

City of Port Townsend

Comprehensive Financial Management Policy Guidelines

Adopted September 1, 2025

Comprehensive Financial Management Policies Index

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I. FINANCIAL POLICY GUIDELINES

The financial policies outlined in this document have been developed in accordance with the Government Finance Officers Association's "Best Practices". These policy guidelines are intended to aid the City Council and City management in financial decision making. These policy guidelines also provide a means to test short term financial and budget decisions to help ensure the City is able to meet its immediate and long-term financial service objectives and obligations.

The City of Port Townsend is accountable to its residents for the use of public funds. Municipal resources must be wisely used to ensure adequate funding for services, public facilities and infrastructure needed to meet the community's present and future needs. These policies are designed to help safeguard the fiscal stability required to achieve the City's goals and objectives.

The City's Comprehensive Financial Policies have the following objectives:

- To guide the City Council and management policy decisions that have significant financial impact.
- To set forth operating principles which minimize the cost of government and financial risk to the City.
- To employ balanced, consistent, and fair revenue policies that provide adequate funding for desired programs.
- To promote sound financial management by providing accurate and timely information on the City's financial condition.
- To protect the City's credit rating and provide for adequate resources to meet the provision of the City's debt obligations for all municipal debt.
- To ensure the legal use of financial resources through an effective system of internal controls.

II. ORGANIZATION

The City provides municipal services for its residents, including protection of life and property, public health and welfare, and improved quality of life. The City Council deems it a high priority to deliver municipal services in the manner consistent for all residents, and with maximum efficiency and financial prudence.

The Council, as the legislative and governing body, sets the City's Financial and Budget Policy Guidelines, and through its Finance and Budget Committee, monitors and reviews the City's overall financial performance.

The City Manager, as the City's Chief Executive Officer and Chief Budget Officer, is responsible to the Council for managing City operations and program services, and preparation of the City's Annual Budget consistent with established Financial and Budget Policy Guidelines.

The Director of Finance & Technology Services, as the City's Chief Financial Officer and Chief Auditing Officer, is responsible to the City Manager for the preparation of accurate and timely financial and budget reporting. Additional responsibilities include information technology administration, general accounting, business license/tax administration and utility billing operations, grant, federal & state funding compliance, purchasing administration, as well as policy advice to the City Manager and Council.

The Department Heads are responsible to the City Manager for department operation budget observance, capital project management, and grants administration. Department Heads monitor related revenue performance and expenditure control with the assistance of the Finance Department.

The City must prioritize its services and, should revenues become constrained, the following services are considered priorities in the following general order:

1. Public Life, Health, and Safety: Police, ; building inspections; and traffic control; water, sewer, and storm drainage service and streets infrastructure maintenance.
2. Legal Mandates: Accounting/auditing/financial reporting; land-use planning; required staff certifications and training.
3. City Facilities and Property: maintenance of parks, buildings, public rights of way, and City equipment (including information technology equipment);
4. Council and community goals, both annual and long-range, including strategic plan goals.

III. ACCOUNTING, AUDITING AND FINANCIAL REPORTING

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

Accounting Records and Reporting – The City will maintain its accounting records in accordance with state and federal regulations. Budgeting, accounting and reporting activities will conform to the Budgeting, Accounting and Reporting System (BARS) for Governments as prescribed by the Washington State Auditor. The City maintains its accounting and budgeting records on a cash basis and adheres to the cash basis BARS manual.

Capital Assets – As a cash basis entity, the City records and reports only inflows and outflows of cash. When a capital asset is purchased, the entire expenditure is recorded when the cash is expended and depreciation is not recorded. The City considers capital assets to be real and intangible assets above \$7,500 in value that have an anticipated life of one year or more. Capital assets are tracked by

the Finance Department as a fixed asset inventory. Items that are no longer needed or no longer functional will be disposed according to the City surplus policy and state law.

Capital assets that are purchased with grant funds may be subject to additional compliance requirements. The department obtaining the grant is responsible for understanding any compliance requirements related to acquiring, inventorying, tracking and disposing of assets obtained through these types of funds.

Small and Attractive Assets - The City identifies small and attractive assets as items with a cost greater than \$500 but less than \$7,500. These items have a life expectancy of more than one year AND are not likely to be immediately missed upon disappearance. These items are generally mobile in nature and may be easily transported from the workplace. Some exceptions to the \$500 minimum include tablets, phones, personal computers, and other lower cost items that have ongoing maintenance or service costs associated with them. Department Heads are accountable for the security of these items and are responsible for following the Small and Attractive Assets Policy and Procedures that have been adopted by Council. The Director of Finance and Technology Services (Finance Director) has oversight responsibility for this policy and the associated inventory of these items.

Auditing – The State Auditor will perform the City’s financial, federal single audit and accountability/compliance audits in accordance with state and federal laws. Results of the audit will be provided to the Council in a timely manner.

Cash Management – The Director of Finance & Technology Services will ensure that cash management systems are developed to ensure accurate and timely accounting for all cash and security of all cash assets.

Careful financial control of the City’s daily operations is an important part of the City’s overall fiscal management practices. Achieving adequate cash management and investment control requires sound financial planning to ensure that sufficient revenues are available to meet the current expenditures of any operating period.

The City’s cash management and investment guidelines are as follows:

- The City will maintain a cash management program, which includes internal control practices for collection of accounts receivable, disbursement of funds, and prudent investment of its available cash.
- The Director of Finance and Technology Services (Finance Director) serves as the investment officer of the City of Port Townsend. The Finance Director is authorized to oversee the investment program and to develop operating procedures to administer the program. The Finance

Director may delegate the authority to conduct investment transactions and manage the operation of the investment portfolio to one or more subordinates as outlined in the investment program operating procedures. All participants in the City's investment process shall act responsibly as custodians of the public trust.

- As permitted by law and City ordinances and to maximize the effective investment of assets, all funds needed for general obligations may be pooled into one account for investment purposes. The income derived from this account will be distributed to the various funds based on their average fund balances on a periodic basis.

See Appendix A for Full Investment Policy.

IV. FUND STRUCTURE & FUND RESERVE GUIDELINES

The City's accounting and budgeting systems are organized and operated on a fund basis. Funds are accounting entities used to record revenues and expenditures. By definition, balanced funds mean that total revenues equal total expenditures. The budgeted funds are grouped into categories: General, Special Revenue, Debt Service, Capital Projects, Enterprise, and Internal Service.

The following provides a brief description of the fund types and reserve guidelines for each fund. The numbers in parentheses represent the BARS manual fund series numbering scheme.

GENERAL FUND (010) -- This is the primary operating fund or current expense fund of the City. To maintain the City's credit rating and meet seasonal cash flow, the budget shall provide for an anticipated undesignated fund balance between 8% and 15% of estimated annual revenues for general government fund types. The fund balance shall be exclusive of all reserves not anticipated to be readily available for use in emergencies and contingencies. Should the fund balance fall below 8% of revenues, a plan for expenditure reductions and/or revenue increases shall be submitted by the City Manager to the Council. If, at the end of a fiscal year, the fund balance falls below 8%, then the City shall rebuild the balance within a period not to exceed three fiscal years.

GENERAL FUND COUNCIL RESERVE (Included in the General Fund) – In addition to the Fund balance and the Contingency Fund, the budget for the General Fund shall provide for a "Council Reserve" equivalent to approximately 1% of estimated operating revenues in the General Fund (010). Only the General Fund shall maintain a "Council Reserve." The Council Reserve is established to provide for non-recurring community requests or unanticipated needs deemed necessary by Council. The Council Reserve shall be suspended during times of significant economic downturn, especially during years when the General Fund

ending fund balance falls below 5%. The Council Reserve is a budgeted appropriation expected to be specifically allocated at the Council's discretion.

SPECIAL REVENUE FUNDS (101-199) -- These funds account for revenues derived from special taxes, grants or other restricted sources designed to finance particular activities. Apart from any unrestricted General Fund contributions to a Special Revenue Fund, the unexpended ending fund balances carry over year to year and should retain enough revenue to cover operating cash flow and anticipated major project or program obligations of the fund.

Of these funds, the Street, Library, and Community Services funds are of an operations nature. The Street and Community Services Funds reserve balance will be equivalent to 2-3% of fund expenditures. The Library Fund reserve is set at 5-8% of Library property tax revenue.

Other Special Revenue Funds are more cyclical, or project related and only need retained ending fund balances or transfers in to cover anticipated obligations: Drug Enforcement, Lodging Tax, Fire/EMS, Affordable Housing, and CDBG Grants.

CONTINGENCY – Rainy-Day Fund (102) Each fund should retain enough in its own Ending Fund Balance Reserves to offset minor non-recurring or unanticipated expenses during the budget year. Beyond those reserves, the City's Contingency – Rainy-Day Fund is intended as a strategic reserve to meet emergency conditions or to help maintain essential services during periods of economic downturn. The fund will build to between 5% - 10% of General Fund annual operating revenues (but below the requirements of RCW 35.33.145) after its creation and subsequent to its intended use.

The Rainy-Day Fund will be seeded through the following:

- Unrestricted one-time revenues from projects with assessed value at over \$3m
- Contributions from the General Fund Reserve
- Contributions from the vacancy rate (see Vacancy Rate Policy)

DEBT SERVICES FUND (200) – These funds are used to pay general government debt. The City shall retain or transfer in funds sufficient to cover the annual debt service obligations and retain such "coverage" amounts to comply with bond covenants or other loan restrictions.

CAPITAL PROJECTS FUNDS (300) – These funds are established for the acquisition or construction of general government (non-utility) capital improvements. Ending Fund Balance Reserves should be maintained at levels

sufficient to cover anticipated annual expenditures with transfers in from supporting funds (General, REET, etc.) to cover project needs.

ENTERPRISE FUNDS (400) – These funds are the proprietary or “business-like” funds for operations providing services to the general public supported primarily through user’s fees (Water, Sewer, Stormwater, and Utility Revenue Bond). The Ending Fund Balances of these funds should be equal to or greater than 60 days of operating expenditures and any additional amounts needed to build towards future project cash or debt payment needs. To the extent that the reserved Fund Balance and operating cash flow are not adequate to fund needed utility system improvements, additional rate increases or surcharges may be adopted by Council. Included in the Enterprise funds are Debt Service Reserve Funds, Utility Capital Project Funds and System Development Fund.

Revenue bonds may be issued by the Enterprise Funds. Investors may require additional lending requirements or covenants. The ending fund balance of the Enterprise Funds should include a reserve to cover any additional covenant requirements.

INTERNAL SERVICE FUNDS (500) – These funds are also internal “business-like” funds for operations providing services to other City departments (funds) on a direct cost-reimbursement basis (e.g. Equipment Rental including Information Technology services and equipment and Facilities, Public Works Administration and internal Engineering Services). Fund balances should break even, after set aside of funds for future capital equipment replacements.

FIDUCIARY FUNDS (600) – These funds account for assets held by the City as a trustee or as an agent on behalf of others. Ending Fund Balances and any transfers in should be maintained consistent with fund restrictions.

ENDING FUND BALANCE, RESERVES, CONTINGENCY SUMMARY

The following is a summary of the reserves guidelines. Guidelines will be reviewed annually as a part of the Budget process:

General Fund	8-15% of operating revenue
Library	5-8% of property tax
Street	2-3% of expenditures
Community Services	2-3% of expenditures
Other Special Revenue Funds	Sufficient to meet obligations
Contingency	No less than 2% of operating revenue
Debt Service	Sufficient to meet obligations

General Capital	Sufficient to meet obligations
Enterprise Funds	60 days of operating expenditures
System Development Charges Fund (Enterprise)	Sufficient to meet obligations
Internal Service	Sufficient to meet obligations
Fiduciary Funds	Sufficient to meet obligations

The undesignated General Fund Balance (the balance not tied to a known project) will be maintained at a level that provides the City with sufficient working capital and a comfortable margin of safety to address emergencies and unexpected declines in revenue without borrowing. The City should not use the undesignated General Fund Balance to finance recurring operating expenditures. Annual General Fund revenues should be equal to or greater than annual regular operating expenditures.

Reserves above the target can be used for new expenditures, with emphasis placed on one-time uses that achieve future operating cost reductions.

General Fund revenues will be used for general government, street and community service programs only. General Fund revenue for other purposes will require approval by the City Council.

General Fund revenues will not be used to subsidize utility or enterprise operations, which will be self-supporting through user rates.

V. REVENUE POLICIES

General Revenue Policies - The City will strive to maintain a diversified and stable revenue system to shelter the government from short-run fluctuations in any one revenue source and ensure its ability to provide ongoing service.

Restricted revenue shall only be used for purposes legally permissible and in a fiscally responsible manner. Programs and services funded by restricted revenue will be clearly designated as such.

One-time revenues shall support one-time expenditures.

County, state or federal funding will be used to finance only those capital improvements that are consistent with the capital improvement plan and local government priorities, and whose operation and maintenance costs have been included in operating budget forecasts.

Enterprise Fund Revenue Policies – Enterprise funds will be operated in a manner that maintains a minimum ending fund balance that is not less than 60 days of operating expenditures.

Utilities will be self-supporting through user rates and charges.

Utility user charges for each of the City utilities will be based on cost of service (i.e., set to full support the total direct, indirect, and capital costs) and established so that the operating revenues of each utility are at least equal to its operating expenditures and annual debt service obligations. The user rates of a utility shall be designated so that a portion covers replacement of the utility's facilities.

The Utility will conduct a study of its user rates no less than every 5 years to ensure rates are adequate to fund operations and meet future needs.

Fund balances may be used to temporarily offset rate increases, after sufficient funds have been accumulated for identified capital improvement needs or alternative funding for projects has been secured.

Fees and Charges (Non-Utility) – All fees for licenses, permits, fines, and other miscellaneous charges shall be set to recover the City's expense in providing the attendant service. Average cost or actual cost methodology may be used. These fees will be reviewed periodically and will be incorporated into the budget process for possible action by Council.

Fees and charges for services will generally be set to recover the actual cost of service delivery. Fees that are set lower than the cost-of-service delivery will be reviewed at least every other year to determine if those fees are still appropriate based on City finances and the community needs.

Where direct beneficiaries of a city program or services can be identified, fees will be established to recover the costs of that program or service. Fees will also be set in a manner that protects taxpayers from subsidizing special service users. A fee shall be charged for any service that benefits limited interests within the community, except for human needs type services to persons with limited ability to pay.

Rental fees will be established to recover full cost of use of the property or facility. Fees related to the rental of City properties may be waived only through approval of the City Manager. The waiver of fees will only be provided if the purpose of the rental or its associated event will benefit the community at large.

Some services provide greater benefit to the community. When a greater community benefit is identified, the Council may choose to subsidize, either whole or in part, such services.

Park Fees

Through a volunteer recruitment program, the Parks will seek to minimize the subsidy required for partial and minimum fee support programs.

Solicitation of funds through donations, fund raising events, non-traditional sources, and various other modes will be encouraged by the City through its park user groups. Funds collected for any special purpose shall be earmarked for that purpose.

VI. OVERHEAD COST RECOVERY (COST ALLOCATION)

As provided in the State Auditor's Office guidelines, "Cost allocation is a method to determine and assign the cost of central services to the internal-government users of those services. Cost allocation thereby enables local governments to more accurately account for the complete cost of the services it provides to the public—and to better assess the fees it should charge them." Included in cost allocation are direct costs (not otherwise charged to budget units) and indirect costs. Direct Costs are those costs that can be specifically identified with a particular service or unit if not already charged directly (e.g. facilities, janitorial, etc.) Indirect Costs are costs incurred for common or joint purposes, benefiting more than one unit, not readily assignable to a specific unit (e.g., legal, human resources, administration, clerk, etc.).

The term "allocation" implies that there is no overly precise method available for direct charging a cost to a unit, so the City is using the most appropriate method available for doing so. However, a cost allocation plan should be designed and used to provide a reasonable, consistent and equitable means to allocate costs. Inequitable charges result in questionable charges to grant, utilities and restricted funds. For grant purposes, costs that benefit the public at large cannot be included and should follow the OMB A-87 and/or 2CFR Part 200 guidelines.

The Council adopted a Cost Allocation Plan in Resolution 14-035 on June 25, 2014. In addition to using the overhead cost recovery model to assess the appropriate amount of overhead to utilize for establishing user fees, the model will be used to apply charges to Departments/Funds for City-wide overhead indirect cost recovery where allowed (Council, City Manager, City Clerk, City Attorney and Finance).

The Council may authorize waiver of the overhead cost-recovery in all or part if Council determines doing so will provide a general benefit to the residents, taxpayers, or utility rate payer. If a portion of the overhead cost-recovery is

waived, the General Fund must absorb these costs; waived costs may not be absorbed by or reallocated to a Special Revenue or Enterprise Fund.

VII. GENERAL BUDGET POLICIES

Annual Budget – The City’s annual budget will be developed in accordance with the policies and priorities set forth in the comprehensive plan, the City Council’s strategic plan, City Council goals and priorities, the needs of the community, and federal and state laws.

In general, budgeted revenues must meet or exceed budgeted appropriations each year. Current year operating expenses, maintenance costs and direct and indirect costs of services provided will be covered by current year revenues. One-time expenditures may be appropriated if one-time revenues or excess fund balance (in excess of reserve requirements) are available.

The City budget appropriations are adopted at the fund level. Department heads are responsible for preparing a budget that reflects realistic expense projections and that adhere to guidelines within this policy document.

Expense (Appropriation) Policies – Operating expenditures will be proposed at a level that will be supported by ongoing annual operating revenues.

Staffing Budget – Salary and benefit costs are the City’s most significant operating expense. The City will strive to provide a total compensation package that is comparable to other cities and similar type positions within the same labor market or other cities of a similar size with comparable type and quality services in order to recruit and retain high quality staff.

The City Manager’s proposed budget will identify staffing levels and provide justification for any increases or decreases in overall City staffing.

Union Contract negotiations may impact budget expenditures annually. However, if a collective bargaining agreement is, or will be, under negotiation, a specific amount will not be included in the budget from potential wage adjustments resulting from the negotiation, other than a base COLA adjustment. This is to protect the City from any claims of not “bargaining in good faith”. Funding for unknown contract terms must be considered in balancing ongoing revenues with ongoing expenses.

Equipment Replacement & Maintenance - Equipment replacement and maintenance projections will be updated each year. Replacement of items with a cost of 7,500 or more will be reviewed to time such expenditures at stable intervals

to preserve cash flow, when possible. Deferment of regular repair and maintenance will not be used to balance the budget.

Training and Travel – City employees or others on official City business or training may be required to travel outside the City to conduct their business or training for the City. City employees and officials will be reimbursed for reasonable and customary expenses incurred in the conduct of their business for the City, including food, lodging and travel expenses while away, excluding any expenses for personal entertainment or alcoholic beverages, as provided in the City's Personnel Policies Manual for business or training travel. Such training or travel shall be as provided either specifically or generally in the annual budget.

Training is an investment in maintaining the certifications and skills of the City's employees. Allocating 1% of the department's budgeted salary expense is recommended for certifications and skills training. The City will also include a targeted amount of 1% of City-wide salaries for organizational development and process improvement.

Investments that Forestall Adding Permanent Staff - Since personnel-related expenditures represent the largest portion of the City's budget, funding of technology or process improvements that increase efficiency and effectiveness of the delivery of City services should receive priority funding.

Budget Monitoring-

The Director of Finance and Technology Services will maintain a system for monitoring the City's budget performance. This system will provide timely information to Department Heads and the City Manager to ensure accuracy of financial data and compliance with budget appropriations. The Council will receive (at a minimum) quarterly reports regarding fund level revenues and expenditure performance compared to budget.

Significant financial issues that need to be addressed between regular monitoring reports will be provided to Council as warranted.

The Finance Director will monitor unanticipated needs or emergency expenditures and prepare budget amendments or supplementals in compliance with State Law.

VIII. FINANCIAL PLANNING POLICIES

Financial Forecast – The City will develop a 5-year Financial Plan and Forecast Model based on these financial policy guidelines and a best estimate of likely revenues and expenditures. The model will be used to test the policies against

likely surrounding economic conditions. The model will be used for long-range financial planning and is not a replacement for budgeting.

The City's financial planning will include the current year budget plus five additional years of projected data. The City may elect to extend its planning horizon further if conditions warrant.

The long-range financial plan operating revenues and expenses will include data for the General Fund, Contingency Fund, Library Fund and Community Services Fund. In addition to ongoing revenues and expenses, this forecast will utilize assumptions that forecast general obligation debt and general fund contributions to capital projects.

The long-range financial plan should present trends and projections in key financial indicators, such as:

- Revenues and expenses per capita including nominal and inflation adjusted data.
- Staffing levels per 1,000 population: total and by major department.
- Projected annual growth rates of revenues and expenses including personnel costs.

The long-range financial plan may include comparisons to other cities and benchmarks, recognizing that the data for comparable cities may reflect differences in service delivery, financial structure and financial policies. Comparative information may include:

- Comparative revenues and expenses by major type to include:
 - Total revenues and expenses per capita.
 - Taxes per capita by tax source.

IX. ENTERPRISE FUNDS

The Water, Sewer and Stormwater utilities will be managed as self-supporting business enterprises. Each utility will be managed in a professional manner in accordance with applicable laws and standards. The long-range financial plan model for each utility will analyze rate revenues, rate structure, operating costs, replacement capital costs, debt service and other utility considerations (special rate programs, paybacks, etc.). The City may utilize specialized rate consultants to evaluate the rate and cost structure of the utilities.

X. CAPITAL INVESTMENT PROGRAM PLAN POLICIES

General Policy Considerations - The major resources for funding capital improvement and capital maintenance programs are revenues, grants and debt. Financing planned capital replacement costs are an ongoing challenge. Preparing

for the challenges of infrastructure replacement or enhancements demands a long-term view of replacement needs. In order to plan for these needs the City will develop a six-year Capital Improvement Plan (CIP) for adoption by Council as required by the Washington's Growth Management Act. The CIP will be consistent with the Capital Facilities Element of the City's Comprehensive Plan. A capital project over \$15,000 with a minimum of a five-year anticipated life will be included in the CIP.

XI. DEBT MANAGEMENT POLICY

Long Term Debt - The City will manage its long-term debt in a manner designed to utilize its credit to optimize City services while balancing overall debt levels and annual debt service obligations. Long-term debt includes Bonds, Federal or State loans (e.g. PWTF, FHA), or private placement financing. The City shall only use long-term debt for capital projects that cannot be financed out of current revenues. Annual debt payments should not exceed 15% of the total of annual General Government operating revenues plus budgeted transfers from capital funding sources. General Government Funds include the General Fund, Contingency Fund and Special Revenue Funds.

Debt financing will generally be limited to one-time capital improvement projects and only under the following circumstances:

- Debt payments shall not extend beyond the estimated useful life of the project being financed. The City shall keep the average maturity of general obligations bonds at or below 30 years, unless special circumstances arise warranting the need to extend the debt schedule.
- When project revenue or specific resources as identified will be sufficient to service the debt;
- When projects greater than \$100,000 cannot be financed on a pay-as-you-go basis from anticipated cash flows.

Debt financing will not be considered appropriate for:

- Current operating and maintenance expenses (except for issuing short-term instruments such as revenue anticipation notes or tax anticipation notes); and any recurring purpose (except as indicated above).
- Grant match less than \$100,000 where funding is anticipated from on-going cash flow or reserve balances.
- Projects less than \$100,000 where funding is anticipated on a pay-as-you-go basis from anticipated cash flows or reserve balances.
-

Tax anticipation debt will be retired annually, and bond anticipation notes will be retired within six months of the completion of the project. Short-term debt outstanding at the end of the year will not exceed 5% of net operating revenue (including tax anticipation notes but excluding bond anticipation notes.)

The City's Limited (non-voted) General Obligation (LTGO) Debt Capacity per State Law is 1.5% of total assessed value. The City should seek to retain 5-10% of its LTGO Debt Capacity for unforeseeable catastrophic emergencies.

Options for Interim or "Bridge" financing may include:

- Bond Anticipation Notes (BANS)
- Tax Anticipation Notes (TANS)
- Lines of Credit with major financial institutions
- Interfund Loans

Short Term Debt – Transfers and Interfund Loans – General Fund transfers to other funds are intended as payments for the support of specific programs or services. Amounts not needed to support such specific program or service expenses will remain in the General Fund's fund balance. For example, the General Fund may make transfers to the Debt Fund to fund annual debt service payments or to the Community Services Fund to support parks or service programs.

Interfund loans are temporary in nature. The requirements for interfund loans are as follows:

- The Council must approve all interfund loans by resolution. The resolution will include a planned schedule of repayment of the loan principal as well as setting a reasonable rate of interest to be paid to the lending fund.
- The borrowing fund must reasonably be able to anticipate sufficient revenue to repay the principal and interest payments as required by the authorizing resolution.
- The rate of interest should not be lower than the "opportunity cost" if the funds were otherwise invested, such as the LGIP (Local Government Investment Pool) rate or a bank CD rate for a similar term; not higher than the external rate available to the municipality.
- Interest is not required in the following circumstances:
 - If the borrowing fund has no independent source of revenue other than the lending fund;
 - The lending fund is the General Fund, which, being unrestricted, can provide interest free loans to other funds.
- The term of the interfund loan will not exceed three years. Any interfund loans that are not repaid within three years will be scrutinized for a "permanent diversion" of moneys. (Note: These restrictions and limitations do not apply to those funds which are legally permitted to support one another through appropriations, transfers, advances, etc.)

For short-term cash deficits in non-General Fund operating funds during the course of the year, City interfund loans are preferable to outside short-term or private sector lines of credit.

XII. PURCHASING POLICY

Purchases of goods, services and capital items will be made consistent with the annual budget appropriations, state and federal law, the City's Purchasing Ordinance and the State Auditor's requirements. The City's Purchasing Ordinance will outline the City Manager's spending and contracting authority. Any purchases or contracts above those authority limits must be authorized in advance by City Council (some exceptions for public emergencies will apply). The City Manager may delegate spending authority (within his/her limits) to Department Heads to facilitate operating efficiency.

The City Manager and Department Heads purchase goods and services at a reasonable cost, using an open, fairly documented and competitive process whenever reasonable and possible. The Director of Finance & Technology Services (Finance Director) is charged with developing administrative/operating procedures to implement sound purchasing policies. These procedures will be based on guidelines provided in State Law and by the State Auditor's Office. All purchases made by the City will ultimately be approved by the Council through the voucher approval process.

XIII. ELECTRONIC FUNDS TRANSFER POLICY

Electronic payment methods are a safe and efficient method to process disbursements and receive payments for City business. City policy is to establish the best methods to process payments to employees and vendors. In addition, City policy is to establish the best methods to receive payments from customers and vendors. Electronic payment methods may include Electronic Funds Transfer (EFTs), Automated Clearing House (ACH), Wire Transfers, credit card and debit card.

The Director of Finance & Technology Services (Finance Director) will maintain administrative/operating procedures to manage sound electronic fund transfer policies and procedures.

XIV. GRANTS MANAGEMENT POLICY

Leveraging City and community resource with external financial assistance can enhance the quality and level of public services, facilities and infrastructure. City Policy is to seek and accept grants and other financial assistance consistent with the City's strategic plan.

External assistance also carries with it the goals and restrictions of the grantor. Grant relationships are partnerships where the goals of both the City and grantor must be in alignment. The benefits, costs and long-term implications of the partnership must be considered prior to formal application. The City's Grants Management Policy involves the following steps:

Search – City department staff and officials are encouraged to actively search out and identify potential grants which may further the City's vision and goals, within the City's financial limitations.

Pre-Application – Department Directors and staff shall pursue grants within their purchasing authority identified in City Purchasing Policies. The City Manager shall be advised of all grant considerations over a \$10,000 total.

Formal Application – Formal applications directly by the City, or indirectly by other agencies involving the City, must fall within Departmental Purchasing levels.

All grants will seek reimbursement of direct cost departmental and City wide indirect or administrative costs to the maximum extent allowable by the grantor.

Grants by other agencies involving the City or by the City involving other grantees must have City Manager, or Council approval beyond the \$60,000 Purchasing levels.

Award and Contract – Upon formal Notice of Grant Award (NOGA) or informal notification, a written contract must be approved prior to any City commitment, formal or otherwise. All grant contracts must be within the City's Purchasing levels. Any needed budget amendments for grant match not otherwise within general budget authority shall be adopted prior to formal grant acceptance and contract signing.

Accounting and Reporting – City departments shall coordinate with Finance to assure that grants comply with Federal, State and local requirements for timely reimbursements, monitoring of vendors and sub recipients, as well as City Purchasing Policies. Any notification of audit of grant programs or funds should be sent to the Director of Finance & Technology Services even if the audit is coordinated in another department.

Close Out – Multi-year grants shall have periodic accounting reviews not less than at the close of each fiscal year. Upon conclusion of each grant, the Department grant manager shall prepare a grant close-out report in coordination with the City's Finance Department. A complete grants management file record shall be maintained per City policy, either in the Department, Finance or Clerk's Office.

The City Council Adopted Federal Awards Standards, Procurement Policy and Code of Conduct Policy for all Federal Loans and Grants on July 10, 2017. Standards for federal awards are detailed in Appendix B.

XVI. VACANCY RATE POLICY

- As part of the annual budget process, the Vacancy Rate Policy requires setting a vacancy rate based on an assessment of market conditions and vacancy rate trends. The rate would then be used to calculate an equivalent General Fund savings from unspent employee salaries and benefits, from which eligible expenses can be funded up to those savings. Expenses must have direct nexus to the impacts of or mitigation of staff vacancies, including: Employee engagement programs facilitated through the People & Performance Department
- Staff training
- Short-term contracts of less than 6 months duration
- Seeding the Rainy-Day Fund

At least 20% of the Vacancy Rate savings, should there be any, is recommended go to seeding of the Rainy-Day Fund.

XVII. VENDOR PAYMENTS: Automated Clearing House network (ACH) and the Printing & Distribution of Checks

All payments to vendors—whether by check or ACH—will utilize Payee Positive Pay through the City's designated banking institution to safeguard against fraudulent activity.

Regular check runs are processed and mailed on a biweekly basis, specifically every other Friday.

Per RCW 1.80.060(4), electronic signatures are legally valid. These electronic signatures will be securely stored within the City's Financial Database, which is managed by the Finance Director in coordination with the database provider. Access to apply these signatures will be restricted to the Accounts Payable and Payroll teams.

In accordance with RCW 35A.40.020, the City Council may designate specific City officers to be authorized signers for City-issued checks. Resolution 19-059 formally establishes this signatory authority for the City of Port Townsend's financial institution accounts.

The following check issuance procedures shall apply:

- All checks require two authorized signatures.
- Checks under \$50,000 may be signed electronically using secure digital signature protocols.
- Checks of \$50,000 or more must bear two original ("wet") signatures prior to distribution.

All vendor invoices and payment authorizations must be reviewed and approved by two of the designated City officers prior to the release of any checks or ACH payments. Signatories are responsible for reviewing all supporting documentation to ensure the legitimacy, accuracy, and appropriateness of each transaction, thereby minimizing the risk of error or fraud.

Blank check stock will be stored securely in a locked drawer. A check log will be maintained, recording each check number issued, the date of issuance, and the signature of the responsible employee. This log will be regularly reconciled for accuracy and accountability.

In the event a check is lost, stolen, or destroyed, the Accounts Payable office will issue an Affidavit of Lost Check Form to the vendor. The form must be completed, notarized, and returned before the original check can be voided and a replacement issued. Upon receipt, Accounts Payable will initiate a stop payment on the original check and proceed with reissuance.

APPENDIX A: INVESTMENT POLICY

To the extent possible, funds not needed for operations should be invested in approved investment vehicles. Investments shall be made with judgment and care, under circumstances then prevailing, that persons of prudence, discretion, and intelligence in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived.

The standard of prudence to be used by investments officials shall be the prudent person standard and shall be applied in the context of managing the overall portfolio. Investment officers acting in accordance with written procedures and the investments policy and exercising due diligence shall be relieved of personal responsibility for an individual's security's credit risk of market price changes, provided deviations from expectations are reported in a timely fashion and appropriate action is taken to control adverse developments.

The City will strive to maximize the return on its investments, with the primary objective of preserving capital and prudent investment practices, including diversification.

Investments will be made in accordance with the following objectives:

- 1) Legality: Funds of the City will be invested in accordance with the Revised Code of Washington (RCW), the BARS manual, these policies and any applicable administrative procedures.
- 2) Safety: Investments of the City will 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 by other investments.
- 3) Liquidity: The City's investments will remain sufficiently liquid to enable the city to meet all operating requirements that might be reasonably anticipated.
- 4) Yield: The City's investments will 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 cash flow characteristics.

The Director of Finance & Technology Services (Finance Director) will approve financial institutions to be eligible to conduct investment business with the City, in accordance with Washington State Law.

The Director of Finance & Technology Services (Finance Director) will periodically furnish the City Manager and Council with a report that shall include the amount of interest earned to date. At least annually, a report summarizing investment activity and rate of return will be provided.

APPENDIX B- CITY OF PORT TOWNSEND FEDERAL AWARDS STANDARDS, & CODE OF CONDUCT

CITY OF PORT TOWNSEND FEDERAL AWARD STANDARDS

PURPOSE

Establish and maintain internal controls that provide reasonable assurance that Federal awards are being managed in compliance with all federal regulations and with the terms and conditions of the award. The City of Port Townsend will follow the Uniform Guidance, the Local Agency Guidelines (LAG) distributed by The Washington State Department of Transportation (WSDOT), and the City of Port Townsend's Comprehensive Financial Management Policy Guidelines.

INTERNAL CONTROLS

The City of Port Townsend will maintain effective internal control over the Federal award providing reasonable assurance that the City of Port Townsend is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award.

- Take prompt action when instances of noncompliance are identified including noncompliance identified in audit findings.
- Take reasonable measures to safeguard protected personally identifiable information and other information the Federal awarding agency or pass-through entity designates as sensitive.

ADVANCE PAYMENTS AND REIMBURSEMENTS

Payment methods must minimize the time elapsing between the transfer of funds from the United States Treasury or the pass-through entity and the disbursement by the City of Port Townsend whether the payment is made by electronic funds transfer, or issuance or redemption of checks, warrants, or payment by other means.

- Advanced payments must be limited to the minimum amounts needed and be timed to be in accordance with the actual, immediate cash requirements of the City of Port Townsend to carry out the purpose of the approved program or project. Any advanced payments must be consolidated to cover anticipated cash needs.
- The City of Port Townsend shall minimize the time elapsed between receipt of federal aid funds and subsequent payment of incurred costs.

ALLOWABLE COSTS

Federal awards will meet the following general criteria to be allowable except where otherwise authorized by statute:

- Be necessary and reasonable for the performance of the Federal award;

- Conform to any limitations or exclusions set forth in these principles or in the Federal award as to types or amount of cost items;
- Be consistent with policies and procedures that apply uniformly to both Federally- financed and other activities of the City of Port Townsend;
- Be accorded consistent treatment;
- Not be included as cost or used to meet cost sharing or matching requirements of any other Federally-financed program in either the current or a prior period;
- Be adequately documented.

SINGLE AUDIT ACT

The City of Port Townsend, as a recipient of Federal funds, shall adhere to the Federal regulations outlined in 2 CFR §200.501 as well as all applicable Federal and State statutes and regulations.

CLOSURE

A project agreement end date will be established in accordance with 2 CFR §200.309. Any costs incurred after the project agreement end date are not eligible for Federal reimbursement.

CITY OF PORT TOWNSEND CODE OF CONDUCT

PURPOSE

The purpose of the Code of Conduct is to ensure the efficient, fair and professional administration of federal grant funds in compliance with 2 CFR §200.112, 2 CFR §200.318 and other applicable federal and state standards, regulations, and laws.

APPLICATION

This Code of Conduct applies to all elected officials, employees or agents of the City of Port Townsend engaged in the award or administration of contracts supported by federal grant funds.

REQUIREMENTS

No elected official, employee or agent of the City of Port Townsend shall participate in the selection, award or administration of a contract supported by federal grant funds if a conflict of interest, real or apparent, would be involved. Such a conflict would arise when any of the following has a financial or other interest in the firm selected for award:

- The City employee, elected official, or agent; or
- Any member of their immediate family; or
- Their partner; or
- An organization which employs or is about to employ any of the above.

The City of Port Townsend's elected officials, employees or agents shall neither solicit nor accept gratuities, favors, or anything of monetary value from contractors, potential contractors or subcontractors.

REMEDIES

To the extent permitted by federal, state or local laws or regulations, violation of these standards may cause penalties, sanctions or other disciplinary actions (up to and including employment or contract termination) to be taken against the City of Port Townsend's elected officials, employees or agents, or the contractors, potential contractors, subcontractors or their agents. Any potential conflict of interest will be disclosed in writing to the Federal awarding agency or pass-through entity in accordance with applicable Federal awarding agency policy.

APPENDIX C- INTERFUND LOAN POLICY

I. PURPOSE

A policy is needed to provide guidelines for the borrowing of cash or other assets using interfund loans. The City of Port Townsend is a non-charter code city. As such, the legislative body may exercise its powers to approve interfund loans.

II. POLICY

This policy applies to all loans made between two or more city funds. Only that portion of a given fund which is clearly inactive or in excess of current needs for the anticipated length of the loan may be loaned to other municipal funds.

Interfund loans are temporary or short-term borrowing of cash or other assets and may be made for the following reasons:

- To offset timing differences in cash flow.
- To offset timing differences between expenditures and reimbursements, typically associated with grant funding.
- To provide funds for interim financing in conjunction with obtaining long-term financing.
- For short-term borrowing in place of external financing.
- For other needs as deemed appropriate by City Council.

Interfund loan monies may only be used for the purpose identified in the authorizing resolution. Appropriate accounting records will be maintained to reflect the balances of loans in every fund affected by such transactions. A reasonable rate of interest, based on market rates, will be paid.

III. PROCEDURE

It is permissible to make interfund loans of those municipal monies which are clearly inactive or in excess of current needs for the anticipated length of the loan and legally available for investment (i.e., no restrictions). The Finance and Technology Services Director and City Attorney will determine which money may or may not be available for interfund lending, since the special character of some money involves commitments and restrictions which would require individual consideration.

The requirements for making and accounting for interfund loans are as follows:

1. The City Council must approve by resolution all interfund loans. The resolution will include a planned schedule of repayment of the loan principal as well as setting a reasonable rate of interest to be paid to the lending fund. The following guidelines should be used in establishing the rate of interest:

- a. Not lower than the “opportunity cost” if the funds were otherwise invested, such as the LGIP (Local Government Investment Pool) rate or a bank CD rate for a similar term.
 - b. Treasury yields or short-term bond yields for a similar term.
 - c. Not higher than the external rate available to the municipality.
2. Interest is not required in the following circumstances:
 - a. The borrowing fund has no independent source of revenue other than the lending fund; or
 - b. The borrowing fund is normally funded by the lending fund. (For example, General Fund is used to fund Streets and capital projects.)
 - c. The lending fund is the General Fund, which, being unrestricted, can loan interest-free, except to a proprietary fund (i.e, enterprise funds such as Water and Sewer).
3. The borrowing fund must anticipate sufficient revenues to be in a position over the period of the loan to make the specified principal and interest payments as required in the authorizing resolution.
4. The term of the loan may continue over a period of more than one year, but must be “temporary” in the sense that no permanent diversion of the lending fund results from the failure to repay by the borrowing fund. A loan that continues longer than three years will be scrutinized for a “permanent diversion” of moneys. (Note: these restrictions and limitations do not apply to those funds which are legally permitted to support one another through appropriations, transfers, advances, etc.)

Appropriate accounting records will be maintained to reflect the balances of loans in every fund affected by such transactions. a. Interfund loans receivable and interfund loans payable will be reconciled periodically. b. The original interfund loan and repayments of the loan are recorded as nonexpenditure disbursements and nonrevenue receipts. c. Loan interest on an interfund loan will be recorded as revenue to the loaning fund, and an expenditure of the fund receiving the loan. d. Interfund loan monies may only be used for the purpose identified in the authorizing resolution.

IV. TEMPORARY INTERFUND LOANS

Authorization of Temporary Interfund Loans. The Finance Director is authorized and directed to make temporary cash loans from the General Fund (010) to the Capital Funds as necessary to eliminate negative cash balances arising from the timing difference between expenditure of project costs and receipt of grant reimbursements or other approved project revenues.

The amount transferred at end of year is does not exceed \$1,000,000. The term is not to exceed 60 days.

Loan Terms and Conditions.

- a. **Aggregate Principal Limit.** The total outstanding principal of all loans authorized by this Resolution shall not exceed One Million Dollars (\$1,000,000) at any one time.
- b. **Interest Rate.** Consistent with BARS Manual § 3.9.1.20(2)(c), no interest shall accrue on these loans because the lending fund is the General Fund and each borrowing fund is a governmental fund.
- c. **Repayment Schedule.** Each loan shall be repaid in full immediately upon receipt of the applicable grant reimbursement or other project revenue, but in no event later than sixty (60) days after the close of the fiscal year in which the loan is made.
- d. **Accounting and Reporting.** The Finance Director shall record all loan advances, repayments, and outstanding balances in accordance with the BARS Manual and shall report the status of each loan to the City Council at least annually until the loan is retired.

V. REFERENCES

State Auditor's Office:

- Budget, Accounting and Report System (BARS) Manual
- Small City Handbook