill.**

# **3.0 REVENUES**

## **3.1 Revenue Objectives**

The City will maintain a diversified and stable revenue system to shelter it from short-term fluctuations. To protect and better develop future tax base, revenue guidelines will emphasize preserving the City's ability to grow and expand. The following are revenue objectives based on type of revenue:

### **3.1.1 Revenues That Align with Cost Recovery**

Fees or taxes are based on **an**the objective of recovering a stated percentage of a given program's expenses. The City will consider user fees when the character of the service and its users seems appropriate and if the user fees are charged, the fee will be structured to recover the full cost of the service including all direct and indirect costs. Full cost recovery may not be implemented if the fees **preventsprevent** an individual from obtaining an essential service or results in the City being economically disadvantaged or as otherwise set by the City Council.

### **3.1.2 Revenues Related to Economic Development**

Fees or taxes are based on objectives that foster growth related activity. The City's overall revenue structure should be designed to recapture some of the financial benefits resulting from City economic and community development investments. The City will strive to keep a total revenue mix that encourages growth and keeps Issaquah economically competitive and a city of choice for people to live in and do business.

### **3.1.3 Revenues with a Relationship to the Value of Money and Market Forces**

Fees are based on maintaining a logical relationship with local market forces. Fees that are subject to ongoing inflationary or other indexes may be adjusted.

### **3.1.4 Revenues that Enforce Compliance**

Fines and Infractions are set at a level that assists with enforcing compliance with City rules and regulations.

### **3.1.5 Revenue that is Self-Supporting**

Fees and charges usually associated with a governmental "business" enterprise. Fees are based on a formal rate model for factoring in relevant operational, capital, and debt service cost components.

**3.1.5.1** All utility enterprise funds shall be self-supporting; that is, they should generate enough revenue to pay for all costs without a subsidy from the general fund, from each other or from other sources. Utility rate studies will be conducted every five years and should divide costs equitably among customer classes per benefit and cost of service. If rates are set that subsidize one class of customer at the expense of another, this action should be taken in support of explicit City policy. Because of the vital importance of water, sewer and storm water as public services, a minimum level of service should be available at a relatively low cost to all utility customers.

## **3.2 Fee Schedule**

Charges and fees, including utility rates, should be reviewed and updated periodically based on factors such as impact of inflation, other cost increases, adequacy of coverage of costs, and current competitive rates. On a periodic basis, the Fee Schedule, as adopted by City Resolution, may be amended in conjunction with a budget development cycle.

## **3.3 Cash Management**

Deposits and cash receipting procedures, as defined in financial procedures, must be adhered to, by all Departments and at all City Facilities per Ch. 43.09.240 RCW. Only authorized personnel can take cash receipts from customers. The ~~Finance Director~~Chief Financial Officer, through financial procedures, will provide guidance and strict enforcement of internal control, deposit of collections and oversight on all changes to revenue items in the financial system.

## **3.4 Bad Debt and Collections**

Revenue collection guidelines, as defined in financial procedures, will provide processes for the recognition of bad debt and the computation of an allowance of doubtful accounts, define procedures for determining refunds and discounts as allowed in City Code and provide for the administration of escrow accounts used for land use projects.

## **3.5 Revenue Distribution to Non-General Funds**

Sales tax is a major revenue source of the City; however, it is also the most volatile and elastic source impacted by local, regional and national economic conditions. The City of Issaquah's growth



has been supported by retail-oriented business activity and such growth impacts the need for maintaining, improving and adding new capital assets. During the budget development cycle, the City Council will determine the amount of sale tax sources to be distributed to other funds, such as capital project funds, as a source of funding, within the adopted Capital Improvement Plan (CIP).

### 3.6 Grants

Grant funding can significantly leverage City resources to provide services, equipment and capital projects that would otherwise be unaffordable. The City is committed to pursuing grant funding as an appropriate funding source. Any grant programs must be consistent with the City's mission and Strategic Plan goals. The Administration will seek out, apply for, and effectively administer Federal, State and other grants that address the City's policy objectives and provide a positive benefit.

#### 3.6.1 Pre-Award

All grants, regardless of the amount must be reviewed by the Finance Department prior to pursuit of the funding to ensure that the grant, if awarded, aligns with the City's financial objectives (e.g., are matching dollars required and can the City fulfill those requirements; are there special contractual obligations required in the administration of the grant funds and is the City positioned to meet these obligations; does the grant create future on-going costs and is the City prepared to assume those costs; etc.).

Before any grant above \$~~50~~100,000 is pursued, departments shall provide detailed proforma information to the Mayor, City Administrator and ~~Finance Director~~Chief Financial Officer that addresses the immediate and long-term costs and benefits to the City.

#### 3.6.2 Award Acceptance

~~The Before any grant award, no matter the value, is accepted departments shall seek City Council approval. Once approved by Council, the Mayor may sign these agreements. Chief Financial Officer may approve grant awards of \$100,000 or less, including those requiring matching funds from the City in the amount of \$100,000 or less, provided sufficient funds to cover the match have been appropriated by the City Council in the biennial budget and the match would not require expenditures exceeding available fund balances. All other grant awards must be approved by the City Council.~~

A summary of grant awards received by the City will be included in one or more of the City's quarterly financial reports annually.

#### 3.6.3 Post-Award

Responsibility for the administration of grants is the joint responsibility of the applying department, Finance Department and City Administration. The City will adhere to all State and Federal laws, regulations and guidelines in the administration of grants funds.

~~Council approval must be sought for amendments to scope, dollar amount and award terms. Once approved by Council, the Mayor may sign these agreements. Extensions~~Post-award amendment to grants that were approved by the Chief Financial Officer may be approved by the Chief Financial Officer unless such amendment would cause the total award amount to exceed \$100,000 or require the City to contribute matching funds that have not been appropriated by the City Council in the biennial budget or that would cause the City to exceed available fund balances. Amendments to the scope, dollar amount or award terms of grants originally approved by the City Council must be approved by the City Council; provided, extensions and reductions to the length of an agreement without any other

changes to scope, dollar amount or award terms ~~do not require Council approval but must~~ may be signed administratively approved by the ~~Mayor~~ Chief Financial Officer.

### **3.6.4 Signature**

The Mayor may sign a grant agreement once it is approved by the Chief Financial Officer or City Council.

## **3.7 Donations & Gifts**

The Mayor or their documented designee may administratively accept any donation valued \$100,000 or less, provided no terms or conditions are attached to the donation. All other donations, as per Ch. 35.21.100 RCW, provided to the City shall be presented to the City Council for approval. ~~If pursuant to RCW 35.21.100 and, if~~ no terms or conditions are attached to the donation, the Administration will prepare a summary of the funding source and recommended use of proceeds for City Council approval.

### **3.7.1 Substantial Gifts**

The City of Issaquah seeks to recognize donors who, through a distinguished effort or substantial financial gift, wish to support a City facility or structure. For example, structures may include pavilions, shelters, plazas, real estate to be used for parks, trails or open space, interpretive areas, or active recreation; or other large-scale projects as discussed with the Advisory Boards and City Council. The following guideline will be used for recognizing donations for amenities or projects, in addition to defining the period in which the donation or gift will be received by the City.

For the purposes of this policy, "Substantial Financial Gift" is defined as at least 50% of the estimated cost of:

- 1) New construction, remodeling, or renovation
- 2) Developing a new real property, such as park buildings, structures, or real estate
- 3) Replacement of an existing, unnamed facility or landmark that requires substantial renovation at the time of the gift

### **3.7.2 Program Specific Donations.**

The Mayor or their documented designee may administratively accept any donation that is restricted for use by a specified City of Issaquah program, provided such donation stays within the limit set forth in 3.7 and that the terms of such gift allow the funds to be used for any equipment, items or expenses that are directly related to the City of Issaquah program or its related needs. These donations shall be kept in a separate project fund that is restricted for use by the specified program.

### **3.7.3 Other Donation Funded Projects**

The City of Issaquah will review projects that are proposed by private individuals or groups, where the project funding source will come from donations collected by the individual or group, (e.g. trees, park benches and other equipment or fixtures) on a case-by-case basis. The Administration, including the associated Department Head and the Chief Financial Officer, will review the donation project ~~with the Finance Director~~ with the Chief Financial Officer prior to City Council acceptance and will oversee the donation funded projects per financial procedures.

## **3.8 Gifts to City Officials**

With a few exceptions, no City official or City employee shall accept any gift as per Ch. 42.23 RCW or the City of Issaquah Code of Ethics.

## 4.0 EXPENDITURES

### 4.1 Expenditure Objectives

The City of Issaquah endeavors to connect expenditures to a fundamental level of stewardship by committing to a level of expenditures that are sufficient to ensure the on-going health, safety, and welfare of its ~~citizens~~ residents. Operating expenditures, within funds, must be supported by resources available within the fund (e.g., revenues, fund balances, interfund transfers, etc.). Expenditures will not expand beyond the approved budget.

The objectives of the expenditure guidelines are:

- To obtain supplies, equipment, and services as economically as possible and that are best suited to the specific City needs.
- To maintain compensation packages which are competitive with other public sector employers and that are sufficient to attract and retain quality employees.
- To enhance service methods that increase efficiency and effectiveness of the delivery of City services through technology improvements.
- To improve the speed of delivery of City services by predetermining sources of supply before actual needs through contracts or other appropriate means.
- To ensure compliance with all applicable City, State and Federal policies and statutory requirements.
- To support diversity and equity in firm and merchant selection, while also meeting other expenditure objectives as per City, State and Federal requirements.

### 4.2 Efficiency

The City will make efficient use of limited resources and will continually look for and implement the most cost effective and reliable methods of delivering services. The Administration will develop service level changes that are needed to respond to budget shortfalls using system-wide and productivity measures. Opportunities may be found to improve efficiencies by pursuing a range of productivity-enhancing techniques such as:

- Analyzing systems and procedures to remove unnecessary requirements
- Evaluating new technologies and capital investments
- Establishing a systematic, ongoing process for periodic formal reviews of operations
- Maintaining the right balance between centralization and decentralization in managing the City support functions

### 4.3 Purchasing Standards

All employees of the City shall comply with the City of Issaquah Code of Ethics, State Law, and Federal statutory requirements regarding purchase of materials or services. The following practices are specifically forbidden so as not to create a conflict of interest:

- Using information available to an employee solely because of their position for personal profit, gain, or advantage.
- Directly or indirectly furnishing estimating services, or any other services or information not available to all prospective bidders, to any person bidding on, or who may reasonably be expected to bid on, a contract.
- Using their position or status in the City to directly or indirectly solicit business of any kind for private use or to obtain supplies and equipment at special discounts or with special concessions from any vendor who sells or solicits sales to the City.

- Soliciting, accepting, or agreeing to accept any gratuity for themselves, their families, or others that would or could result in personal gain.
- Participating in the selection, award, or administration of a contract if he or she has a real or apparent conflict of interest. Such a conflict of interest would arise when the employee, officer, or agent, any member of his or her immediate family, his or her partner, or an organization which employs or is about to employ any of the parties indicated herein, has a financial or other interest in or a tangible personal benefit from a firm considered for a contract.

**4.4 Purchasing Authorization & Accountability**

Failure to follow financial procedures for procurement may result in disciplinary action, loss of purchasing privileges and personal liability for purchases.

Department Directors are accountable for procurement through contracts and other appropriate means within their departmental budgets. Purchases that exceed a departmental ~~annual~~biennial budget are not allowed.

Pursuant to [Ch. 42.24.080 RCW](#), warrants presented for payment to the City Council must be documented, itemized and audited by the Auditing Officer. The ~~Finance Director~~Chief Financial Officer or ~~his/her~~their ~~documented~~ designee is designated as the City of Issaquah Auditing Officer. Department directors or a documented designee will be responsible for ensuring invoices are presented to meet this documentation requirement and provide them to the Finance Department for prompt payment and audit review.

**4.5 Level of Purchasing and Contract Commitment Authority**

Contracting with other public agencies or the private sector for the delivery of goods and services may provide the City with opportunities for cost containment and ~~productivity~~/or service enhancement. As such, the City is committed to using outside resources for delivering municipal services as a key element in our continuing effort to provide effective and efficient programs while minimizing costs.

**Purchasing & Contract Commitment Thresholds**

| Limit Per Year        | Role                | City Requirements  |
|-----------------------|---------------------|--|
| \$1 - \$9,999         | Manager             | multiple quotes not required unless subject to more restrictive State/Federal requirements |
| \$10,000 - \$24,999   | Manager             | obtain 3 quotes unless subject to more restrictive State/Federal requirements              |
| \$25,000 - \$49,999   | Department Director | obtain 3 quotes unless subject to more restrictive State/Federal requirements              |
| \$50,000 - \$74,999   | City Administrator  | obtain 3 quotes unless subject to more restrictive State/Federal requirements              |
| \$75,000 - \$99,999   | Mayor               | obtain 3 quotes unless subject to more restrictive State/Federal requirements              |
| \$100,000 - \$349,999 | City Council        | obtain 3 to 5 quotes unless subject to more restrictive State/Federal requirements         |
| \$350,000 and up      | City Council        | invitation to bid or request for proposals required  |

~~Zero-dollar service agreements~~City contracts and ~~MOUs may be signed by purchases,~~  
**EXCLUDING CONTRACTS FOR PUBLIC WORKS PROJECTS,** are subject to the following signing thresholds:

| Dollar Value of Contract (per year) | Authorized Signatory |
|-------------------------------------|----------------------|
| <u>\$0 - \$24,999</u>               | <u>Manager</u>       |

|                              |                            |
|------------------------------|----------------------------|
| <u>\$25,000 - \$49,999</u>   | <u>Department Director</u> |
| <u>\$50,000 - \$99,999</u>   | <u>City Administrator</u>  |
| <u>\$100,000 - \$299,999</u> | <u>Mayor</u>               |
| <u>\$300,000 or more</u>     | <u>City Council</u>        |

City contracts for **PUBLIC WORKS PROJECTS**<sup>†</sup> are subject to the following signing thresholds:

| <u>Dollar Value of Contract (per year)</u> | <u>Authorized Signatory</u> |
|--|-----------------------------|
| <u>\$0 - \$24,999</u>                      | <u>Manager</u>              |
| <u>\$25,000 - \$49,999</u>                 | <u>Department Director</u>  |
| <u>\$50,000 - \$99,999</u>                 | <u>City Administrator</u>   |
| <u>\$100,000 - \$299,999</u>               | <u>Mayor</u>                |
| <u>300,000 or more</u>                     | <u>City Council</u>         |

Through this policy, the City Council delegates authority to the Mayor, City Administrator, Department Directors ~~if cleared,~~ and Managers (or their documented designee(s)) to purchase materials, supplies and equipment and execute contracts, without individual city council approval of each contract, in accordance with Purchasing and Contract Commitment Threshold set forth above, provided: (1) funds have been appropriated by the City Council in the biennial budget and the contract does not require expenditures that exceed available fund balances; and (2) the expenditure is consistent with the City's goals and policies.

This delegation of authority to execute contracts shall include, but is not limited to, the following types of agreements:

- Affidavits of ownership and agent authority, or similar documents that may be required for certain land use approvals when requested by Finance. A lessees of City property.
- Easements, or similar agreements conveying property rights to or from the City.
- Right of entry agreements or similar agreements authorizing access to City property or allowing City staff or consultants to enter property not owned by the City for limited purposes such as surveying, environmental testing, geotechnical analysis, etc.
- Contracts or contract amendments that are for the sole purpose of housekeeping changes or clarifications to an existing contract where such changes do not alter any material term or condition, such as cost. See Sections 4.5.3 and 4.5.7 for more information regarding changes to existing contracts.
- Lease agreements for materials supplies, equipment, or property (real or personal) where the City is either the lessee or the lessor.
- Contracts, memorandums of understanding, voluntary correction agreements, inter-agency agreements, etc. that do not involve the payment of money by the City and that are not "interlocal agreements" as defined by Chapter 39.04 RCW (see Administrative Contracting and Procurement Manual for more information).
- Contracts for the short-term use of City facilities when such use is controlled by and consistent with the City's policies.

<sup>†</sup> A "public works" project is defined as any "work, construction, alteration, repair, or improvement *other than ordinary maintenance*, executed at the cost of the state or of any municipality, or which is by law a lien or charge on any property therein." RCW 39.04.010. For more information about the difference between public works and ordinary maintenance, please see the Administrative Contracting and Procurement Manual.



This delegation of authority specifically excludes the following types of contracts and therefore require approval by the City Council:

- Legal settlement agreements, EXCEPT agreements relating to labor/personnel matters and that do not exceed \$50,000, which may be approved administratively.
- Real estate purchase and sale agreements.
- Agreements to lease all or a portion of City-owned property, EXCEPT when such lease is for a term of less than one year AND the value of the lease agreement is below the contract threshold amount set forth above.

Maximum contract length, including any contract amendments and extensions, without Council approval is ~~two~~three years, with the ~~following exceptions:~~

- ~~Software as service and exception of software license agreements as service and software licensing agreement, which~~ are permitted for up to five years ~~and easements, which may be for any duration without Council approval.~~
- ~~CIP Project / Plan contract extensions are permitted, as approved by Council, through completion of the project~~
- ~~—~~

~~The Mayor shall have the authority to:~~

- ~~Authorize general purchases (non-professional goods and services) for a dollar amount up to \$99,999~~
- ~~Execute Professional Service Agreements (PSA) and Contracts up to an original contract amount of \$300,000 per year.~~

~~All purchases and contractual obligations are subject to compliance with applicable City, State, and Federal procedures, policies, and regulations.~~

Itemized vendor receipts or invoices including vendor name, a description of items or services, the transaction or service date(s), and amount paid or to be paid are always required.

All purchases should be ~~made per~~consistent with the City's Purchasing and Contract Commitment Threshold, the Administrative Contracting and Procurement Manual, and in accordance with applicable City, State, and Federal requirements ~~for acquiring quotes, estimates and competitive bidding~~. Dollar amount thresholds include freight, handling, set-up costs, and applicable sales tax. Splitting purchases into smaller purchasing components to circumvent thresholds or applicable laws, policies, or procedures is never allowed.

Purchases and/or contracts that include Federal funding shall also comply with the Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, published under [Title 2 of the Code of Federal Regulations \(2 CFR 200\)](#). In circumstances where requirements differ between City, State or Federal policy, the most restrictive of Federal, State or City policy-level requirements will be met.

#### **4.5.1 Non-Budgeted Expenditures**

Non-budgeted expenditures require Council budget amendments before the purchase or commitment may be made. ~~Examples include Federal and/or State grants requiring a matching dollars from local sources.~~

#### **4.5.2 Interlocal Agreements ~~and Leases~~**

Interlocal agreements ~~and leases~~ require Council approval and the Mayor's signature. Please see the Administrative Contracting and Procurement Manual for more information regarding what constitutes an interlocal agreement.

#### **4.5.3 Change Orders/Amendments to Contracts for Public Works Projects**

~~Change~~ A change order is the formal document that alters some condition of a contract for a "public works" project, as defined in RCW 39.04.010. A change order may alter the contract price, schedule of payments, completion date, or the plans and specifications, among other things. A change order or an accumulation of change orders pushing a contract or purchase total into a higher commitment dollar threshold shall be approved and signed by the role assigned as required for that higher signature dollar threshold.

~~For a Capital Project, a purchase or contract change order limit~~ The Department Director overseeing the project is 10% of the authorized to execute change orders to public works contracts that were originally approved by the City Council, so long as accumulated change orders for such project do not exceed the amount of the total project budget, including contingency budget, established by the City Council.

Notwithstanding the forgoing, the Mayor or their documented designee may authorize any change order that is necessary to avoid unacceptable project delay or \$25,000, whichever is greater, to comply with grant funding deadlines or the like; provided, any such change order that would otherwise require Council approval is required for amounts per this section will be brought to the Council for ratification at a subsequent regular meeting.

#### **4.5.4 Retainage and Bonds**

RCW 60.28.011(1)(a) generally requires the City to reserve contract retainage in an amount not exceeding the limit five percent of the monies collected by a contractor engaged in a public works project. The purpose of retainage is to provide a financial incentive for contractors to finish the project and so that there are funds available to pay certain obligations for the project should the contractor fail to do so.

4.5.4 However, managing retainage is resource intensive and time consuming for City staff. Pursuant to RCW 39.04.155(2)(f) and (3)(b), to the City shall waive the retainage requirements of RCW 60.28.011(1)(a) for public works contracts procured using the small works roster or limited public works process, thereby assuming the liability for contractor's nonpayment of taxes or any laborers, mechanics, subcontractors, material persons, or suppliers for the project. The City retains the right of recovery against the contractor for any such payments made on the contractor's behalf. ***This provision applies only to contracts procured using the small works roster or limited public works process.***

#### **4.5.5 Procurement/Solicitation Requirements**

Competitive solicitation requirements shall be as set forth in state law and Chapter 3.70 IMC. More detailed information regarding those requirements can be found in the Administrative Contracting and Procurement Manual.

#### **4.5.6 Exceptions to Solicitation Requirements**

Exceptions to competitive solicitation requirements per [RCW 39.04.280](#) include but may not be limited to:

- Emergency purchases as outlined in [Section 4.7](#) of this policy
- Sole source situations if appropriate, documented, and approved by Finance or their documented designee

- Auctions or “special market conditions” if items are at better than market price
- Purchases using master contracts established by Council-approved agencies
- Equipment leases
- Insurance or bond purchases
- Renewals of software maintenance and proprietary IT hardware maintenance
- Professional licenses and memberships
- Publications and subscriptions
- Conferences and seminars including registration, tuition, room and board, etc.

The Mayor has More detailed information regarding the sole authority to waive exceptions to the City’s procurement/solicitation requirements, but are contained in the Administrative Contracting and Procurement Manual.

#### **4.5.7 Amendments to Contracts Other than Public Works Contracts**

Only contracts that have not yet expired may be extended or amended. An amendment to a contract that pushes the total contract or purchase price (including any prior amendments) into a higher commitment dollar threshold shall be approved and signed as required for that higher signature dollar threshold.

If Council approval was required for the original contract, Council approval is necessary for amendments to the scope of work or cost of the work. Council approval is not required for amendments that modify the term of the contract only to the extent as authorized or when the authority to amend was delegated by State Law Council in the original contract.

Notwithstanding the forgoing, the Mayor or their documented designee may authorize any amendment that is necessary to avoid unacceptable delay or to comply with grant funding deadlines or the like; provided, any such amendment that would otherwise require Council approval per this section will be brought to the Council for ratification at a subsequent regular meeting.

#### **4.6 Purchasing Controls & Methods**

Primary responsibility and authority for the expenditure of monies per the adopted budget will be vested by the Mayor in the City Administrator and Department Directors or ~~authorized designee~~documented designees. In addition to the primary responsibilities, the ~~Finance Director~~Chief Financial Officer shall exercise a secondary oversight responsibility for all budget expenditures and contractual obligations. This shall include the right to audit all City contracts, regardless of department, to ensure compliance with applicable laws and policies.

A purchase order system and/or procurement card programs may be used for all purchases. Procurement card purchases must comply with the Procurement Card Policy and the Travel and Meals Policy.

Opening retail accounts, lines of credit and other accounts in the name of the City shall not be allowed unless approved by the ~~Finance Director~~Chief Financial Officer or ~~his/her~~their documented designee.

In general, departments and/or department employees shall make purchases for the requirements of the City. To facilitate a sound and cost-effective purchasing operation, authorized personnel shall follow procurement policies and methods, including but not limited to, bidding and awarding contracts.

#### **4.7 Emergency Purchases**



Emergency purchases as per [RCW 39.04.280](#) and [RCW 39.26.130](#) are those made by the Mayor or ~~authorized~~[their documented](#) designee where an immediate purchase is necessary to correct a situation which ~~would adversely affect the~~[poses a real, imminent threat to](#) life, health, or safety ~~of the citizens, of members of the public, staff~~ or ~~cause~~[is likely to result in](#) damage to City and/or other property. The emergency purchase process may also be followed if waiting for Council approval would cause unnecessary, often expensive delays for a project, [repair](#), or other City endeavor. Before proceeding, approval of the Mayor, City Administrator or ~~Finance Director~~[Chief Financial Officer](#) is required.

To the greatest extent possible, procurement policies should be followed for emergency purchasing. However, in case of an emergency, the Mayor, City Administrator, Department Director or a [documented](#) designee may purchase directly any supplies, materials or services necessary to alleviate the emergency. Every effort shall be made by the purchaser to contact the Mayor and City Administrator or ~~Finance Director~~[Chief Financial Officer](#) whether the emergency occurs during or after normal working hours. The purchaser must provide the following to the ~~Finance Director~~[Chief Financial Officer](#) or ~~his/her~~[their documented](#) designee within three business days: a description of the purchase and emergency as well as an explanation as to why the emergency purchase was required. If City Council-level approval would typically be required for the purchase, the purchase shall be reported to the City Council at the next Regular City Council meeting.

In the event emergency purchasing is related to natural disaster events, a Declaration of Emergency Resolution shall be considered by the City Council per State Law at the first opportunity available.

The ~~Finance Director~~[Chief Financial Officer](#) shall review and approve account coding for all emergency purchases and maintain a tracking system per FEMA requirements, Emergency Management Plan, BARS and GFOA recommended practices for emergency management recordkeeping.

#### **4.8 Personnel Expenditures**

Because personnel costs are the largest expenditure area of the ~~annual~~[biennial](#) budget, compensation guidelines are defined in the Personnel Policy, Exempt Employee Benefit Handbook and Local Bargaining Agreements which establish salary ranges, performance evaluation requirements and total compensation costs as the basis for all compensation planning and bargaining.

## **5.0 BUDGET**

### **5.1 Budget Objective**

The formal operating and capital budget development process provides the primary mechanism by which key decisions are made regarding the levels and types of services to be provided, given the anticipated level of available resources. The City Council will meet to discuss Council goals and priorities prior to the start of the budget development process. The budget will be developed per Ch. 35A.34 RCW.

### **5.2 Budget Principles**

#### **5.2.1 Link the budget to long-term, strategic financial plans**

The City's budget will be developed in accordance with the policies and priorities set forth in the five-year Strategic Plan, Comprehensive Plan, City Council goals, the needs of the community and federal and state laws.

### **5.2.2 Critically examine past spending patterns**

The City seeks to maximize the value the public receives through its spending. Accordingly, management should develop budget tools and methods to measure and maximize value, particularly by critically examining existing spending patterns to make sure they continue to provide value.

### **5.2.3 Prioritize programs and services**

The City will prioritize essential and discretionary programs services based on a results approach relative to the importance in preserving the community's health, safety, and welfare; mandates; risk assessments; long-term costs and evidence of their effectiveness in meeting strategic plan initiatives, comprehensive plan elements, annual goals and required mandates. Essential services may receive priority for funding. The City will attempt to maintain current service levels for all essential services. The City will identify low-priority services for reduction or elimination, if necessary, before essential services. New services shall be evaluated for long-term sustainability.

### **5.2.4 Maintain existing services over providing new services**

The City will ensure that it maintains the quality of existing core services before it adds new services unless there is an explicit decision to lower the quality of existing services in favor or providing a new service based on strategic goals and objectives.

### **5.2.5 Risk management and mitigation of liabilities**

The City intends to fund the current portion of liabilities within the budget to maintain trust of creditors and to avoid or mitigate accumulating an unmanageable liability.

### **5.2.6 Establish preferences for budget balancing strategies**

The City's preferred strategy for balancing the budget is to reduce expenditures through improved productivity. Except during dire economic circumstances, service and program elimination is preferable. At no time, will the ~~annual~~biennial budget be balanced at the expense of long-term financial health.

## **5.3 Budget Scope & Basis**

The City will adopt budgets for all funds on a biennial basis per Washington State law. A budget calendar will be prepared by the Administration and include all required public hearings. Proposed budgets will be viewed and discussed by the City Council and the public at the fund and department summary object code levels per BARS. The final budget will be adopted by ordinance of the City Council, at the fund level, by December 31 of each biennium. To encourage synchronization between the budget document and financial reporting, the City will establish the budget based on the accrual basis of accounting.

## **5.4 Balanced Budget**

The objective of the operating budget is to pay for all current expenditures with current revenues. The budgets for all city funds should be structurally balanced throughout the budget development process. Recurring revenue should equal or exceed recurring expenditures in both the proposed and adopted budgets. If a structural imbalance occurs, then a plan will be developed and implemented to bring the budget back into structural balance. The City will endeavor to avoid budgetary allocations that balance current expenditures at the expense of meeting future years' expenses. Beginning fund balance sources may be used to fund capital improvement projects or other one-time, non-recurring expenditures if the fund reserve targets are met.

## **5.5 Performance Management**

Placeholder for Performance Management and Performance Measurements when implemented.

## 5.6 Cost Allocation

The Cost Allocation Plan (CAP) is a method used to determine and assign the cost of indirect services to the internal government users of those services or direct operating funds.

### 5.6.1 References

OMB Circular A-87, "Cost Principles for State, Local, and Indian Tribe Governments."  
RCW 43.09.210 states in part, "all service rendered by...from, one department...to another, shall be paid for at its true and full value by the department...receiving the same, and no department...shall benefit in any financial manner whatsoever by an appropriation or fund made for the support of another..."

### 5.6.2 Definitions

- Indirect Costs are incurred for a common purpose benefitting more than one cost function or organizational unit. They cannot be directly assigned without effort disproportionate to the benefit received.
- Indirect Services are activities that support the departments that provide direct service to the public. Examples include accounting, purchasing, human resources, engineering, and fleet and information technology.
- Direct Services are activities that provide services directly to or for the public and are supported by indirect services. Examples include parks, streets and utilities (water, sewer, storm water).

### 5.6.3 Costs to be allocated

Costs shall only be allocated to departments that receive indirect support services. Only costs allowable for allocation in accordance with the requirements of OMB Circular A-87 shall be included in the cost allocation plan. This means that the City's resulting allocation plan will meet federal grant cost allocation requirements. It is the responsibility of staff creating the department's indirect cost allocation plan to review OMB Circular A-87 and ensure that only allocable costs are included.

As part of the annual/biennial budget development process, costs will be allocated based on the projected year budget forecast. Annually, a year-end/mid-biennium adjustment or true up will be completed for the previous year's difference between budget-to-actual results or allocated based on actual costs. The true up will occur as part of the mid-biennium adjustment and year-end financial reconciliations in preparation for the annual audit.

### 5.6.4 Basis of Allocation

Indirect cost allocation methods, as defined in financial procedures, shall be reasonable, consistent, and equitable to distribute shared costs across funds and departments. Different factors are necessary to equitably allocate the various overhead costs. The ~~Finance~~ Director/Chief Financial Officer is responsible for preparing and determining which factor(s) will best accomplish this based on input from Direct Service Department Directors.

## 5.7 Budget Amendments

All budget amendments, such as shifting budget allocations from a) one fund to another fund; b) personnel and benefits and c) capital outlay or capital project expenditures must be approved by the City Council. Budget amendments changing the authorized appropriation level are subject to public hearing requirements in State Law

### 5.7.1 Administrative Budget Adjustments

Department managers may, upon approval by the Mayor and City Administrator, request inter-departmental line item budget adjustments for operating purposes only. These administrative budget adjustments, authorized as per Ch. 35A.33.120 RCW, may be for contractual, supplies and materials and other miscellaneous line items within the department. No administrative adjustments are allowed for personnel and capital outlay items. The process for requesting an administrative budget adjustment is defined in financial procedures.

### **5.8 Service Levels and Funding**

The City will endeavor to maintain its present service levels for priority and essential services subject to available revenues. The objective is to maximize the benefit of available resources. The results or outcomes that matter most to ~~citizens-residents~~ should be defined by the City Council. New services or programs will be considered for funding within available resources.

Department managers will be given the opportunity to request personnel, goods, and capital items needed to carry out the department responsibilities. Department requests must include supporting documentation and justification of needs for operating requests. Requests should integrate strategic plan priorities and departmental objectives into the budget.

#### **5.8.1 Non-Profit Organization Funding Requests**

The City receives requests from non-profits and other entities seeking grants and funding. As part of the budget development cycle, the City Council will consider these requests and include a listing of entities to be included for grant giving and funding.

### **5.9 Maintenance and Replacement**

Maintenance and replacement funding will be prioritized each year to ensure that capital facilities and equipment are sufficiently maintained to avoid service disruptions. Non-current liabilities have important implications for a local government's fiscal health. The City will maintain its capital assets in a manner adequate to protect the City's capital investment and to minimize future liabilities for maintenance and replacement costs. Financial procedures will identify the processes to include:

- Complete inventory and periodic measurement of physical condition
- Establish condition/functional standards by asset class
- Evaluate infrastructure and other assets and then set priorities
- Monitor and communicate progress

#### **5.9.1 Capital Asset Management**

The City inventories and assesses the condition of its buildings, equipment and vehicles on a periodic basis. The budget process includes a multi-year projection of facilities, equipment and vehicle replacement requirements. The budget will provide sufficient funding for adequate maintenance and orderly replacement of capital plant and equipment. Future maintenance needs and repairs will be cost out and included as budgetary decision criteria through the Internal Service Fund designated for Fleet and Facility maintenance.

### **5.10 Enterprise Fund Budgets**

Enterprise operations are to be self-supporting, including capital improvements and depreciation. Enterprise operations are to be reviewed annually for self-sufficiency and proper cash-flow needs. Utility Rate studies, which occur every five years, will be included in the budget development process in the year for which new rates are established. Enterprise operating budgets will incorporate year one capital projects as identified within the Capital Improvement Plan (CIP).

### 5.11 Budget Reporting

The recommended and adopted budget documents will be available on the City website and at City Hall. The City will maintain an internal control system to help adhere to the budget allocations. Regular reports comparing actual revenues and expenditures to budgeted amounts will be provided to departments monthly. The City Council will review quarterly budget versus actual reports.

## 6.0 CAPITAL BUDGET

### 6.0 Objective

The City of Issaquah Capital Budget will have a major impact on quality of local government services, the community's economic vitality, environmental stewardship, social equity and overall quality of life for city residents, businesses and visitors. The Capital budget will identify, prioritize, and address community needs through careful long-term planning and balanced public investment in physical infrastructure. Capital budget goals include:

- Support the City's Strategic Plan, other plans and the community vision for growth and levels of service
- Acknowledge and communicate capital investment priorities as community conditions change
- Ensure appropriate planning efforts to changing demands on a diverse infrastructure and capital asset.
- A financial assessment of capital funding resources available to meet future capital project planning needs per the financial policy
- Maintain a high-quality service infrastructure able of meeting community needs today and in the future

### 6.1 Capital Improvement Plan (CIP)

The Capital Budget plan will be formally known as the Capital Improvement Plan (CIP) and will describe the capital investments the City intends to make over a period of six years with a long-term outlook. The CIP will incorporate all master and functional plans and programs wherever projects are identified in those plans. Master plan changes will be incorporated into the CIP during the next biennial capital improvement plan cycle. The CIP will serve as a comprehensive guide for all capital projects – based on asset types – where the City Council will address capital infrastructure improvements, capital equipment needs, and the effect on the City's resources.

The City Council will review the CIP biennially and coordinate development of the multi-year Capital Budget prior to the development of the ~~annual~~biennial operating budget. The off-year capital budget cycle will allow for public engagement efforts to discuss potential projects with the community and include major capital project changes that occur or are discovered. As resources are available and projects are financially feasible, the most current year of the CIP will be recommended for incorporation into the upcoming operating budget as capital project budget line items. The operating budget will refer to the capital budget for detailed project information. Subsequent years of the CIP are for planning purposes only and may be altered as they advance toward the budget inclusion year.

### 6.2 CIP Criteria and Ranking

Criteria, project ranking and overall priority guidelines, defined in financial procedures as part of the development of the Capital Improvement Plan, will be utilized by the City Council. CIP projects will be evaluated and ranked using the criteria set forth in the City's currently adopted CIP. All projects submitted to the CIP will be initially ranked by departments. The Administration will assess project

rankings plus other factors such as minimizing construction impacts through project sequencing or a need to respond to emergent issues. The City Council, as part of biennial capital budget deliberations will modify and/or finalize project rankings. Funding is a critical component of the criteria and ranking schedule. In addition to project scoring, projects need an overall description, justification for the project and the connection to a master plan or strategic plan reference as needed. Projects shall also be identified as unfunded, partially funded or fully funded.

City of Issaquah  
 Capital Improvement Plan  
 Capital Project Priority Definitions based on project ranking score

| Priorities |   |               |              |
|------------|---|---------------|--------------|
| Category   | Definition  | Scoring       | CIP Priority |
| Essential  | Project must comply with court order, legislative mandate or is critical to the health, safety and general welfare of citizens  | 90-100 points | 1            |
| Desirable  | Project is important to general welfare of the community, operation or maintenance of a physical facility. Due to the nature of the project or its timing, it is desirable to complete relative to capital budget policy objectives | 70-89 points  | 2            |
| Acceptable | Project provides a public operational improvement. Due to the nature or scheduling of the project, it is not critical or important in relation to financial capabilities, needs or other program requirements                       | 50-69 points  | 3            |
| Deferrable | Project is conflict with a master plan or for which there are serious need, cost, justification or timing questions   | 30-49 points  | 4            |
| Hold       | Project will not be started until the completion of a study, submission of additional data or significant funding source  | 0-29 points   | 5            |

**6.3 Project Source and Use Identification**

Capital project submissions shall include multi-year funding sources, including grants, applicable impact fees, special funding and other outside sources. Multi-year project costs shall include acquisition, right-of-way, design, permitting, inspections, mitigation, construction, in-house staff time, inflationary costs and contingency shall be included in the project identification.

**6.3.1 Project Sources**

Capital funding comes from operating revenues, grants, local improvement districts, impact fees, user fees and the issuance of debt. Washington State law limits the City of Issaquah's ability to raise funds for capital improvements such as tax rate limits and amount of debt capacity. Given the extensive number of capital improvement projects and finite funding sources available, the following are capital financing strategies used by the Issaquah City Council when preparing or updating the Capital Improvement Plan:

- Seek out federal, state and county resources
- Seek out private contributions or donations through public/private partnerships
- Similar departmental capital projects will be combined for efficiencies and cost savings such as street improvements combined with utility improvements to minimize construction impact to the community
- Mitigation and impact fees may be applied toward projects defined by the contributing source or agreement authorized by the City Council
- REET funding
- Local Improvement or Utility Local Improvement District (LID or ULID) assessments
- Enterprise (utility) fund projects must be paid for by user rates and capital connection charges

**6.3.1.1 Funding Source Cash Flow**

Funding sources, such as REET or Mitigation, that are accumulated within special revenue funds will be reviewed as part of the biennial CIP development process for



sufficient cash flow and long-term impact on the fund. The availability of special funding sources is subject to reserve targets set by the City Council as per the Reserve section of the Financial Policy.

### **6.3.2 Project Costs**

For the CIP, capital outlay is distinguished from capital projects. Capital outlay may include expenditures for small minor projects, such as equipment replacements, between \$5,000 and \$49,999 and/or having less than an estimated five years of useful life. Capital outlay type expenditures will be included in the operating budget, as well as, master planning or professional services of any size and scope, adopted by the City Council, shall be budgeted for within the operating budget as a separate line item identified as capital outlay.

All capital projects or capital equipment purchases at least \$50,000 and/or having a useful life of five years or more are included in the CIP. These projects include large capital maintenance and replacement items that extend the useful life of the capital asset. Projects may not be combined to meet the minimum standard unless they are dependent upon each other. Projects may not be separated to forego the maximum standard. Items that are operating expenditures (such as non-specific capital project related professional services, master plan updates, maintenance agreements, technology items, etc.) will not be considered within the CIP.

#### **6.3.2.1 Impact on Operating Budget**

All projects submitted to the CIP will be reviewed by a capital results team for its long-term impact on the operating budget in terms of:

- Future year revenue generation
- Additional personnel, equipment and/or vehicle requirements
- Future operating and maintenance expenditures
- Return on investment potential

### **6.4 Planning Process**

The capital budget and CIP development process will begin in February of each year. CIP development shall include all city departments and capital project result teams, Council committees and public engagement efforts, utilizing the administrative public engagement toolkit, to ensure the community has ample time to comment on and contribute to the CIP. The Mayor and Administration will present the CIP to the City Council for approval prior to the start of the annual operating budget development. Any substantive change to the CIP after approval must be approved by the City Council.

## **7.0 DEBT MANAGEMENT**

### **7.1 Debt Purpose**

Debt financing is primarily used for capital project expenditures. Use of long-term debt financing for operations and maintenance costs are forbidden. Debt financing will be considered if the City can repay debt without causing financial distress. It is the City's objective to:

- Only obtain financing when necessary
- Identify the timing and amount of debt required as specifically as possible
- Achieve the most favorable interest rates and other related financing costs
- Ensure that future financial flexibility be maintained
- Utilize inter-fund loans from one fund to another as a first source of debt financing

## 7.2 Debt Practices

The City Council may authorize the following types of debt financing only for those purposes as provided by Ch. 39 RCW:

- Utilization of the Public Works Loan Fund, per WAC 399.30 for allowable purposes, if available
- Utilization of Inter-Fund Loans as per the BARS Manual Part 3, Chapter 4, Interfund Transactions, Section 1
- Issuance of Councilmanic Bonds to fund proprietary capital infrastructure projects such as water, sewer and storm water
- Issuance of Councilmanic Bonds for capital projects that generate adequate revenues from user fees to support operations and or debt service requirements
- Issuance of Councilmanic Bonds for capital projects that are authorized to be supported by the General Fund for debt service requirements

Utility System replacements, due to age or the need to upgrade to meet minimum standards, should be financed by a combination of:

- Reserving portions of the Enterprise fund balance for capital improvement projects
- Borrowing and repaying on a schedule that matches the useful life of the capital improvement

The City of Issaquah will never issue debt more than limitations as prescribed in Ch. 39.36.020 RCW based on percentage of its total market value.

## 7.3 Bond Terms & Methods

Long-term debt will be structured in a manner so that the life of the debt does not exceed the expected useful life of the capital asset being funded by the debt. The City will obtain the most competitive pricing on debt issuances to ensure a favorable value to the community.

## 7.4 Refunding Bonds

As a rule, existing debt obligations will be refunded through the issuance of refunding bonds unless the refunding plan will achieve a net present value savings of at least 2.5%.

## 7.3 Bond Rating

Strong financial management is a key credit rating factor. For the City of Issaquah to respond quickly to economic and financial demands, the City will seek to maintain or continually improve its bond rating to seek the lowest possible interest rate available OR maintain its AAA Bond Rating. The City will also maintain a “strong” Financial Management Practice (FMA) score – as defined by Standard & Poor Financial Management rating criteria - to provide transparent and consistent information about financial management practices.

## 7.4 Financial Guarantees

Should financial guarantees be utilized to defer public improvements required of development projects or to ensure that disturbed public facilities will be restored, the developer or property owner shall provide an irrevocable letter of credit issued by a banking institution approved by the ~~Finance Director~~Chief Financial Officer, a bond, an assignment of savings, or a cash deposit. The form of the financial guarantee shall be at the discretion of the ~~Finance Director~~Chief Financial Officer. The amount of any approved financial guarantee shall be at least 150% of the estimated improvement cost and may be increased to reduce risk to City resources based on the professional judgment of the ~~Finance Director~~Chief Financial Officer.



## 8.0 INVESTMENTS

### 8.1 Policy and Scope

It is the policy of the City of Issaquah to invest public funds in a manner which will provide the highest investment return with the maximum security while meeting the daily cash flow demands of the City and conforming to State law governing the investment of public funds.

The investment policy applies to all financial assets of the City of Issaquah. These funds are accounted for in the City of Issaquah's Annual Financial Report and include all operating, special revenue, capital project, enterprise, debt service and trust funds.

### 8.2 Prudence

Investments shall 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 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 investment officials shall be the "prudent person" and/or "prudent investor" standard and shall be applied in the context of managing an overall portfolio. Investment officers acting in accordance with this policy and with Ch. 35.39 RCW 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 fashion and appropriate action is taken to control adverse developments.

### 8.3 Objective

The primary objectives, in priority order, of the City of Issaquah investment activities shall be:

**8.3.1 Safety:** Safety of principal is the foremost objective of the investment program. Investments of the City of Issaquah shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. To attain this objective, the City of Issaquah will diversify its investments by investing funds among a variety of securities offering independent returns and financial institutions.

**8.3.2 Liquidity:** The City of Issaquah investment portfolio will remain sufficiently liquid to enable the City to meet all operating requirements, which might be reasonably anticipated.

**8.3.3 Return:** The City of Issaquah investment portfolio shall be designed with the objective of attaining a benchmark rate of return throughout budgetary and economic cycles, commensurate with the City's investment risk constraints and the cash flow characteristics of the portfolio. Short-term investment returns should attain a return rate of at least equal to the Washington Local Government Investment Pool (LGIP).

### 8.4 Delegation of Authority

Management responsibility for the investment program is hereby delegated to the ~~Finance Director~~Chief Financial Officer or their documented designee who shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate personnel and their procedures in the absence of the ~~Finance Director~~Chief Financial Officer.

### **8.5 Investment Procedures**

The ~~Finance Director~~Chief Financial Officer shall establish written financial procedures for the operation of the investment program consistent with this policy. The procedures should include reference to safekeeping, repurchase agreements, wire transfer agreements, banking service contracts and collateral/depository agreements. Such procedures shall include explicit delegation of authority to persons responsible for investment transactions. No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the ~~Finance Director~~Chief Financial Officer.

### **8.6 Ethics and Conflicts of Interest**

Public officials and city employees involved in the investment process shall refrain from personal business activity that could 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 City Council any material financial interest in financial institutions that conduct business within their jurisdiction, and they shall further disclose any large personal financial/investment positions that could be related to the performance of the City of Issaquah.

### **8.7 Authorized Financial Dealers and Institutions**

The ~~Finance Director~~Chief Financial Officer will maintain a list of financial institutions authorized to provide investment services. In addition, a list will also be maintained of approved security broker/dealers selected by credit worthiness who are authorized to provide investment services in the State of Washington. These may include "primary" dealers or regional dealers that qualify under Securities & Exchange Commission Rule 15C3-1 (Uniform Net Capital Rule). No public deposit shall be made except in a qualified public depository as established by Washington State laws.

All financial institutions and broker/dealers who desire to become qualified bidders for investment transactions must supply the ~~Finance Director~~Chief Financial Officer, upon request, with annual audited financial statements, proof of National Association of Security Dealers (NASD) certification, and proof of State of Washington registration. Annual completion of Notification to Broker and Certification by Broker will be done.

### **8.8 Authorized and Suitable Investments**

From the governing body perspective, special care must be taken to ensure that the list of instruments includes only those allowed by law and those that local investment managers are trained and competent to handle. Interest-bearing deposits in authorized depositories must be fully insured or collateralized.

The following is a list of investments which the City of Issaquah will be authorized to invest in as per Ch. 39.58 and 39.59 RCW:

**Government Securities:** Instruments such as bonds, notes, bills, mortgages and other securities which are direct obligations of the federal government or its agencies, with the principal fully guaranteed by the U.S. Government or its agencies.

**Certificate of Deposit:** A negotiable or nonnegotiable instrument issued by commercial banks, located in the State of Washington and insured up to \$100,000 by the Federal Deposit Insurance Corporation (FDIC), or, if exceeding \$100,000 FDIC coverage, is fully insured or collateralized.

**Prime Commercial Paper:** An investment used by corporations to finance receivables. A short-term (matures in 270 days or less) unsecured promissory note is issued for a

maturity specified by the purchaser. Corporations market their paper through dealers who in turn market the paper to investors.

**State of Washington Securities and Pools:** Any security which is a general obligation of the State of Washington or any of its municipalities. Statewide investment pools which invest in authorized instruments.

**Money Markets:** Money market mutual funds which invest in authorized instruments.

### **8.9 Safekeeping and Custody**

When a broker dealer holds, investments purchased by the City of Issaquah in safekeeping, the broker-dealer must provide asset protection of \$500,000 through the Securities Investor Protector Corporation (SIPC) and at least another \$49.5 million supplemental insurance protection.

### **8.10 Diversification**

The City will attempt to diversify its investments per type and maturity. The portfolio, as much as possible, will contain both short-term and long-term investments. The City will attempt to match its investments with anticipated cash flow requirements, as per the long-range financial plan. Extended maturities may be utilized to take advantage of higher yields and to match investment maturities with debt obligations; however, no more than 20% of the total investments should extend beyond five years. Unless prior City Council approval is received, no investment with a maturity exceeding 10 years will be purchased.

- The City will attempt to ~~diversity~~ **diversify** its investment portfolio per broker-dealer or financial institutions. No more than 65% of the entire investment portfolio shall be held with one broker.

### **8.11 Reporting**

Periodic required investment reports to policymakers and elected officials provide necessary written communication regarding investment performance, risk analysis, adherence to policy provisions, as well as other information. The ~~Finance Director~~ **Chief Financial Officer** shall provide the City Council periodic investment reports, which provide a clear picture of the status of the current investment portfolio. The management report should include a summary of securities held at the end of the reporting period by authorized investment category, percentage of portfolio represented by each investment category, percentage of portfolio represented by each financial institution, and overall portfolio values.

## **9.0 LONG-TERM FINANCIAL PLANNING**

The City's budget process involves incorporating the goals and strategies identified by the City Council to provide for the community's highest priority needs. Long-term planning begins with determining the City's fiscal capacity based upon long-term financial forecasts of recurring available resources.

### **9.1 Model Objective**

A 5-year Financial Model that integrates the 5-year Capital Improvement Plan (CIP) is utilized to assist the City Council, Executive Department and Department Directors in strategizing and aligning financial capacity with the City Council Strategic Plan and objectives. The long-term financial model serves as a foundation for conversations regarding purchases and project planning. The forecasting model utilized will be conservatively objective to minimize the risk of being too optimistic in forecasting revenue sources.

The model will include an analysis of historical, current and future year's financial environment, revenue, operating and capital expenditure forecasts, debt positions and affordability analysis. The financial model will be updated as needed to provide direction to the budget process and other fiscal decision making actions of the City Council.

## 10.0 AUDITING, ACCOUNTING & INTERNAL CONTROL

The City of Issaquah will establish and maintain a high standard of accounting practices and procedures. Accounting standards will conform to Generally Accepted Accounting Principles (GAAP) as outlined by the Governmental Accounting Standards Board (GASB). Accounting standards will reflect Best Practices recommended by the Government Finance Officers Association (GFOA) and chart of accounts required by the Washington Office of the State Auditor (SAO) BARS manual.

After each fiscal year, the City will prepare a Comprehensive Annual Financial Report (CAFR) and the Washington SAO will conduct an audit of the City financial transactions, contract management and internal control. The report will include a financial opinion and a management and compliance report on internal controls. Annually, a comprehensive annual financial report will be prepared by the City. This report shall be made available to elected officials, city management, bond-rating agencies, and the public.

### 10.1 Internal Control

The City Council and City Management is responsible for ensuring and maintaining a system of internal control to safeguard its assets against loss, check the accuracy and reliability of its accounting data, promote operational efficiency, and encourage adherence to prescribed financial procedures.

The ~~Finance Director~~Chief Financial Officer shall develop internal control processes or financial procedures to ensure and maintain a strong internal control function. Periodic updates and new recommended practices set forward by the SAO and GFOA are communicated and addressed with the City Council. Any weakness in internal control and accounting procedures shall be addressed immediately by the Mayor, City Administrator or ~~Finance Director~~Chief Financial Officer so a timeline to remedy improvement can be established.

### 10.2 Accounting Write-offs

The ~~Finance Director~~Chief Financial Officer shall make every effort to collect all receivables owed to the City and will comply with RCW Ch. 4.16 regarding collection actions by local governments. The following is criteria that must be met before a receivable is allowed for write-off:

- Standardized collection procedures have been exhausted
- A determination has been made that the debt is uncollectible or that further measures to collect the debt are inappropriate and deemed to exceed the cost of collection
- The characteristics of the debt are such that write-off is appropriate - If funds are uncollectible, the ~~Finance Director~~Chief Financial Officer would decide for write offs to a bad debt expenditure up to \$5,000. City Council approval is required for balances above this threshold and must accompany the write off to the bad debt expenditure.
- The reason for the write-off is documented adequately and is made available for audit.

### 10.3 Petty Cash and Bank Account Controls

The ~~Finance Director~~Chief Financial Officer shall establish processes for control and handling of petty cash funds, which include investigative buy funds. The ~~Finance Director~~Chief Financial Officer will oversee and manage all City of Issaquah Banking Accounts such as Imprest accounts, Claims accounts, and Payroll accounts within financial procedures. Bank accounts will be reconciled monthly.

## 10.4 Capital Assets

### 10.4.1 Capital Asset Classes

Capital assets are tangible and intangible assets acquired either by purchase or lease for use in operations that will benefit the local government for more than a single fiscal period.

Typical examples of capital assets include:

- Land and improvements to land, including right of ways and easements (real property)
- Buildings and building improvements
- Vehicles
- Machinery and equipment
- Works of art and historical treasures
- Infrastructure assets (roads, bridges, sidewalks, and utility system components (such as water lines, sewers, drainage systems)
- Intangible assets (easements, licenses, and computer software)

### 10.4.2 Capital Asset Records

The City shall maintain an accurate and updated listing of capital assets containing the following for each asset:

- Category of asset
- General ledger fund and asset account the asset is recorded in
- Individual or department assigned custody of the asset
- Acquisition information, including references to source documents and acquisition dates
- Source of payment (example: grant or bond proceeds) for regulatory compliance and the fund that “owns” the asset
- Historical cost
- Name and description of asset
- Any identifying numbers or legal descriptions (if applicable)
- Estimated useful life
- Disposition information (including the date and method)
- Insurance, maintenance, and repair instructions
- Physical inspection dates or condition of asset when it was inspected

### 10.4.3 Capital Asset Threshold

Capital asset thresholds are based upon the asset class with a useful life greater than 3 years purchased, constructed, leased or donated and the dollar amount stated below:

- Land and improvements to land, including right of ways and easements (real property): \$5,000 or greater
- Buildings and building improvements: \$50,000 or greater
- Vehicles: \$5,000 or greater
- Machinery and equipment: \$5,000

- Works of art and historical treasures: \$5,000
- Infrastructure assets (roads, bridges, sidewalks, and utility system components (water lines, sewers, drainage systems): \$50,000 or greater
- Intangible assets (easements, licenses, and computer software): \$50,000 or greater

#### **10.4.4 Capital Asset Depreciations**

For purposes of asset disposition and equipment replacement planning, the City shall depreciate capital assets under a straight-line method, based on the asset's useful life to a book value of \$1.00 or salvageable value. Asset life is determined in accordance with IRS guidelines, [Publication 946 Appendix B](#):

- Land and improvements to land, including right of ways and easements: 30-50 years
- Buildings and building improvements: 30-50 years
- Vehicles: 3-20 years
- Machinery and equipment: 3-20 years
- Infrastructure assets (roads, bridges, sidewalks, water lines, sewers, drainage systems): 30-40 years
- Intangible assets (easements, licenses, and computer software): 3-5 years

#### **10.4.5 Capital Asset Impairment**

GASB Statement 42, Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries [Summary of Statement No. 42 \(gasb.org\)](#) requires the immediate recognition of decreases in the productive capacity of capital assets (impairment) that are expected to remain in service, even if there is no change in the estimated useful life of the asset.

GASB 42 identifies four indicators of possible impairment:

- Evidence of physical damage – such as an office building damaged in a storm
- Changes in legal or environmental factors – such as an underground storage tank that is no longer usable due to changes in environmental standards
- Changes in manner or duration of use – such as an administrative building being used as a warehouse
- Construction stoppage – legal or practical reasons may cause to abandon a construction project, such as a road construction that threatens the habitat of endangered species

GASB 42 notes that the presence of one of these indicators does not automatically prove that the impairment has occurred. The nature of the impairment should be only permanent. A permanent impairment is based upon judgement of the asset function and/or purpose.

#### **10.4.6 Inventory**

An inventory of capital assets should be performed at least once every two years per the 2 CFR §200.313. The inventory shall be performed by the ~~Finance Director~~Chief Financial Officer or his/her designee.

#### **10.5 Inventory of Small and Attractive Items**

Operating departments shall be responsible for conducting regular inventory of their small and attractive items (i.e., cell phones, tablets, hand tools, power equipment, etc.) and submit a physical inventory to the ~~Finance Director~~Chief Financial Officer or ~~his/her~~their documented designee.



### 10.6 Surplus Assets

The Mayor or ~~authorized~~their documented designee may administratively surplus ~~non-public utility office~~goods, equipment, ~~computer equipment, small tools, computer software and minor equipment~~other personal property with a value of less than \$5,000. Titled vehicles, real property, and any City property with a value of greater than \$5,000 will be surplusd by the City Council by resolution. Surplus of real property shall comply with the City’s Surplus Real property Policy. The ~~Finance Director~~Chief Financial Officer or ~~his/her~~their documented designee shall be responsible for the accounting of all surplus property transactions.

#### 10.6.1 Surplus ~~or Inter-Governmental~~and Disposition of Public Utility Assets

As per ~~Ch.RCW 35.94.040 RCW~~, titled vehicles, surplus of any real property, and personal property, or equipment that was originally acquired (in whole or part) for public utility purposes and which are may be surplusd if no longer required for providing continued public utility service may be surplusd. If the estimated value of the property is less than \$5,000, the property may be administratively surplusd by the Mayor or their documented designee. If the estimated value of the property is between \$5000 and \$50,000, the property must be surplusd by the City Council via resolution. If the estimated value is greater than \$50,000, a public hearing and subsequent City Council resolution are required before the item is surplusd. Surplus of real property originally acquired for public utility purposes must also comply with the City’s Surplus Real Property Policy

### 10.7 Risk Management

The City will periodically review its insurance options for each risk or hazard and medical options to determine whether it is most cost effective to purchase commercial insurance, to fund a self-insurance program or to participate in a “pooled” self-insurance program with other jurisdictions. Such a determination should consider the long-term financial obligations of such a decision as well as the regular fluctuations in commercial insurance markets. Where the City decides to self-insure a risk, the City shall fully fund the expected costs of those risks through actuarial or other professional estimates of those costs.

## FINANCIAL MANAGEMENT POLICY ADOPTION

The City of Issaquah Financial Management Policy shall be adopted and amended by action of the City Council. The Issaquah City Council shall review the policy periodically and any modifications made thereto must be approved by the City Council.

### Policy Approved on: September 5, 2017- Ordinance 2805

This policy replaces separate, previously adopted policies and procedures regarding revenue management, procurement and contract management, fund reserves, purchasing or commercial credit cards, asset management policies or any other policy regarding financial management and financial procedures.

- Policy Amended on: **January 21, 2020 – Ordinance 2899**
- September 7, 2021 – Ordinance 2950**
- March 21, 2022 – Ordinance 2969**
- April 4, 2022 – Ordinance           2971**
- Jan. 16, 2024 – Ordinance 3045**