

RESOLUTION NO. 2017-011

**A RESOLUTION OF THE CITY OF ARLINGTON REPLACING RESOLUTION NO. 2014-024
AND ADOPTING REVISED FINANCIAL POLICIES FOR THE CITY**

WHEREAS, the National Advisory Council on State and Local Budgeting Practices recommends budget practices, including the development of a series of financial policies; and

WHEREAS the Arlington City Council has reviewed and deliberated on the recommended revisions to the financial policies and finds that it is in the best interest of the city to adopt financial policies;

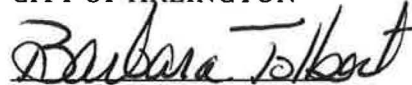
NOW, THEREFORE, BE IT HEREBY RESOLVED BY THE CITY COUNCIL OF THE CITY OF ARLINGTON:

Section 1. The "Financial Management Policies" dated June 5, 2017 are hereby adopted as the financial policies and practices of the City.

Section 2. This resolution shall take effect immediately upon passage thereof.

APPROVED by the Mayor and City Council of the City of Arlington this 5th day of June, 2017.

CITY OF ARLINGTON



Barbara Tolbert
Mayor

ATTEST:



Kristin Banfield
City Clerk

APPROVED AS TO FORM:



Steven J. Peiffle
City Attorney

Financial Management Policies



City of Arlington
Adopted 6/5/2017

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Purpose:

The Comprehensive Financial Management Policy assembles all of the City's financial policies in one document. They are the tools to ensure that the City is financially able to meet its immediate and long-term service objectives. The individual policies contained herein serve as guidelines for both the financial planning and internal financial management of the City.

The City of Arlington is accountable to its citizens for the use of public dollars. Municipal resources must be wisely used to ensure adequate funding for the services, public facilities, and infrastructure necessary to meet the community's present and future needs. These policies safeguard the fiscal stability required to achieve the City's goals and objectives.

Objectives:

In order to achieve its purpose, the Financial Management Policies have the following objectives for the City's fiscal performance.

- A. To guide the City Council and management policy decisions that have significant impact.
- B. To set forth operating principles that minimize the cost of government and financial risk.
- C. To employ balanced and fair revenue policies that provide adequate funding for desired programs.
- D. To maintain appropriate financial capacity for present and future needs.
- E. To promote sound financial management by providing accurate and timely information on the City's financial condition.
- F. To protect the City's credit rating and provide for adequate resources to meet the provision of the City's debt obligations on all municipal debt.
- G. To ensure the legal use of financial resources through an effective system of internal controls.
- H. To promote cooperation and coordination with other governments and the private sector in the financing and delivery of services.

Reserve Policies:

Adequate reserve levels are a necessary component of the City's overall financial management strategy to mitigate current and future risks such as revenue shortfalls or unanticipated expenditures. Reserve levels are also a key factor in external agencies' measurement of the City's financial strength which results in favorable credit ratings and access to lower cost of financing.

- A. The City will strive to maintain a Mandatory General Fund Reserve with a target balance of eight percent (8%) of the total General Fund budgeted taxes and license & permit revenues. These operating reserves are maintained to address temporary revenue shortfalls; payment of approved expenditures due to cash flow shortage; reserves for expenditures deemed necessary by the Mayor and City Council; temporary short-term inter-fund loans, and other unanticipated expenses as approved by the City Council. An annual contribution will be budgeted from General Fund resources as available to maintain the target reserve level.
- B. The City will maintain an ending fund balance within the General Fund of an amount equal to one month of operating expenditures. Use of any required reserves or surplus funds will be approved by council through the budget process.
- C. The City will maintain a Capital Facilities/Building Fund to provide funding for future facilities including debt repayment, less proprietary fund projects. Contributions into this fund will be made from available funds as identified in the adopted or amended budget.
- D. The City will maintain an Equipment Replacement Fund that will receive annual contributions from the operating expenses of departments owning the equipment. Contributions will be based on availability of funds as approved through the budget process. The intent is to replace equipment at the end of the asset's useful life.
- E. It shall be best practice of all enterprise funds to maintain an ending fund balance (in operational funds) of an amount equal to or greater than one month operating expenses or an amount as otherwise required by federal, state or other regulations (i.e. rate studies, debt covenants).
- F. Reserves that fall below the minimum standards will require a financial plan presented to council within 60 days of the shortfall. Fund balances will be restored to the minimum standard within a 3 year period.
- G. All expenditures drawn from reserve accounts shall require prior Council approval unless previously specifically authorized by the City Council through the budget and/or budget amendment process.

Revenue Policies:

The City will identify resources that are sufficient to provide for the regular and ongoing operations associated with providing public services.

- A. To the extent possible, a diversified and stable revenue system will be maintained to shelter public services from short-run fluctuations in any one revenue source. Trends analyzing the dependence on distinct revenue sources shall be included in the budget documents for consideration by the Council.
- B. Revenue forecasts shall be realistically estimated and based on the best information available. The finance director is responsible for developing a policy for the collection of revenues. The policies will include any and all collection methods allowable by state and federal statute or otherwise provided for in Municipal Code, leases or other agreements. If all collection efforts have been exhausted, the finance director has authority to write off uncollectible accounts up to \$2,500 and the city administrator has authority to write off uncollectible accounts up to \$5,000. Any write off in excess of \$5,000 require council approval.
- C. Revenue forecasts will assess the full spectrum of resources that can be allocated for public services. Each year the Council shall review potential sources of revenue as part of the budget process.
- D. The use of one time revenues to fund ongoing expenditures is discouraged.
- E. Property taxes provide a consistent base of revenues for the City to provide public services. The City shall levy property taxes within its statutory limit or bank the levy capacity so the City can continue to provide a safe, economically vibrant place to live and work.
- F. Short-term (anticipated less than one year) economic downturns and temporary gaps in cash flow: Expenditure reductions or restrictions may be imposed. Inter-fund loans may be used to address short-term cash flow needs as authorized by Chapter 3.90 of Arlington Municipal Code.
- G. Long-term (greater than one year) revenue downturns: Revenue forecasts will be revised. Expenses will be reduced to conform to the revised long-term revenue forecast or revenue increases will be considered. The City will not pursue deficit financing and borrowing to support on-going operations as a response to long-term revenue shortfalls.
- H. All potential grants shall be carefully examined for matching requirements. Some grants may not be accepted if the local matching funds cannot be justified. Grants may also be rejected if programs must be continued with local resources after grant funds

are exhausted.

- I. The City shall develop and maintain a comprehensive list of various fees and charges. Fees may be set at levels sufficient to cover the entire cost of service delivery (such as in "Enterprise Funds"), or the service may be subsidized, as Council deems appropriate. The City will systematically review user fees and rates and consider adjustments as necessary to take into account the effects of additional service costs and inflation. Rate studies shall be conducted to ensure that the rates will continue to support direct and indirect costs of operations, administration, plant maintenance, debt service, depreciation of capital assets, and moderate system extensions. Based on a market analysis, fees for similar services in other communities may also be considered. The criteria used to evaluate recommended target rates (equity, cost recovery policy, market demand, etc.) shall be included in the staff report during the review. Such review should be scheduled periodically and be incorporated into the budget process for possible action by the City Council.
- J. The City, or Council approved board(s) or commission(s), will review contracts and leases which result in revenues to the City. Leases and contracts will be reviewed on a timely basis, prior to the expiration date or at least every 3 years if on a continuing basis.
- K. The City will refrain from using grants to meet ongoing service needs. Grants will be evaluated from a financial planning perspective to ensure the City has adequate matching funds (if applicable). Grants with a matching component, not previously approved through the budget process, require Council approval. All other grants will be approved by City Council through the budget amendment process and will be reviewed to ensure compliance with state, federal and City regulations.

Expenditure Policies:

The City will provide for a sustainable level of service by adopting a balanced budget where ongoing resources are sufficient to support ongoing expenditures.

- A. The City will only propose operating expenditures, which can be supported from on-going operating revenues. Before the City undertakes any agreements that would create fixed on-going expenses, the cost implications of such agreements will be fully determined for current and future years. Capital expenditures may be funded from one-time revenues, but the operating budget expenditure impacts of capital expenditures will be reviewed for compliance with this policy provision.
- B. Department heads are responsible for managing their budgets within the total appropriation for their department. The finance director is responsible for oversight of all budget expenditures and is authorized to make unilateral changes within line item expenditures as long as the changes are within the overall budget.
- C. The City will maintain expenditure categories according to prescribed accounting standards, state statute, federal and administrative regulation. All expenditures shall be audited and certified by the finance director or designee prior to submitting to the City Council for approval.
- D. All expenditures must be related to some public purpose and are reasonable in the amount and nature.
- E. The City will assess funds for services provided internally by other funds. The estimated direct and indirect costs of service will be budgeted and charged to the fund performing the service. Interfund service fees charged to recover these costs will be recognized as revenue to the providing fund. A review of the method for determining the amount of the interfund assessment will be reviewed periodically.
- F. Emphasis is placed on improving individual and work group productivity rather than adding to the work force. The City will invest in technology and other efficiency tools to maximize productivity. The City will hire additional staff only after the need of such positions has been demonstrated and documented.
- G. All compensation planning and collective bargaining will focus on the total cost of compensation, which includes direct salary, health care benefits, pension contributions, training allowance, and other benefits of a non-salary nature, which are a cost to the City. Collective bargaining decisions will not negatively impact the City's efforts to maintain reserve balances in compliance with the City's reserve policy.

Budget and Operating Policies:

The City will maintain a system of financial monitoring, control, and reporting for all operations and funds in order to provide effective means of ensuring that overall City goals and objectives are met.

- A. Accounting Records and Reporting.
 - a. The City will maintain its accounting records in accordance with state and federal regulations, which includes requirements for data retention for archival purposes and business continuity.
 - b. City records will be archived and destroyed in accordance with the Washington State Records Retention Schedule
 - c. The continuation of services after a disaster is critical to the success of the City. The City must ensure that its applications, data and network resources can continue and be appropriately accessible to users. The information technology department is responsible for developing procedures for the security, storage, retention and retrieval of data to ensure operations continue during and after a disaster.
 - d. Budgeting, accounting and reporting will conform to the Budgeting, Accounting and Reporting System (BARS) for Governments as prescribed by the Washington State Auditor. Changes to the City's revenue and expense accounts must be authorized by the finance department and will be made only if it's in the best interest of the overall accounting system.
 - e. All known or suspected loss of public funds shall be reported to the State Auditor's Office in accordance with RCW 43.09.185.

- B. Auditing. The State Auditor will perform the City's financial and compliance audit in accordance with state and federal laws. Results of the audit will be provided to the Council in a timely manner.

- C. Simplified Fund Structure. To the extent possible, the City will minimize the number of Funds. Funds will be created and accounted for in accordance with BARS.

- D. Cash Management.
 - a. The Finance Department will develop, maintain, and consistently seek to improve cash management systems which ensure the accurate and timely accounting, investment, and security of all cash assets.
 - b. There are several locations where monies are received by the City. Those locations are: the Finance office, the Airport office, the Permits office, the Police department, the Public Works office and the Cemetery office.
 - c. Deposits will be made every 24 hours as per RCW 43.09.240, including deposits received from City departments by the finance department.
 - d. The Finance, Airport and Permits office locations all have cash drawers. These funds are used to make change for cash payments. The amount of these cash drawers are authorized by resolution.

- e. No change shall be given when a check is presented for payment.
- f. Cash refunds are prohibited. Refunds shall be processed through the method payment was received such as by check or credit card.
- g. No one is authorized, at any time, to borrow funds from any cash drawer. Doing so will result in discipline up to and including termination.
- h. The Finance Office also has a Petty Cash Revolving Fund (Checking Account). The Petty Cash Fund is authorized in the Arlington Municipal Code Section 3.69. This fund is used to pay very small expenditures or reimburse small expenditures made where waiting for a payment from the normal payment process is unreasonable. No one is authorized to borrow monies from this Fund.

E. Budget.

- a. The City's budget is part of an overall policy framework that guides the services and functions of the City. The budget serves as a key role in that framework by allocating financial resources to programs which implement the City's overall vision and goals.
- b. All decisions will be within the context of long-range plans (Capital Facilities Plan, Comprehensive Plan/Capital Improvement Plan, Long Term Financial Plan). Staff shall provide a review of the implications of budgetary proposals on long-range plans.
- c. The City will develop and maintain a ten year financial plan that estimates the resources and expected costs over a ten year period. This planning tool will provide the City's decision makers with an indication of long-term fiscal impacts of current policies and budget decisions.
- d. The budget shall be developed consistent with state law and in a manner which encourages early involvement with the public and City Council. A calendar related to budget development shall be presented to the City Council each year. The budget will be adopted by ordinance at the fund level.
- e. The budget will be developed to consider long term financial implications. The City will strive to build a budget so that recurring expenditures are covered by recurring revenues and a budget that supports a trend of revenues growing at a rate equal to or greater than expenditures.
- f. The Finance Department will maintain a system for monitoring the City's budget performance. The system will provide the City Council with monthly and or quarterly information in a timely manner on fund level resource collections and department level expenditures.
- g. Under the provisions of State Law and the City's operating procedures, the budget may be adjusted or amended in two different ways. Adjustment of the budget involves a reallocation of existing appropriations and does not change the "bottom line". No City Council action is needed as State Law allows budget adjustments to be done administratively.
- h. Amendment of the budget involves an addition to or reduction of existing appropriations. A budget amendment requires an ordinance amending the original budget and identifies the funding sources for the incremental

appropriations. Items that may require a budget amendment, such as an unanticipated grant, will be approved by City Council throughout the year in accordance with the City's procurement and expenditure policies. A formal Budget Amendment Ordinance will be adopted by City Council no later than December 31 of the second year of the biennium.

Capital Assets Policies and Procedures:

- A. Purpose. This policy is established to provide guidelines to ensure adequate stewardship over City resources through control and accountability of capital assets, and to collect and maintain complete and accurate capital assets information in the Capital Assets System.
- B. Reference. Specific requirements of the Washington State Auditor's Office are contained in *Budgeting and Reporting System* (BARS) which will be applied by the City as relevant. In addition, the federal government has issued property management requirements which apply to all governments that receive federal assistance. Each federal agency has published a Federal Agency Implementation of the Common Rule which will be adhered to as applicable. The policies and procedures contained in this policy are not intended to and may not supersede federal, state or local laws.
- C. Definitions
- a. "Capital Assets" are defined as land, buildings, improvements, equipment, machinery, vehicles, tools, works of art, furnishings and other improvements costing more than \$7,500 and have a useful life of more than one year. These assets will be tracked and an inventory listing will be maintained.
 - b. "Control"- Being in charge of, and having the authority to manage the asset. Having the custodial responsibility of the asset that includes, but is not limited to the caring, keeping, safekeeping and protecting the asset.
 - c. "Inventory" – The process of physically confirming the existence and location of capital assets.
 - d. "Small and Attractive Assets" - All assets with a cost less than \$7,500 and at risk or vulnerable to loss are considered "small and attractive assets". These assets will be tracked and an inventory listing will be maintained. Assets considered to be small and attractive include, but are not limited to the following;
 - i. Communications Equipment; both Audio and Video
 - ii. Optical Devices, Binoculars, Telescopes, Infrared Viewers, and Range finders
 - iii. Cameras and Photographic Projection Equipment
 - iv. Microcomputer Systems, Laptop and Notebook Computers
 - v. Other data processing Accessory Equipment and Components (Scanners, Data Displays, etc.)
 - vi. Office Equipment
 - vii. Stereos, Radios, Television Sets, Tape Recorders, DVD players, Video Cameras and cell phones
- D. Applicability. This policy applies to all departments of the City of Arlington. The term "Department" is defined to include every city office, officer, and every department, division, board and commission.
- E. Insurance. Insurance is required for all land, building and vehicle purchases and assets with a cost in excess of \$25,000 as deemed appropriate by the finance department.

- F. Department responsibilities. Department directors are responsible for tracking, inventory and safekeeping of all assets assigned to their department. Each department is responsible for notifying the finance department, in writing, any assets purchased, sold, traded, transferred, surplus, lost or stolen. The finance department is responsible for keeping and updating the fixed asset database, coordinating the physical inventory process and developing procedures for the safeguarding of assets.
- G. Capital Outlay. All assets with a cost of \$7,500 or more will be recorded as capital outlay. Although *Small and Attractive Assets* (assets costing less than \$7,500 do not meet the city's capital outlay threshold, due to ease of conversion to private use, they are considered assets for purposes of marking and identification, records keeping, and tracking.
- H. Valuation of Capital Assets. The City of Arlington reports its financial activity on a cash basis. Expenditures for capital assets will be expensed at cost in the period the expenditure occurred.
- I. Small and Attractive Assets.
- a. Small and attractive assets shall be expensed.
 - b. Annually each department will conduct an inventory verified by the Finance Department on a sampling basis.
 - c. Small and attractive assets (even if they do not contain an asset tag) may not be transferred, traded, sold, auctioned, gifted, surplus, or discarded without written notice to and authorization from the Finance Department.
- J. Improvement/Repair/Maintenance Expenses. Routine repair and maintenance costs will be expensed as they are incurred.
- K. Deletions. Asset deletion (assets over \$7,500) may be required due to the sale of the asset, scrapping, lost or stolen items, or involuntary conversion (fire, flood, etc). Due to the monetary value, capital assets deleted from the capital asset system for any reason require authorization by resolution of the City Council.
- L. Disposal.
- a. Disposal of capital assets may occur only after being declared surplus by resolution of the City Council. A Public Hearing is required if the asset was owned for Public Utility purposes.
 - b. Disposal will be made in whichever manner is determined to be most cost effective for the City. This may include sale, disposal, conversion, or any other means as approved by the City Council in the surplus declaration.
 - c. When original or replacement equipment acquired under a grant or sub-grant is no longer needed for the original project or program, disposition of the equipment will be made as follows:
 - i. Items of equipment with a current per-unit fair market value of less than \$7,500 may be retained, sold or otherwise disposed of with no

- ii. Items of equipment with a current per-unit fair market value of \$7,500 or more may be retained, sold or otherwise disposed of only as authorized by the awarding agency.
 - iii. In the event the City is provided federally owned equipment, the City will comply with federal requirements known as “the common rule” or as specifically stated in the grant agreement.
- M. Lost or stolen property. When suspected or known losses of capital assets or small and attractive items occur, departments should conduct a search for the missing property and immediately notify the finance department. The finance department will report known or suspected losses of assets to the State Auditor’s Office in accordance with RCW 43.09.185.
- N. Transfers. Occasional transfers of property between departments, individuals within a department or funds may occur. The original controlling department is accountable for all assets in its inventory and for initiating a notice of transfer. Interdepartmental transfers involving a proprietary fund (i.e. Surface Water) require a transfer of money. The sale price will be fair market value with exception of a trade between departments of assets of similar value.
- O. Inventory. The Finance department is responsible for establishing procedures for the inventory and reconciliation process. A physical inventory will be conducted at least once every year. As coordinated by the finance department, each department will conduct a physical inventory of the items, verifying the existence and condition of each item on the worksheet, and making note of any additions, deletions, interdepartmental transfers, modifications, or leases of property that are not reflected on the list. Verification of the inventory shall be done annually by the Finance Department by performing a sampling of the physical inventory of the items.
 - a. Inventory of IT (Information Technology) related items.
 - i. The Information Technology Department will be responsible for inventorying all stationary items such as desktop computers, laptop computers with docking stations, servers, printers and network equipment.
 - ii. Individual departments will be responsible for inventorying all “portable” small and attractive IT related items such as: Tablets (iPad, Android, etc.) and mobile computers (Netbooks, Police Car computers, Fire tablets etc.)
 - b. In order to ensure objective reporting of inventory items, personnel having no direct responsibility (custody and receipt/issue authority) for the assets should perform the physical inventory. If it is not feasible to use such personnel for all or a part of the inventory, then those portions are; at least, to be tested and verified by a person with neither direct responsibility for that portion of the inventory nor supervised by the person directly responsible. Departments are encouraged to exchange and use personnel from other departments to perform their inventory if possible.

P. Retaining physical inventory records. The documentation will be retained in accordance with the Washington State Retention Records Schedule and must be retained until after the next annual audit.

Purchasing Policies and Procedures

- A. Purpose. This policy is intended to direct the purchase of goods and services at a reasonable cost, using an open, fair, documented and competitive process whenever reasonable and possible. The integrity, efficiency, and effectiveness of Arlington's procurement functions are critical elements of sound government.
- B. Policy statement.
- a. The City desires a fair and open process for procurement of goods and services that is free from the potential for bias and conflict of interest. In addition, the City desires consistent and appropriate practices for solicitations and contracting. All procurements of goods and services shall provide the City with the best quality and best value. All purchases are to be made within budgetary limitations and for the purpose of the goals and objectives approved in the City's budget. Any requested purchase that is not included in the current City budget shall be pre-approved by the Department Director, City Administrator, or City Council, based on allowable signing authority. All purchases made by the City shall ultimately be approved by the City Council through the voucher approval process.
 - b. All City of Arlington departments shall make a good faith effort to purchase goods within the City when they are available and suitable to City needs at a price that is competitive. Departments are expected to procure goods and services that are of high quality and that perform for their intended purpose, and to use good judgment during the procurement process.
 - c. The Finance department is charged with developing administrative procedures to implement this policy. Procedures should ensure the fiscal responsibility of the City in expending resources for goods and services for City operations. The procurement procedures of the City shall be based on guidelines provided in the Revised Code of Washington, by the State Auditor's Office, and by Municipal Research Services Center.
 - d. The purchasing procedures of this policy govern the purchase of supplies, materials and equipment, nonprofessional and professional services, and public works contracts. These policies authorize the City to procure goods and services through the small works roster process as defined in Section VI.D. The small works roster procedures are established for use by the City, pursuant to RCW 35.23.352, 35A.40.210 and Chapter 39.04 RCW. Leases of equipment or other personal property shall follow procedures for purchase of goods, with the aggregate of lease payments used in lieu of purchase price. Purchase or lease of real estate, franchise agreements, and intergovernmental or inter-local agreements will be entered into in accordance with state law.
 - e. Each City Department purchases specialty items unique to their function and items that are purchased just in time to make necessary repair or to keep equipment and amenities in safe a good working order. All department directors will make good faith effort to utilize a central purchasing for purchases of consumable goods and reoccurring purchases. This will enable the best value by combining orders and purchasing in bulk on larger quantities when possible.

C. Definitions.

- a. "Architectural and engineering services" means professional services rendered by any person, other than a City employee, to perform activities within the scope of the professional practice of architecture (Chapter 18.08 RCW), professional practice of engineering and land surveying (Chapter 18.43 RCW), and/or professional practice of landscape architecture (Chapter 18.96 RCW).
- b. "Contract Authorization Summary" outlines the levels at which managers, directors, or the Mayor may commit the City to a contract. Attached as Exhibit B.
- c. "Formal competitive bid" is the process of advertising and receiving sealed written bids from perspective vendors. The selection of the vendor is primarily based on the lowest cost from a responsible vendor.
- d. "Informal competitive quotes" are price quotes from vendors that are obtained using a variety of mediums such as phone, fax, e-mail, or writing. Results must be documented. The selection of the vendor is primarily based on the lowest cost from a responsible vendor.
- e. "Inter-local agreements" are the exercise of governmental powers in a joint or cooperative undertaking with another public agency.
- f. "Life cycle cost" means the total cost of an item to the City over its estimated useful life, including costs of selection, acquisition, operation, maintenance, and where applicable, disposal, as far as these costs can reasonably be determined, minus the salvage value at the end of its estimated useful life.
- g. "MSRC Small Works and Consultant Roster" is a shared statewide small public works and consultant roster service managed by the Municipal Research and Services Center of Washington used by Washington state local public agencies. The Small Works and Consultant Roster is maintained and operated in full compliance with state laws and purchasing requirements.
- h. "Nonprofessional services" are services that are purchased by the City for which the contractor receives specific instructions and guidance from the City and does not meet the definition of professional services, architectural and engineering services, or public works projects. Examples include machine repair, debt collection services, temporary service agencies, credit card services, equipment service agreements, auctioning services, delivery services, inspections, advertising, etc.
- i. "On-call contract" means a contract that is awarded with general provisions for the services to be rendered. As services are to be rendered, specific task orders are initiated that are to be completed by the contracting firm.
- j. "Ordinary maintenance" is work not performed by contract and that is performed on a regularly scheduled basis (e.g., daily, weekly, seasonally, semiannually, but not less frequently than once per year), to service, check, or replace items that are not broken; or work not performed by contract that is not regularly scheduled but is required to maintain an asset so that repair does not become necessary.
- k. "Prevailing Wage" is defined as the hourly wage, usual benefits and overtime, paid in the largest city in each county, to the majority of workers, laborers, and mechanics. Prevailing wages are established, by the Department of Labor and

Industries, for each trade and occupation employed in the performance of public work. They are established separately for each county, and are reflective of local wage conditions.

- l. "Professional services" are services provided by consultants that provide highly specialized, generally one-time expertise to solve a problem or render professional opinions, judgments or recommendations. The labor and skill involved to perform these types of services are predominately mental or intellectual, rather than physical or manual. Examples include graphics design, advertising, analysis, financial expertise, accounting, artists, attorneys, bond brokers, computer consultants, insurance brokers, economists, planners, real estate services, etc. This term does not include architectural and engineering services.
- m. "Public work," as defined in RCW 39.04.010, means a complete project, and includes all work, construction, alteration, repair or improvement other than ordinary maintenance, executed at the cost of the City or which is by law a lien or charge on any City property. Public work projects include the related materials, supplies and equipment to complete the project. For purposes of this policy, the term "public work" may include contracts for maintenance of City facilities or real property (i.e. janitorial services).
- n. "Request for proposals (RFP)" means a process that requests interested firms to submit a statement of their proposal for completing a project. Proposals are then evaluated based on the idea, including originality, suitability, practicality, expertise, etc. Proposals may be selected based on the quality of the proposal, experience, cost, and references.
- o. "Request for qualifications (RFQ)" means a process that requests interested consultants to submit a letter of interest and a statement of their qualifications. Consultants are evaluated upon their qualifications, expertise, and references. Cost cannot be a consideration until after a consultant has been selected at which point the price may be negotiated.
- p. "Small works roster" is a roster of qualified contractors maintained for use in a modified formal bid process. When the contract amount for a public works project is within the limits set forth by RCW 39.04.155, a city may follow the small works roster process for construction of a public work or improvement as an alternative to formal competitive bid requirements.
- q. "Small Works Roster Manual for Local Governments" is a manual prepared by the Municipal Research & Service Center of Washington (MRSC) that contains state laws and regulations regarding small works contracting.
- r. "Sole Source" occurs when competition among potential vendors is not possible for a particular procurement. These situations may occur when; there is clearly and legitimately only one source capable of supplying the subject matter, when there are special market conditions that result in only one source and in the event of an emergency.
- s. "Vendor list" means the process to award contracts for the purchase of any materials, equipment, supplies or services in lieu of formal sealed bidding pursuant to RCW 39.04.190.

D. General provisions.

- a. Grant funded projects may have additional regulations required for expending federal and state funding. The signature authority as outlined in the Contract Authorization Summary gives authorization to sign state and federal grant documents, the department director and/or finance director have signature authority to sign reimbursement request documents.
- b. Breaking Down or Splitting Purchases. The breaking down, or splitting, of any purchase or contracts into units of phases for the purpose of avoiding the maximum dollar amount is prohibited.
- c. It shall be the responsibility of the Central Purchasing Coordinator and City Clerk to ensure MRSC rosters and vendor lists are maintained, paid for and advertised as may be required by state law.
- d. Amendments and Change Orders.
 - i. Amendments or change orders to contracts, including inter-local agreements, which result in the final contract amount (original contract amount plus all change orders) in excess of purchase limits identified in this policy may be approved:
 1. By the City Administrator if the excess is 5% over the purchase limit.
 2. By the Mayor if the excess is 10% over the purchase limit.
 3. By City Council if the excess is more than 10% over the purchase.
 - ii. Contract amendments that keep the final contract amount within purchase limits may be administratively approved by the Department Director within signing authority.
 - iii. Contract amendments that are strictly a change in contract expiration date may be administratively approved by the Department Director.
- e. Signature Authority. The Mayor may delegate his/her signature authority to other City employees (City Administrator, Department Director, and Division Manager) as deemed appropriate.

E. Purchase of materials, supplies or equipment.

- a. Purchasing Limitations. Purchase limitations apply to the cost of individual items or the sum of the same items purchased at the same time to fulfill a specific business need, which are not part of a public works project as defined by RCW 39.04.010 and these policies. Cost is inclusive of sales tax, delivery charges and any related miscellaneous charges. Limits shown and processes identified in the Contract Authorization Summary shall be followed when authorizing the acquisition of materials, supplies or equipment.
- b. Exceptions to Purchasing Limitations (RCW 39.04.280). The Mayor is authorized to allow open market purchases without obtaining the regularly required competitive quotes or bids under the following conditions:
- c. Special Market Conditions. When supplies or used equipment is offered at a very favorable price and will be sold before the City will have a chance to complete the bidding process. It is possible to procure obvious bargains through the procurement of surplus or distress material, supplies or equipment without

following bidding procedures

- d. Auctions. RCW 39.30.045 authorizes the City to acquire supplies, materials, and equipment through an auction conducted by the United States or any agency thereof, an agency of the state of Washington, a municipality or other government agency, or any private party, without quotations or bids, if the items to be purchased can be obtained at a competitive price.
- e. Inter-local Joint Purchasing Agreements. Materials, equipment, supplies and services may be purchased under RCW 39.34.080 using joint purchasing agreements with a city, county, state or other public agency where bid requirements of this policy have been followed by the cooperating agency in obtaining bids. Originating agency's bid process shall be vetted to assure compliance with all applicable laws.
- f. Sole Source Procurement. A contract for the purchase of materials, supplies, or equipment may be awarded without complying with the bidding requirements of this policy when the department director determines in writing, subject to council approval through resolution, after conducting a good faith review of available resources, that there is only one source of the required materials, supplies, or equipment. The department director or his/her designee shall conduct negotiations, as appropriate, as to price, terms, and delivery time. Sole source purchases shall be made available for public inspection.
- g. No Bids or Quotations Received. When no bids or quotations are received in response to an invitation to bid or request for quotations, the department director or his/her designee is authorized to procure the required item through direct negotiations with a vendor or to rebid as the Mayor or designee deems appropriate.
- h. Emergency Procurements. Notwithstanding any other provisions of this policy, the Mayor or designated agent may make or authorize others to make emergency procurements of materials, supplies, equipment, or services without complying with the requirements of this section when there exists a threat to public health, welfare, or safety or threat to proper performance of essential functions; provided, that such emergency procurements shall be made with such competition as is practicable under the circumstances. A written determination of the basis for the emergency and for the selection of the particular contractor shall be included in the contract file. As soon as practicable, a record of each emergency procurement shall be made and shall set forth the contractor's name, the amount and type of the contract, and listing of the item(s) procured under the contract, which shall be reported to the City Council at the next subsequent meeting. The City must produce a negotiated contract for each emergency purchase within fourteen (14) days of procurement or the work being performed.
- i. RCW 39.04.280 allows waiving of competitive bidding for the purchase of insurance and bonds.
- j. Informal Competitive Quotes - Materials, Supplies or Equipment over \$3,000 up to \$7,500.
 - i. A City representative shall make an effort to contact at least three vendors. The number of vendors contacted may be reduced if the item being sought

is only available from a smaller number of vendors. When fewer than three quotes are requested or if there are fewer than three replies, an explanation shall be placed in the procurement file.

- ii. Whenever possible, quotes will be solicited on a lump sum or fixed unit price basis.
 - iii. At the time quotes are solicited, the City representative shall not inform a vendor of any other vendor's quote.
 - iv. A written record shall be made by the City representative of each vendor's quote on the materials, supplies, or equipment, and of any conditions imposed on the quote by such vendor.
 - v. All of the quotes shall be collected and presented at the same time to the appropriate designee as appropriate for consideration, determination of the lowest responsible vendor and award of purchase.
 1. Whenever there is a reason to believe that the lowest acceptable quote is not the best price obtainable, all quotes may be rejected and the City may obtain new quotes or enter into direct negotiations to achieve the best possible price. In this case, the department shall document, in writing, the basis upon which the determination was made for the award.
- k. Vendor Lists – Materials, Supplies or Equipment between \$7,501 and \$15,000
- i. The use of vendor lists is authorized by RCW 39.04.190 and whenever possible, requires at least 3 written, informal quotes.
 - ii. Vendor lists must be solicited at least twice per year in a newspaper of general circulation.
 - iii. Contracts must be awarded to the lowest responsible bidder.
 - iv. Immediately after the award from a vendor list, all bid quotations must be recorded and made open to public inspection.
 - v. At least every two months, the agency must post a list of contracts awarded using each list, including the date, the name of the contractor, the amount of the contract and a brief description of the items purchased.
- l. Formal Competitive Bid – Materials, Supplies, or Equipment over \$15,000
- i. General. Unless otherwise specifically approved by the City Council, all contracts relating to the purchase of materials, equipment, or supplies shall be in accordance with the City budget.
 - ii. Invitation for Bids. An invitation for bids shall be issued which shall include the specifications and the contractual terms and conditions applicable to the procurement.
 - iii. Public Notice. Public notice of the invitation for bids shall be published at least once in a newspaper of general circulation within the City, not less than 13 calendar days prior to the date set forth therein for the opening of bids, unless for good cause shown, the City Council authorizes a different period of time. The public notice shall state the date and time of bid opening. Bids not received by the date and time stated for bid opening will

- not be accepted or considered.
- iv. Bid Opening. Bids shall be opened publicly and recorded at the time and place designated in the invitation for bids.
 - v. Withdrawal of Bids - Cancellation of Awards. Bids may be modified or the bid may be withdrawn by written notice received in the office designated in the invitation for bids prior to the time set for opening. After bid opening, withdrawal of bids shall be permitted only to the extent that the bidder can show by clear and convincing evidence presented in a sworn affidavit or declaration submitted no later than 5:00 p.m. on the first business day after bid opening, that a clerical mistake was made and not a mistake in judgment, and the bid price actually intended. All decisions to permit the withdrawal of bids after bid opening, or to cancel awards or contracts based on bid mistakes, shall be made by the Mayor after consulting with legal counsel.
 - vi. Award. The City Council shall award purchases for amounts greater than the limits as identified in the City budget and for purchases not included in the adopted budget. The award of bid shall be made to the lowest responsible bidder whose bid meets the specifications and evaluation criteria set forth in the invitation for bids. The City may reject all bids at its discretion.
 - vii. All purchases of over \$7,500 (including tax) will have a completed and approved Capital Outlay Form submitted to the finance department prior to the purchase of materials, supplies, or equipment.
 - viii. Lowest Responsible Vendor. The following factors, in addition to price, may be taken into account by the City in determining the lowest responsible vendor; these criteria shall also apply in selecting products or services either offered with, or associated indirectly with, City programs or facilities:
 - ix. Any preferences provided by law to local products and vendors;
 - x. The ability, capacity, and skill of the vendor to perform the contract;
 - xi. The character, integrity, reputation, judgment, experience, and efficiency of the vendor;
 - xii. Whether the vendor can perform the contract within the time specified;
 - xiii. The quality of performance of previous contracts or services;
 - xiv. The previous and existing compliance by the vendor with laws relating to the contract;
 - xv. Such other information as may be secured having a bearing on the decision to award the contract.
 - xvi. Life Cycle Costing. In considering the purchase of materials, equipment, supplies, whenever there is a reason to believe that applying the "life cycle costing" method of quote evaluation would result in the lowest total cost to the City, first consideration shall be given to purchases with the lowest life cycle cost which complies with the specifications.
 - xvii. Recycled Products. The City shall also seek to maximize purchase of products using recycled materials and products suitable for recycling, unless the purchase will result in an unreasonable increase in price or

degradation of quality or performance over comparable products.

F. Public works projects.

- a. Purchasing Procedures. Procedures for any public work or improvement shall be governed by RCW 35.23.352. At such time as the City's population exceeds twenty thousand, purchases shall be governed by RCW 35.22.620.(RCW 35A.40.210) Cost for a public works project includes all amounts paid for materials, supplies, equipment, and labor on the construction of that project which is inclusive of sales tax, unless exempted by law.
- b. Purchasing Limitations. The Mayor may authorize the purchase and execution of public works projects equal to or less than the dollar threshold for small works projects as provided under RCW 39.04.155 as amended.
- c. Competitive Bids. "Craft" or "trade" means a recognized construction trade or occupation for which minimum wage categories are established by the Department of Labor and Industries of the State of Washington in the locality of the City's projects or purchases.
 - i. Projects for single craft or multiple crafts with a reasonably anticipated price equal to or less than the dollar thresholds as provided under RCW 35.23.352, as amended, require a minimum of 2 – 4 written quotes. All purchases require an executed contract.
 - ii. Projects for single craft or multiple crafts with a reasonably anticipated price higher than the dollar thresholds as provided under RCW 35.23.352, as amended, up to the limits set forth by RCW 39.04.155 as amended shall either use the small works roster or a formal competitive bid procurement process. All purchases require an executed contract.
- d. Small Works Roster. There is established for the City of Arlington a small works roster contract award process for accomplishment of public works projects with an estimated value threshold as provided under RCW 39.04.155, as amended.
- e. Roster List. The City of Arlington shall contract with the Municipal Research and Service Center (MRSC) annually to establish, maintain and manage a current roster of eligible contractors from which the City may solicit bids for work on Small Public Work Projects (Projects \$300,00 and under).
- f. Process. Whenever work that has received City Council approval in the current budget, or otherwise been approved by the City Council, is sought to be accomplished using a small works roster, a City representative shall obtain telephone, written or electronic quotations from contractors on the appropriate small works roster to assure that a competitive price is established and to award contracts to the lowest responsible bidder as follows:
 - i. A contract awarded from a small works roster need not be advertised. Invitations for quotations shall include an estimate of the scope and nature of the work to be performed as well as materials and equipment to be furnished. However, detailed plans and specifications need not be included in the invitation. This paragraph does not eliminate other requirements for architectural or engineering approvals as to quality and compliance with building codes.

- ii. Quotations shall be invited from all contractors in the appropriate category of the small works roster. As an alternative, quotations may be invited from at least five contractors on the appropriate small works roster who have indicated the capability of performing the kind of work being contracted, in a manner that will equitably distribute the opportunity among the contractors on the appropriate roster. If the estimated cost of the work is \$150,000 or more but less than or equal to the dollar threshold for small works projects as provided under RCW 39.04.155, as amended, the City may choose to solicit bids from less than all the appropriate contractors on the appropriate small works roster but must also notify the remaining contractors on the appropriate small works roster that quotations on the work are being sought. The City has the sole option of determining whether this notice to the remaining contractors is made by:
 - 1. Publishing notice in a legal newspaper in general circulation in the area where the work is to be done;
 - 2. Mailing a notice to these contractors; or
 - 3. Sending a notice to these contractors by facsimile or other electronic means.
- iii. For purposes of this policy, "equitably distribute" means that the City may not favor certain contractors on the appropriate small works roster over other contractors on the appropriate small works roster who perform similar services. At the time bids are solicited, the City representative shall not inform a contractor of the terms or amount of any other contractor's bid for the same project.
- iv. A written record shall be made by the project manager of each contractor's bid on the project and of any conditions imposed on the bid. Immediately after an award is made, the bid quotations obtained shall be recorded, open to public inspection, and available by telephone inquiry.
- v. At least once every year, the City Clerk or his/her designee shall provide a list of the contracts awarded under this process to the City Council and to the general public. The list shall contain the name of the contractor or vendor awarded the contract, the amount of the contract, a brief description of the type of work performed or items purchased under the contract, and the date it was awarded. The list shall also state the location where the bid quotations for these contracts are available for public inspection.
- g. Determining Lowest Responsible Bidder. Where bidders have not been prequalified, the City shall award the contract for the public works project to the lowest responsible and qualified bidder; provided, all bids may be rejected and the City may call for new bids.
- h. Cancellation of Invitations for Quotations or Bids. An invitation for quotations or bids may be canceled at the discretion of the department director. The reasons shall be made part of the contract file. Each invitation for quotations or bids issued by the City shall state that the invitation may be canceled. Notice of cancellation shall be sent to all parties that have been provided with a copy of the invitation. The notice shall identify the invitation for quotations or bids and state briefly the

reasons for cancellation.

- i. Limited Public Works Process. The City may use the limited public works process to award public works projects as provided under RCW 39.04.155, as amended.
- j. Formal Competitive Bid. For public works not using a small works roster, the formal competitive bid process, as defined by applicable `RCW's, shall be used.
- k. Bid Deposit, Performance Bond and Non-collusion Affidavit for Public Works Improvement Projects. Whenever competitive quotes or bids are required, a bidder may be required make a deposit in the form of a certified check or bid bond in an amount equal to not less than five percent of the total bid, which percentage shall be specified in the call for bids. As part of any bid submitted, the bidder shall be required to warrant that the bid is a genuine bid, and that he/she has not entered into collusion with any other bidder or any other person. All public works contractors shall furnish a performance bond in an amount equal to the total amount of the contract and an executed and notarized non-collusion affidavit on a form approved by the City Attorney. In lieu of a performance bond on contracts of \$35,000 or less, per RCW 39.08.010, a contractor may choose to have 50 percent of the contract retained for a period of 30 days after the date of final acceptance.

G. Contracts and Agreements for Services.

- a. Purchasing Limitations. Purchase limitations apply to the cost related to the acquisition of services to fill a specific business need. Cost is inclusive of any required sales tax and related expenses.
 - i. All initial agreements with governmental agencies require council approval; annual renewal or extension of existing contracts and agreements require the Mayor's approval.
- b. On-Call Service Contracts. On-call service contracts will be procured with the processes identified in subsection C below. Individual task orders of on-call service contracts shall not exceed \$50,000.
- c. Process.
 - i. Architectural, Landscape Architectural, and Engineering Services Contracts. Procedures set forth in Chapter 39.80 RCW shall be followed for contracts for architectural and engineering services, as defined in RCW 39.80.020.
 - ii. Roster. The City of Arlington shall contract with the Municipal Research and Service Center (MRSC) to establish, maintain and manage a current roster of eligible Architectural, Landscape Architectural and Engineering consultants from which the City may solicit bids for contract for providing these services.
 - iii. Contracts Less Than \$100,000. Contracts that have an estimated cost of less than \$100,000 can be procured using an informal request for qualification process. This process requires the City representative to develop a written scope of the project and any criteria used to select the service provider and then select a qualified contractor from the City's architectural, landscape architectural, and engineering service roster. If the City representative does not choose to use the appropriate roster, then a formal request for qualification process must be followed.

- iv. **Contracts Greater Than \$100,000.** Contracts that have an estimated cost in excess of \$100,000 must use a formal request for qualification (RFQ) process. The development of an RFQ along with the proper public notification shall be made in accordance with procedures adopted by the finance department in the best interest of the City; provided, however, that the Mayor may in the following circumstances waive the RFQ process for contracts greater than \$100,000, and allow the acquisition of services from the City's architectural, landscape architectural and engineering services roster:
 - 1. It is deemed in the best interest of the City to expedite the acquisition of services; or
 - 2. It can be demonstrated that there are sufficient consultants on the roster that possess the required qualifications to perform the scope of work; or
 - 3. A consultant on the City's roster has previously provided satisfactory service to the City, has previously provided services related to the specific project, and has the qualifications to perform the scope of work.
 - v. **Contract Required.** A contract is required to purchase architectural, landscape architectural, and engineering services.
 - d. **Professional and Nonprofessional Services (Services which are not Architectural, Landscape Architectural, and Engineering Services).**
 - i. **Contracts Less Than \$100,000.** Contracts that have an estimated cost of less than \$100,000 can be procured using an informal request for proposal process. This process requires the City representative to develop a written scope of the project and any criteria used to select the service provider. The City representative will use this information when selecting the contractor to provide the services. Multiple proposals are optional and at the discretion of the department director. If multiple proposals are used to make a selection, a standard process must be used for obtaining all proposals.
 - ii. **Contracts in Excess of \$100,000.** Contracts that have an estimated cost in excess of \$100,000 shall be procured using a formal request for proposal (RFP) process. The development of an RFP along with the proper public notification shall be made in accordance with procedures adopted by the finance department in the best interest of the City.
 - iii. **Contract Required.** A contract is required to purchase professional and nonprofessional services.
- H. **Sole Source Procurement.** A contract for the provision of services may be awarded without complying with the bidding requirements of this policy when the department director determines in writing, subject to Council approval through resolution, after conducting a good faith review of available resources, that there is only one source of the required services. The department director or his/her designee shall conduct negotiations, as appropriate, as to price, terms, and delivery time. Sole source purchases

shall be made available for public inspection.

I. Interlocal joint purchasing agreements.

Cooperative Purchasing. The City may enter into interlocal governmental cooperative purchasing arrangements with other public agencies similarly authorized under RCW 39.34.030 when the best interests of the City of Arlington would be served thereby. Any cooperative purchasing agreement shall set forth fully the purposes, powers, rights, objectives and responsibilities of the contracting parties and shall be governed by the requirements of State law in regard to competitive bidding, when applicable. The competitive bid process of the original jurisdiction shall substitute for Arlington's. All interlocal joint purchasing agreements shall be presented to the City Council for prior approval. Originating agency's bid process shall be vetted to assure compliance with all applicable RCW's.

J. Real property acquisition.

- a. Real Property - Mayor's Acquisition Authority. The Mayor or designee is authorized, in the following instances, to accept by gift or acquire dedications, easements, rights- of-way, fee estates or other interests in real property for use by or on behalf of the City or any department of the City:
 - i. Minor Acquisitions. Any such acquisition where the estimated value is less than \$10,000.
 - ii. All other real property acquisitions will be submitted to the City Council for approval.
- b. Real Property Mayor's Leasing Authority
 - i. The Mayor or designee is authorized to execute leases of real property on behalf of the City where the term of the lease does not exceed one year and the consideration does not exceed \$10,000 per year as budgeted by the City Council.
 - ii. A lease that exceeds the limits stated in subsection (b)(i) of this section, shall be submitted to the council for approval.

K. Telecommunications and Data Processing Purchases. RCW 39.04.270 allows local governments to use a competitive negotiation process when purchasing telecommunications and electronic data processing computer equipment or software instead of traditional competitive bidding. This alternative process requires:

- a. A request for proposals must be published in a newspaper of general circulation at least 13 days before the submission deadline.
- b. The RFP must identify evaluation factors, including price.
- c. Reasonable procedures for technical evaluation of the proposal must be used for awarding the contract.
- d. The contract must be awarded to the qualified bidder whose proposal is most advantageous to the City.
- e. The agency may reject all proposals for good cause and request new proposals.

CITY OF ARLINGTON CONTRACT AUTHORIZATION SUMMARY

Assumes all expenditures are included in adopted operating and capital improvement budgets. If the expenditure is **not** adopted in operating and capital improvement budgets, Council authorization of the budget amendment is required prior to contract. Additionally, if contracts/purchases are included in the adopted budget and have been approved through an applicable committee or commission, whose authority has been granted by council through Arlington Municipal Code, those contracts/purchases do not need separate approval by council.

Department Directors shall not assign signature authority to other staff.

CONTRACT TYPE	DOLLAR LIMIT	PROCESS	SIGNATURE AUTHORITY
Public Works			
Public Works-single trade or craft	Under \$40,000	Requires a minimum of 2-4 written quotes.	Department Director
Public Works- single trade of craft	\$40,001 up to \$300,000	Small works roster or competitive bids.	Up to \$50,000 – City Administrator Between \$50,001 - \$100,000 – Mayor Over \$100,001 - Council
Public Works-multi trade or craft	Under \$65,000	Requires a minimum of 2-4 written quotes.	Department Director
Public Works-multi trade or craft	\$65,001 up to \$300,000	Small works roster or competitive bids.	Between \$50,001 - \$100,000 – Mayor Over \$100,001 – Council
Public Works	Over \$300,000	Competitive bids	Council
Materials, supplies and equipment			
Materials, supplies, equipment*	Between \$3,000 and \$7,500	Requires a minimum of 3 written or verbal quotes	Department Director
Materials, supplies, equipment*	\$7,501-\$15,000	Vendor list	Department Director
Materials, supplies, equipment*	Over \$15,000	Formal Bid	Between \$15,001 and \$50,000 – City Administrator Between \$50,001 - \$100,000 – Mayor Over \$100,001 - Council
Materials, supplies, equipment*	No limit	Government Bid	Up to \$15,000 – Department Director Between \$15,001 and \$50,000 – City Administrator Between \$50,001 - \$100,000 – Mayor Over \$100,001 - Council

CONTRACT TYPE	DOLLAR LIMIT	PROCESS	SIGNATURE AUTHORITY
Maintenance & non-professional services			
Maintenance & non-professional services	Under \$50,000	Anything over \$3,000 requires a minimum of 3 quotes	Up to \$25,000 Department Director Between \$25,001 - \$50,000 City Administrator
Maintenance & non-professional services	Over \$50,000	Chosen from consultant roster	Between \$50,001 - \$100,000 – Mayor Over \$100,001 - Council
Professional Service Contracts			
On-call service contracts (legal, human resources, design, development review)	Contract not to exceed \$50,000	Chosen from consultant roster	City Administrator
Non-A&E Consulting/professional services (comprehensive planning, feasibility studies, preliminary design)	Under \$100,000	Chosen from consultant roster	Up to \$25,000 Department Director Between \$25,001 - \$50,000 City Administrator Between \$50,001 - \$100,000 – Mayor
Non-A&E Consulting/professional services (comprehensive planning, feasibility studies, preliminary design)	100,001	More than \$100,001 formal RFP process	Over \$100,001 - Council
A&E Services	Under \$100,000	Less than \$100,000 Chosen from consultant roster	Up to \$25,000 Department Director Between \$25,001 - \$50,000 City Administrator Between \$50,001 - \$100,000 – Mayor
A&E Services	Over \$100,001	More than \$100,000 formal RFQ process	Over \$100,001 - Council

*All capital purchases over \$7,500 require approval of Capital Outlay Request form by Finance Director and Administration Department.

Cost Allocation

- A. The City of Arlington desires to comply with all laws and recommendations in calculating and receiving full cost recovery for services rendered to other funds.
- B. Cost allocation is a method to identify and distribute indirect costs. Direct costs are costs assignable to a specific objective, whereas indirect costs are costs incurred for multiple cost objectives or not assignable to a specific cost objective without effort disproportionate to the benefit received.
- C. The Washington State Auditor's Office prescribes the accounting and reporting of local governments in the State of Washington under the Revised Code of Washington (RCW) Washington State law provides, at RCW 43.09.210. It states in part:
Separate accounts shall be kept for each department, public improvement, undertaking, institution, and public service industry under the jurisdiction of every taxing body. All service rendered by, or property transferred from, one department, public improvement, undertaking, institution, or public service industry receiving the same, and no department, public improvement, undertaking institution, or public service industry shall benefit in any financial manner whatever by an appropriation of fund made for the support of another.
The RCW does not specifically address how "full value" is to be determined.
- D. RCW 35A.33.122/35A.34.205/35.33.123 states:
Administration, oversight, or supervision of utility – Reimbursement from utility budget authorized. Whenever any code city apportions a percentage of the city manager's, administrator's, or supervisor's time, or the time of other management or general government staff, for administration, oversight, or supervision of a utility operated by the city, or to provide services to the utility, the utility budget may identify such services and budget for reimbursement of the city's current expense fund for the value of such services.
- E. The Federal Office of Management and Budget (OMB) Circular A-87
OMB Circular A-87 establishes cost principals for State, local, and Indian Tribal Governments for determining costs for Federal Awards. Item 5 of the Circular states that, "The principals are for determining allowable costs only." In defining allowable costs, the Circular provides a definition of allocable costs at Attachment A, paragraph C.3.a, "A cost is allocable to a particular cost objective if the goods or services involved at chargeable or assignable to such cost objective in accordance with relative benefits received." The Circular further outlines costs that are allowable for charging the Federal government and distinguishes those that are specifically excluded from recovery.
- F. Governmental Accounting Standards Board (GASB)
GASB is the independent organization that establishes and improves standards of accounting and financial reporting for U.S. state and local governments. While GASB is

not a governmental agency and does not have enforcement authority, compliance with GASB is tested by the Washington State Auditor's Office's annual audit of the City.

Allocated Costs

- A. The City's General Fund provides a variety of central services including but not limited to; legal support, human resources, administrative functions, personnel services, billing (utility and airport), processing accounts payable, budget and cash management, payroll and information technology services. The City allocates these indirect costs as follows:
 - a. Central services will be distributed based on a percentage of total fund expenditures;
 - b. Expenditures will exclude inter-fund transfers to capital improvement and/or reserve funds;
 - c. The previous year's budgeted expenditures or previous year's actual expenditures will be used to determine each fund's percent of the City's budget and to determine the amount to be budgeted for cost allocation;
 - d. At year end, the budgeted allocation will be reconciled to actual costs and percent allocation;
 - e. The Transportation Benefit District (TBD) Fund is excluded as the TBD is its own entity;
 - f. The Cemetery Endowment Fund is excluded because these funds are held in trust and expenditures from the endowment fund will be captured in the Cemetery Capital Fund.

- B. It is important to maintain back-up documentation that indicates how each cost allocation is determined and calculated.

- C. The Airport is also authorized, through a Memo of Understanding with the Federal Aviation Administration, to provide monetary support for Police and Fire/EMS services to the Airport. This is accomplished through a survey of Police hours spent patrolling on and around the Airport property. A new survey is to be completed within a two year period following the last survey.

Debt Management Policy

- A. The objectives of the City's Debt Management Policy will be:
 - a. To reduce the use of debt so that debt service payments will be a predictable and manageable part of the operating budget.
 - b. To raise capital at the lowest cost, consistent with the need to borrow. This will be accomplished by:
 - i. Keeping a high credit rating (while making attempts to strengthen credit rating)
 - ii. Maintaining a good reputation in the credit markets by adjusting the capital program for regular entry to the bond market and managing the annual budget responsibly.
- B. Professional service providers (underwriters, financial advisors, bond insurer's, etc.) may be selected through negotiation, RFQ process or City's procurement policies.
- C. Debt issues will be sold on competitive basis (except when conditions make a negotiated sale preferable) and awarded to the bidder who produces the lowest interest cost. Revenue bonds can be issued through a negotiated sale when the issue is unusually large, the project is speculative or complex, the issue is a refunding, or the market is unstable.
- D. The term of long-term debt issued will not exceed the life of the projects financed. Current operations will not be financed with long-term debt.
- E. Short-term borrowing will not be used for operating purposes.
- F. The City will comply with its obligation to inform the Municipal Securities Rulemaking Board through the EMMA website (Electronic Municipal Market Access) any and all continuing disclosure documents and annual financial statements. This site is used by the ratings agencies and investors. The City's annual audited financial report will be sent to EMMA as soon as the State Auditor's Office issues the report.
- G. The City shall strive to maintain favorable current credit ratings.
- H. The City will comply with all statutory debt limitations imposed by the Revised Code of Washington (RCW). The City of Arlington debt will not exceed an aggregated total of 7.5% of the assessed valuation of the taxable property within the City. Compliance with state law and this policy shall be documented each year.

The following individual percentages (as defined in state law) shall not be exceeded in any specific debt category:

General Debt	2.5% of assessed valuation
Utility Debt	2.5% of assessed valuation

Open Space and Park facilities 2.5% of assessed valuation

- I. No debt shall be issued for which the City is not confident that a sufficient, specifically identified revenue source is available for repayment. The Finance Director shall prepare an analytical review for this purpose prior to the issuance of any debt.
- J. It shall be the policy of the City to limit bonded indebtedness to levels that permit sufficient borrowing to support a reasonable rate of capital programming, permit a level and pace of debt amortization within the City's ability to pay, and support the City's credit rating objectives. It shall further be the policy of the City not to exceed 75% of City's LTGO debt limit, unless approved by the City Council.
- K. Credit enhancements shall be considered with a cost/benefit analysis for each long-term bond issue.
- L. Reserve accounts shall be maintained as required by bond ordinances and where deemed advisable by the City Council. The city shall structure such debt service reserves so that they do not violate IRS arbitrage regulations.
- M. The City will maintain debt service coverage ratios as required for any bond issues.
- N. Interfund borrowing may be used where such borrowing is effective. Interfund borrowing will be approved and authorized by the City Council.

Investment Policy

- A. **Policy.** It is the policy of the City of Arlington to invest its public funds in a manner which will provide the highest investment return consistent with a high degree of security while meeting the daily cash flow demands of the City and conforming to all state statutes and local ordinances governing the investment of public funds. Cash may, at the discretion of the Finance Director be invested separately by fund or be co-mingled into a common investment portfolio and earnings from such portfolio distributed at least quarterly. The Finance Director is authorized to manage the investments described herein.
- B. **Scope.** This investment policy applies to all financial assets of the City except: for assets held in escrow and retirement funds managed by others such as state. City financial assets are accounted for in the City's Annual Financial Report and include:
- a. **Funds**
 - i. General Fund
 - ii. Special Revenue Funds
 - iii. Debt Service Funds
 - iv. Capital Project Funds
 - v. Enterprise Funds
 - vi. Internal Service Funds
 - vii. Trust Funds and Agency Funds
- C. **Prudence.** The 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.
- D. **Objective.** Funds of the City will be invested in accordance with the Revised Code of Washington (RCW) 35A.40.050, the BARS manual and these policies. The primary objectives, in order of priority, of the City's investment activities shall be as follows:
- a. **Legality:** The City's investments will be in compliance with all statutes governing the investment of public funds and the provisions of all applicable bond ordinances.
 - b. **Safety:** Investments of the City shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. To attain this objective, diversification is required in order that potential losses on individual securities do not exceed the income generated from the remainder of the portfolio.
 - c. **Liquidity:** The City's investment portfolio will remain sufficiently liquid to enable the City to meet all operating requirements, which might be reasonably anticipated. The Finance Director shall maintain adequate liquidity by maintaining a minimum balance in the LGIP.
 - d. **Return on Investment:** The City's investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and

economic cycles, taking into account the City's investment risk constraints and the cash flow characteristics of the portfolio.

- e. **Local Institutions:** Local Institutions shall be given preference when they are, in the judgment of the Finance Director, competitive with other institutions.
- E. The Finance Director's investment actions shall be governed by this policy.
- F. The Finance Director shall be responsible for all transactions undertaken and shall establish a system of controls to regulate all investment activities, and report promptly to the Council any adverse development with any investment.
- G. Ethics and Conflicts of Interest.
- a. The Finance Officer 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. The Finance Officer shall disclose to the Mayor and the Council any material financial interests in financial institutions that conduct business with the City, and she/he shall further disclose any personal financial/investment positions that could be related to the performance of the City's portfolio.
 - b. The City's Finance Officer shall subordinate their personal investment transactions to those of the City, particularly with regard to the time of purchases and sales.
- H. Authorized Financial Dealers and Institutions.
- a. The Finance Director will maintain a list of financial institutions authorized to provide investment services to the City of Arlington. In addition, a list will also be maintained of approved security broker/dealers selected by credit worthiness, who maintain an office in the State of Washington. These may include "primary" dealers or regional dealers that qualify under US Securities and Exchange Commission Rule 15c3-1 (uniform net capital rule). No public deposit shall be made except in a qualified public depository as established by State laws.
 - b. At the request of the City, financial institutions, brokers and dealers performing investment services for the City shall provide their most recent financial statements or Consolidated Report of Condition ("call report") for review.
- I. Authorized and Suitable Investments. The City may invest in any of the securities identified as eligible investments as defined by RCW 35A.40.050. In general, these consist of:
- a. Investment deposits (certificates of deposits) with qualified public depositories as defined in Chapter 39.58 RCW.
 - b. Certificates, notes or bonds of the United States, or other obligations of the United States or its agencies, or of any corporation wholly owned by the government of the United States whose securities carry full faith and credit guarantees.

- c. Obligations of government-sponsored corporations which are eligible as collateral for advances to member banks as determined by the Board of Governors of the Federal Reserve System. These include but are not limited to, Federal Home Loan Bank notes and bonds, Federal Farm Credit Bank consolidated notes and bonds, and Federal National Mortgage Association notes.
- d. Prime bankers' acceptances purchased on the secondary market. Repurchase agreements for securities listed above.
- e. The Washington Local Government Investment Pool (LGIP).

J. Collateralization.

- a. Collateralization will be required on all repurchase agreements so as to anticipate market changes and provide a level of security for all funds, the collateralization level will be 102% of market value of principal and accrued interest.
- b. The City chooses to limit collateral to the obligations of the United States Government and its agencies.
- c. Collateral will always be held by an independent third party with whom the entity has a current custodial agreement (except certificates of deposits). A clearly marked evidence of ownership (safekeeping receipt) must be supplied to the entity and retained.
- d. Certificates of deposit are delivered to and held by the Finance Director until they mature.

K. Safekeeping and Custody.

- a. All investment securities purchased by the City, including collateral on repurchase agreements, shall be held by the City or in safekeeping by the City's custodian bank or a third party bank trust department, acting as agent for the City under the terms of a custody or trustee agreement executed by the bank and by the City. The primary agent shall issue a safekeeping receipt to the City listing the specific instrument, rate, maturity, and other pertinent information.
- b. All securities transactions, including collateral for repurchase agreements entered into by the City shall be conducted on a delivery-versus-payment (DVP) basis. Securities will be held by a third party custodian designated by the City Finance Director and evidenced by safekeeping receipts.

L. Diversification. The City will diversify its investments by security type and issuer. With the exception of US Treasury and Agencies of the United States government, and the Washington State Local Government Investment Pool, no more than 50% of the City's total investment portfolio will be invested in a single security and no more than 25% will be invested with a single issuer.

M. Maximum Maturities.

- a. To the extent possible, the City will attempt to match its investments with anticipated cash flow requirements. Unless matched to a specific cash flow, the

City will not directly invest in securities maturing more than five (5) years from the date of purchase. The average maturity will be consistent with the liquidity objective. However, the City may collateralize its repurchase agreements using longer-dated investments not to exceed 10 years.

- b. The City's reserve funds may be invested in securities not to exceed (10) years if the maturity of such investments is made to coincide as nearly as possible with the expected use of funds.
 - c. The purpose of permitting a portion of the investments to have longer maturities is to recognize that funds may yield higher yields when invested for longer periods of time.
- N. Internal Controls. The Finance Director shall establish a system of internal controls, which shall be reviewed annually by an external auditor. This review will provide internal control by assuring compliance with policies and procedures.
- O. Performance Standards. The City's investment portfolio will be designed to obtain a market average rate of return during budgetary and economic cycles, taking into account the City's investment risk constraints and cash flow needs.
- P. Investment Strategy. The City's investment strategy is active. As a result, securities are purchased and sold as it best meets the needs of the City as determined by the Finance Director. The Finance Director will be authorized to trade before maturity if it is in the best interest of the City to do so.
- Q. Reporting. The Finance Director will determine what investment information will be included in the monthly financial report.

GLOSSARY

Accrued Interest: The interest accumulated on a bond since its dated date or the most recent date to which interest has been paid by the City. The buyer of the bond pays the market price and accrued interest, which is payable to the seller.

Agencies: Federal agency securities.

Asked: The price at which securities are offered.

Bankers' Acceptance (BA): A draft or bill of exchange accepted by a bank or trust company. The accepting institution guarantees payment of the bill, as well as the issuer.

Bond: A long-term debt security (IOU) issued by a government or corporation. Generally pays a stated fixed rate of interest, and returns the face value at maturity.

Book Value: The amount at which an asset is carried on the books of the owner. The book value of an asset does not necessarily have a significant relationship to market value.

Broker: A middleman who brings buyers and sellers together for a commission paid by the initiator of the transaction or by both sides; they do not position. In the money market, brokers are active in markets in which banks buy and sell money and in interdealer markets.

Call Option: The right to prepay or redeem a security at a predetermined price on or after a specified future date that is earlier than its scheduled maturity date.

Certificate of Deposit (CD): A time deposit with a specific maturity earning a specified rate of return evidenced by a certificate. Certificates of Deposit bear rates of interest in line with money market rates current at the time of issuance.

Collateral: Securities, evidence of deposit or other property which a borrower pledges to secure repayment of a loan. Also refers to securities pledged by a bank to secure deposits of public monies.

Confirmation: A document used to state and supplement in writing the terms of a transaction which have previously been agreed to verbally.

Coupon: (a) The annual rate of interest that a bond's issuer promises to pay the bondholder on the bond's face value. (b) A certificate attached to a bond evidencing interest due on a payment date (not used since 1982).

CUSIP Number (COMMITTEE OR UNIFORM SECURITIES IDENTIFICATION PROCEDURES): An identifying number assigned to a publicly traded security. A nine-digit code is permanently assigned to each issue and is generally printed on face of the security if it is in physical form.

Dealer: A dealer, as opposed to a broker, acts as a principal in all transactions, buying and selling for his or her own account.

Delivery versus Payment: There are two methods of delivery of securities: delivery versus payment and delivery versus receipt (also called free). Delivery versus payment is delivery of securities simultaneously with an exchange of money for the securities. Delivery versus receipt is delivery of securities simultaneously with an exchange of a signed receipt for the securities.

Discount: There is "original issue discount" and "market discount." Original issue discount is the difference between the cost price of a security when first offered for sale to the general public and its face value at maturity when quoted at lower than face value. Original issue discount is treated as interest. Market discount is the difference between principal amount of an outstanding security (reduced by any original issue discount) and the value of that security in the then-current market (if lower than its principal amount). If a security is bought at a market discount and later sold at a gain, the gain is taxable income.

Diversification: Dividing investment funds among a variety of securities offering independent returns.

Farm Credit Discount Notes and Bonds: Secured joint obligations of Farm Credit Banks that are issued with a minimum face value of \$50,000 with maturities ranging from 5 to 360 days.

Federal Credit Agencies: Agencies of the Federal Government set up to supply credit to various classes of institutions and individuals, e.g., S&L's, small business firms, students, farmers, farm cooperatives, and exporters.

Federal Funds Rate: The rate of interest at which Federal funds are traded between banks. This rate is currently pegged by the Federal Reserve through open market operations.

Federal Home Loan Banks (FHLB): The institutions that regulate and lend to savings and loan associations. The Federal Home Loan Banks play a role analogous to that played by the Federal Reserve Banks vis-à-vis member commercial banks.

Federal National Mortgage Association (FNMA): FNMA, like GNMA was chartered under the Federal National Mortgage Association Act in 1938. FNMA is the corporation's purchases include a variety of adjustable mortgages and second loans in addition to fixed-rate mortgages FNMA's securities are also highly liquid and are widely accepted. FNMA assumes and guarantees that all security holders will receive timely payment of principal and interest.

Liquidity: A liquid asset is one that can be converted easily and rapidly into cash without a substantial loss of value.

Local Government Investment Pool (LGIP): The aggregate of all funds from political subdivisions that are placed in the custody of the State Treasurer for investment and reinvestment.

Market Value: The price at which a security is trading and could presumably be purchased or sold.

Master Repurchase Agreement: A written contract covering all future transactions between the parties to repurchase -- reverse purchase agreements that establishes each party's rights in the transactions. A master agreement will often specify, among other things the right of the buyer-lender to liquidate the underlying securities in the event of default by the seller-borrower.

Maturity: The date upon which the principal or stated value of an investment becomes due and payable.

Portfolio: A collection of securities held by an investor.

Primary Dealer: A group of government securities dealers that submit daily reports of market activity and positions and monthly financial statements to the Federal Reserve Bank of New York and are subject to its informal oversight. Primary dealers include Securities and Exchange Commission (SEC) registered securities broker-dealers, banks, and a few unregulated firms.

Principal: The stated face amount of an instrument, exclusive of accrued interest.

Prudent Person Rule: An investment standard. In some states the law requires that a fiduciary such as a trustee may invest money only in a list of securities selected by the state-the-so-called legal list. In other states the trustee may invest in a security if it is one which would be bought by a prudent person of discretion and intelligence who is seeking a reasonable income and preservation of capital.

Qualified Public Depositories: A financial institution which does not claim exemption from the payment of any sales or compensating use or ad valorem taxes under the laws of this state, which has segregated for the benefit of the Public Deposit Protection Commission eligible collateral having a value of not less than its maximum liability and which has been approved by the Public Deposit Protection Commission to hold public deposits.

Repurchase Agreement (RP or REPO): A holder of securities sells these securities to an investor with an agreement to repurchase them at a fixed price on a fixed date. The security "buyer" in effect lends the "seller" money for the period of the agreement, and the terms of the agreement are structured to compensate him for this. Dealers use RP extensively to finance their positions. Exception: When the Fed is said to be doing RP, it is lending money, that is, increasing bank reserves.

Safekeeping: A service to customers rendered by banks for a fee whereby securities and valuables of all types and descriptions are held in the bank's vaults for protection.

Securities and Exchange Commission (SEC): Agency created by congress to protect investors in securities transactions by administering securities legislation.

SEC Rule 15c3-1: SEC uniform net capital rule requiring brokers and dealers to maintain certain amounts of net capital.

Treasury Bills: A non-interest bearing discount security issued by the US Treasury to finance the national debt. Most bills are issued to mature in three months, six months or one year.

Treasury Bonds: Long-term US Treasury securities having initial maturities of more than ten years.

Treasury Notes: Intermediate term coupon bearing U.S. Treasury securities having initial maturities of from one to ten years.

Uniform Net Capital Rule: Securities and Exchange Commission requirement that member firms as well as nonmember broker-dealers in securities maintain a maximum ratio of indebtedness to liquid capital of 15 to 1; also called net capital rule and net capital ratio. Indebtedness covers all money owed to a firm, including margin loans and commitments to purchase securities, one reason new public issues are spread among members of underwriting syndicates. Liquid capital includes cash and assets easily converted into cash.

Yield: The rate of annual income return on an investment expressed as a percentage. Income Yield is obtained by dividing the current dollar income by the current market price for the security. Net Yield or Yield to Maturity is the current income Yield minus any premium above par or plus any discount in purchase price, with the adjustment spread over the period from the date of purchase to the date of maturity of the bond.