
BUDGET PROCESS & POLICIES

TABLE OF CONTENTS

	PAGE
BUDGET PROCESS	
Budget Development.....	2 - 1
Budget Calendar.....	2 - 3
Major Budget Documents.....	2 - 4
Department Budget Narratives.....	2 - 5
 FINANCIAL STRUCTURE	
Order of Fund Presentation	2 - 7
Flow of Funds Structure.....	2 - 11
Department and Fund Relationships	2 - 12
Budget vs. Accounting Basis	2 - 13
 BUDGET AND FINANCIAL POLICIES	
Introduction	2 - 14
Budget Policies.....	2 - 14
Financial Policies	2 - 16

Budget Process

BUDGET DEVELOPMENT

The budget process is a planning effort directly related to the delivery of City services. The process of developing the budget uses traditional planning concepts of understanding the mission, developing goals consistent with the mission, updating policies which guide the process, proposing specific plans to accomplish the goals, and balancing those plans against available resources. The budget is a year-round effort with the preparation of the next year's budget starting in April of the current year. The steps and timing involved in preparing the operating budget are described below.

PREPARING THE BUDGET

The budget process begins in March with the development of the budget calendar for the year. Budget priorities, goals and policies, established by the Mayor and City Council, are also reviewed and developed at this time.

In May, the Finance Department and City Administration together create a list of parameters for departments to follow when preparing base budgets. Typically, departments are instructed to limit proposals to changes that have a net zero impact on the budget. For example, new projects or services will be funded with new revenue or will replace existing services. A budget instruction packet is created with these guidelines and distributed to the budget contacts in each department.

Departments present individual budget requests for each new function or service request in June. Currently, existing services compete directly with new program requests during the budget evaluation process. The General Government departments also submit revenue estimates specific to their activities in June.

The Finance Department begins preparing revenue projections at the end of June for each revenue source based on the information provided by the departments, an analysis of past revenue trends and current economic conditions, as well as information about changing demographic, industrial, and commercial activities in the community.

Expenditure analysis includes adjustments for inflation, workload increases/decreases, and other factors that cause changes in expenditures. The Finance Department budgets for all non-departmental expenditures separately based on the unique requirements of each program, and updates general government revenue and expenditure projections annually for a six-year planning time frame.

Beginning in July and through mid-August, the Finance Department organizes the revenue, expenditure, and new budget request information into summaries for Administration's review. Discussions are held with department staff regarding services provided and resources needed. Proposed budget allocations are evaluated based on City priorities and effectiveness. Throughout this time, budget briefings are also held at City Council meetings to keep the Council informed of the status of the budget and provide the Council opportunities for input.

In mid-August, once the budget is balanced, Finance and Administration develop target budgets for the departments. Departments use the targets to develop their line item budgets. The proposed budget document is completed by mid-October. A hard copy is delivered to the Council Members and the budget is made available to the public by posting to the City's website and providing a hard copy for review in the City Clerk's office.

The Mayor delivers her budget message at the revenue workshop which also lay out the upcoming budget in summary. The Mayor delivers a summary of her message at the first public budget hearing, which is typically held at the end of October with two additional public hearings held each of the following weeks. The public hearings

are advertised for two consecutive weeks prior to the first hearing. The public is encouraged to attend and provide input on the budget plan.

ADOPTING THE BUDGET

The City of Everett budget is adopted by ordinance in accordance with the requirements and time limitations as mandated in state law Revised Code of Washington (RCW) 35.33. The budget must be adopted as a balanced budget and must be in effect prior to the expenditure of any City funds.

MONITORING THE BUDGET

The Finance Department prepares monthly reports comparing actual to budgeted revenues and expenditures. These reports are provided to the Mayor and Council.

AMENDING THE BUDGET

The City of Everett budget is program-based, but is adopted by fund. The Mayor has authority to transfer budgeted amounts between programs within any fund; however, City Council must approve any revisions that alter the total expenditures of a fund. When Council determines that it is in the City's best interest to increase or decrease the appropriation for a particular fund, they may do so by amending ordinance, after presentation of a budget advisory, which explains the reasons and discloses the impact of the amendment.

BUDGET CALENDAR

OPERATING BUDGET CYCLE	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar
Plan and develop budget calendar for budget year													
Review and develop policies and budget goals													
Create and distribute Budget Instruction Packet													
Departments submit requests for new programs and return first round of budget documents													
Update current and budget year revenue projections													
Update current and budget year expenditure forecasts													
Budget office notifies each department of their budget target and detail labor information													
Departments submit second round of budget documents - finalized line items, narratives													
Council Budget Briefings - status updates, revenue forecasts, assumptions, etc.													
Budget balanced													
Council Revenue and Expense Workshop/Public Hearing and Mayor's Budget Message delivered													
Prepare proposed budget document													
Summary of Mayor's message and proposed budget presented to Council													
Adopt Annual Property Tax Ordinance (three readings are required to adopt an ordinance)													
Conduct three public hearings on budget plan (appropriate public notice is provided)													
Adopt Budget													
Implement budget plan													
Prepare and publish final adopted budget													

The Budget Calendar conforms to the scheduling requirements in Revised Code of Washington 35.33.

MAJOR BUDGET DOCUMENTS

The City of Everett budget process includes the production of four key documents.

BUDGET INSTRUCTION PACKET - MAY

The Budget Instruction Package is updated and completed in May. It is made available online to fund managers and staff with budgetary responsibility. This document serves as an overall guide for the department's budget development -- it includes sections on annual budget highlights, specific budget development instructions, appendices with format examples, and supplemental forms.

PROPOSED BUDGET - OCTOBER

The Proposed Budget represents a coordination of Administration's management direction and City Council's policy direction in the form of a comprehensive financial plan for funding city services. Pursuant to state law, the Proposed Budget must be submitted to City Council at least sixty (60) days before the end of the year.

ORIGINAL ADOPTED BUDGET - LATE FEBRUARY/EARLY MARCH

The Original Adopted Budget represents a modified version of the Proposed Budget after public hearings and City Council review in October and November. The Original Adopted Budget reflects any changes to funding levels or revenue projections that City Council deems necessary. Revisions may also be made to reflect new budget information. (This budget is also commonly referred to as the **Adopted Budget** or the **Original Budget**.)

SIX-YEAR OUTLOOK - YEAR-ROUND EFFORT

The Six-Year Outlook is a summary document that projects the probable trends in resources and expenditures for five years into the future. The City tests and evaluates all major budget decisions regarding new or modified program and service levels in this environment prior to implementation so that the decision to move forward can be accompanied by foresight of the long-term financial implications.

DEPARTMENT BUDGET NARRATIVES

Fund/departmental section narratives describe the operation of each fund. Fund narratives may include:

FUND OVERVIEW: A broad, brief description of the function of the department as a whole.

ORGANIZATIONAL CHART: Organizational charts depict the fund operation by major function.

ACTIVITIES: Funds are divided into its separate activities (services) to enable the reader to better understand the purpose of the department, the cost of each activity, and the goals and workplan for each activity. Individual activities may include the following components:

- **Activity Budget Summary** - This box lists the labor and M&O cost of the activity, any offsetting-revenues that are dependent on that activity's existence, the net cost, and the FTEs related to the activity. Revenue offsets exclude non-voted, unrestricted taxes.
- **Primary City Priority** - This is the City priority the activity most closely supports. Many activities support more than one priority, however, Departments were required to select just one primary priority per activity.
- **Description** - Describes the services the activity provides and should relate to how it supports its primary City priority.
- **Accomplishments** - Describes the major accomplishments of the last year. Departments were limited to three accomplishments per activity.
- **Goals & Work Plan** - Each activity may have up to two goals with up to three workplan steps per goal. The goals are relatively broad and should related to a City priority. The goal's priority may or may not be the same as the Activities' primary City priority.
- **Performance Measures** - Each activity should have at least one Process or Results measure with a maximum of two per activity. Each activity is also allowed up to three workload measures.
 - **Process measures** - Describe aspects of the business process, such as completion rate, processing time, error rates, etc.
 - **Results (outcome) measures** - Measure the ultimate benefit associated with a program or service.
 - **Workload measures** - Input indicators measure resources that the organization consumes. Output indicators measure activities the organization undertakes or accomplishes.

REVENUE DESCRIPTION: The revenue description outlines the sources of revenue for the fund and may describe any significant changes in expected revenue collections (new fees, fee increase, elimination of service, etc.).

THREE-YEAR PERSONNEL COMPARISON: This section includes budgeted positions listed by job classification and title for the past year, the current year, and the proposed budget year.

BUDGET CHANGES: This section identifies significant changes in funding levels and organizational alignment, and details new programs and items proposed for funding.

BUDGETED EXPENDITURES: A numerical table detailing the actual expenditures for the previous year, the original and amended budget for the current year, and the budget for the coming year.

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Financial Structure

ORDER OF FUND PRESENTATION

The City budget is organized in fund number order. The departmental budget section includes all operating funds in the traditional order of General Fund, Special Revenue Funds, Debt Service Funds, Enterprise Funds, Internal Service Funds, and Trust Funds.

GENERAL FUND

The General Fund is the City's primary operating fund and is a major fund. It accounts for all financial resources except those required to be accounted for in other funds. It is generally considered to represent the basic operations of a municipality. It derives the majority of its revenues from property tax, sales tax, utility taxes, business & occupation taxes, and state-shared revenues.

The **General Fund** (Funds 001-038) accounts for operations such as Police, Fire, Engineering, Planning, and supporting departments such as Finance, Legal, and Information Technology. Each department included in the General Fund is budgeted for and presented separately in the General Government Funds section of this document.

GENERAL GOVERNMENT

When a section of the budget refers to the "General Government," it includes the General Fund, Funds 001-038, as described above, plus Special Revenue Funds 101 through 120 listed in the special revenue section below. All City regular property tax revenues are accounted for within the General Government.

SPECIAL REVENUE FUNDS

Special revenue funds account for the proceeds of revenue sources that are restricted for specific expenditure purposes. Other restricted resources are accounted for in debt service, trust, and capital projects funds. Not all special revenue funds listed below meet the strict definition of a special revenue fund but were created for management control and budgeting purposes. The funds that do not meet the GAAP definition of a special revenue fund are underlined. For financial reporting purposes, the underlined funds are combined with the general fund.

- 101** The **Parks and Community Services Fund** accounts for the operations of the City's park system and swimming pool.
- 110** The **Library Fund** accounts for the operation of the two City libraries.
- 112** The **Municipal Arts Fund** accounts for the maintenance and operations of the City's performing arts facility and the municipal arts programs.
- 114** The **Conference Center Fund** accounts for the maintenance and operations at the City's Edward D. Hansen Conference Center.
- 119** The **Street Improvement Fund** accounts for the street overlay program and other street improvement and repair projects.
- 120** The **Streets Fund** accounts for maintenance and operation of all transportation routes, preparation of streets planned for overlay, and maintenance of the Central Business District area.
- 126** The **Motor Vehicle and Equipment Replacement Reserve Fund** accumulates funds to provide for the replacement of general government motor vehicles and equipment.
- 130** The **Development & Construction Permit Fees Fund** accounts for the collection and distribution of construction permit revenue and other fees associated with the development of real property.

- 138** The **Hotel/Motel Tax Fund** accumulates the hotel/motel tax for tourism promotion and marketing of the City.
- 145** The **Cumulative Reserve for Real Property Acquisition Fund** accounts for real property acquisitions.
- 146** The **Property Management Fund** accounts for several city-owned commercial buildings and the general government building maintenance and repair reserve.
- 148** The **Cumulative Reserve for Parks Fund** accounts for funds accumulated for capital improvements and acquisition of land for parks.
- 149** The **Senior Center Reserve Fund** accounts for funding of senior center activities and special events.
- 151** The **Fund for Animals** is a reserve fund that accumulates contributions for animal welfare issues and unusual medical expenses.
- 152** The **Cumulative Reserve for Library Fund** is a reserve fund that accumulates bequests and contributions for specific capital items and projects that relate to the library program and for literary and cultural services for the intellectual improvement of the individual.
- 153** The **Emergency Medical Services Fund**, a major fund, accounts for the paramedic program funded by a special property tax levy passed by the citizens of Everett and ambulance transport fees.
- 154** The **Real Estate Excise Tax Fund** is a reserve fund that accumulates this tax until the City allocates the proceeds to capital projects in accordance with state law.
- 155** The **General Government Special Projects Fund** accounts for transactions relating to special projects of the General Government that don't fit into one of the other General Government funds including the Public, Educational, and Governmental (PEG) fee program and the 1% for the Arts Program.
- 156** The **Criminal Justice Fund** accounts for supplemental programs of the Police department, Prosecutor's office and municipal court funded by Criminal Justice legislation, and other restricted revenues.
- 157** The **Traffic Mitigation Fund** is a reserve fund for traffic improvements resulting from real estate development in Everett.
- 159** The **Transportation Benefit District Fund** was created to account for a \$20.00 vehicle registration license fee to be used for the preservation, maintenance, and construction of local transportation infrastructure in Everett.
- 160** The **Contingency Reserve Fund or "Rainy Day Fund"** is a reserve fund for emergencies and contingency expenses funded by the general fund in the form of a general property tax allocation.
- 162** The **Capital Improvement Reserve Fund** is a reserve fund for capital projects funded from the first quarter of one percent Real Estate Excise Tax and general fund contributions.
- 171** The **Affordable and Supportive Housing Sales Tax Credit Fund** accounts for the sales tax imposed to acquire, rehabilitate, or construct affordable housing and provide funding for operations and maintenance costs of new units of affordable or supportive housing.
- 197** The **Community Housing Improvement Program (CHIP) Fund** accounts for low interest loans to low-income homeowners and non-profit organizations throughout Everett and the administration of those loans. Loans are provided through a combination of federal funds, including HUD Block Grant, Home funds, and other grant programs.

- 198** The **Community Development Block Grants Fund** accounts for a variety of housing and community development programs aimed primarily at low and moderate-income persons and the prevention or elimination of slums and blight. Financing is from Community Development Block Grant HUD funds.

DEBT SERVICE FUNDS

Debt service funds are used to account for the accumulation of resources for and payment of general obligation bond principal and interest from governmental resources.

- 210** The **Bond Redemption Fund**, a major fund, accumulates funds to pay principal redemption and interest payments on various bond issues.

CAPITAL PROJECT FUNDS

Capital project funds are used to account for the acquisition or construction of major capital facilities other than those financed by proprietary and trust funds. **Capital project funds are not included in the City's operating budget. They are budgeted separately with construction fund ordinances, which appropriate a budget for the life of the project.**

- 303** The **Public Works Improvement Project Fund** accounts for general government Public Works enhancement and improvement projects; mainly road construction projects.
- 308** The **Riverfront District Development Fund** accounts for general government projects related to the Riverfront District development.
- 342** The **City Facilities Construction Fund** accounts for major renovation or construction of general government city facilities.
- 354** The **Parks CIP 3 Construction Fund** accounts for the design and construction of various park improvements.

ENTERPRISE FUNDS

Enterprise funds account for operations that are: (a) normally financed and operated in a manner similar to private business enterprises where the intent of the governing body is that costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. The City of Everett's enterprise funds include operations, construction, bond, and grant projects directly related to enterprise operations.

- 401** The **Water/Sewer Utility Fund**, a major fund, accounts for activities related to water and sewer management, including distribution and filtration of water, and the collection and treatment of wastewater, and surface water management.
- 402** The **Solid Waste Utility Fund** accounts for activities related to garbage and solid waste management, including recycling and excluding direct engagement in routine collection.
- 425** The **Transportation Services/Transit Fund**, a major fund, accounts for activities related to transit services, paratransit services, and regional transportation management through Everett Station.
- 430** The **EverPark Garage Fund** accounts for operations, maintenance, and capital improvements of the EverPark Garage.
- 440** The **Golf Fund** accounts for the operations, maintenance, and capital improvements of two city-owned golf courses.

- 450** The **Snohomish River Regional Water Authority Fund** accounts for the interlocal agreement for water resource development with the Woodinville Water District and the Northshore Utility District.

INTERNAL SERVICE FUNDS

Internal service funds account for the financing of goods or services one department provides to other departments of the City on a cost reimbursement basis.

- 501** The **Motor Vehicle Operating Fund** accounts for the costs of operating a maintenance facility for automotive equipment and other machinery used by City departments. Such costs are billed to the other departments at actual cost, including depreciation.
- 503** The **Self-Insurance Fund** receives monies from various City funds to pay all costs of self-insurance for workers' compensation, unemployment compensation, liabilities arising out of torts, and the operation of the George Culmback Dam.
- 505** The **Information Technology Reserve Fund** receives monies from City departments to pay for computer equipment, software, and related maintenance.
- 507** The **Telecommunications Fund** accounts for the cost of operating a centralized telecommunication service for all City departments.
- 508** The **Health Benefits Reserve Fund** accounts for the activity and reserve associated with the provision of self-insured health benefits to City employees.

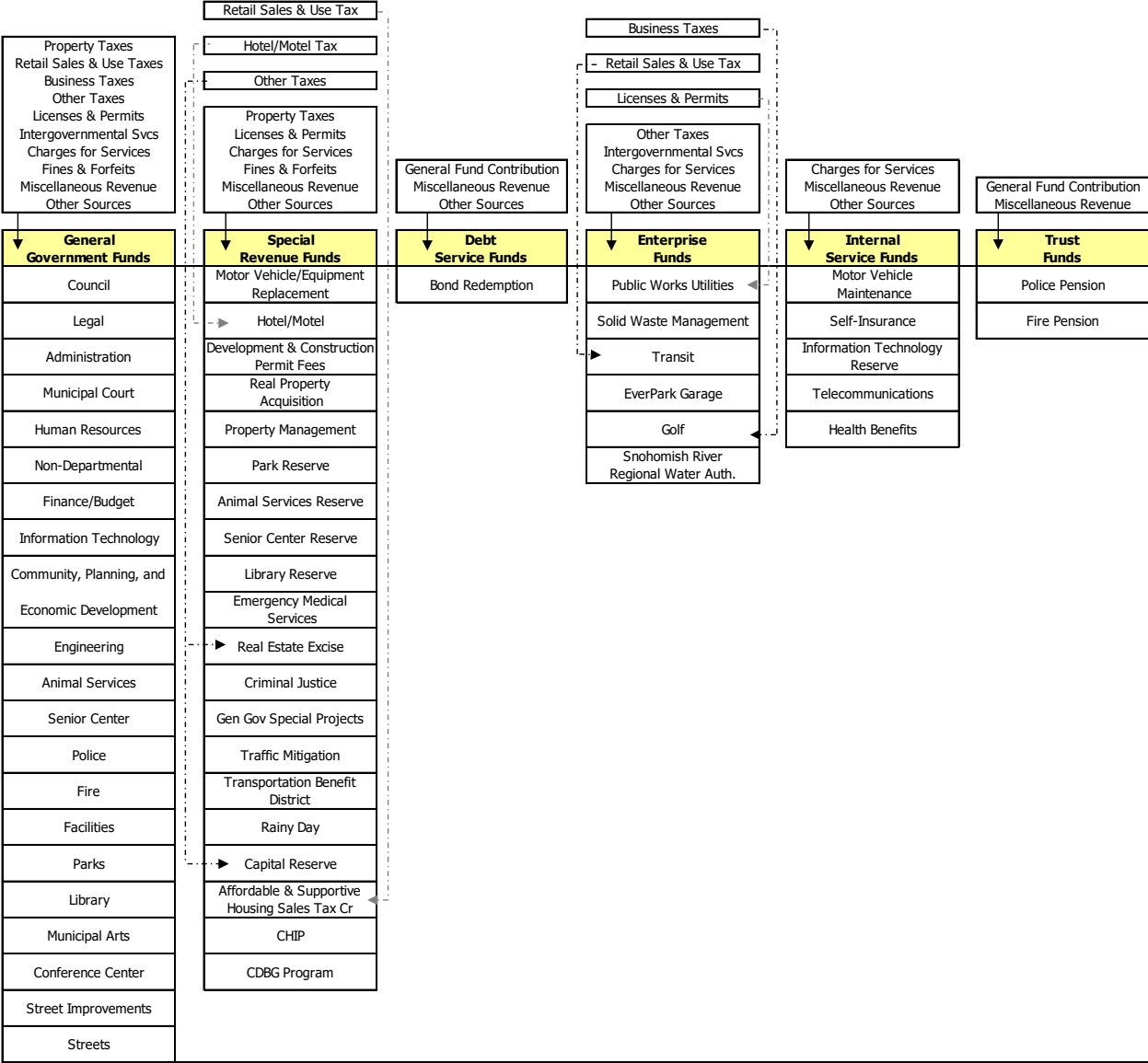
FIDUCIARY FUNDS

Fiduciary funds consist of trust and agency funds that account for assets the City holds in a trustee capacity or as an agency for individuals, private organizations, other governments, and/or other funds.

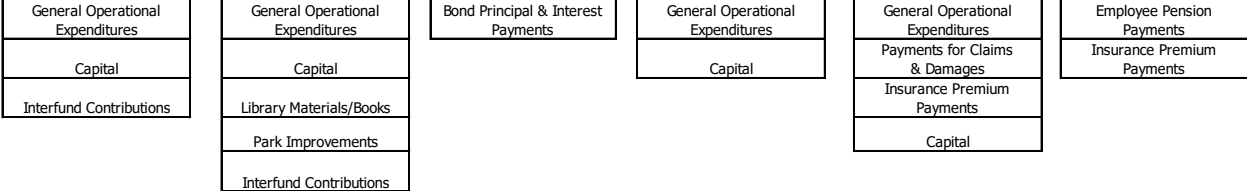
- 637** The **Police Pension Fund** receives funding from the general government and investment interest to pay for retirement benefits not covered by the State's Law Enforcement Officers' Retirement System to active and retired police officers hired before March 1, 1970; and to pay for medical expenses not covered by medical insurance for active and retired police officers hired before October 1, 1977.
- 638** The **Fire Pension Fund** receives funding from the general government, a portion of the State levied fire insurance premium tax, and investment interest to pay for retirement benefits not covered by the State's Fire Fighters' Retirement System to active and retired fire fighters hired before March 1, 1970; and to pay for medical expenses not covered by medical insurance for active and retired fire fighters hired before October 1, 1977.

FLOW OF FUNDS STRUCTURE

Revenue Sources:



Uses of Funds:



DEPARTMENT AND FUND RELATIONSHIPS

DEPARTMENT/FUNDS		2023 BUDGET
City Council		
001	City Council	\$ 649,355
Administration		
004	Administration	\$ 1,201,932
Municipal Court		
005	Municipal Court	\$ 2,486,347
Human Resources		
007	Human Resources	\$ 2,360,741
Finance		
009	Gen Gov't Non-dept	\$ 29,147,900
010	Finance	3,205,512
114	Conference Center	1,515,849
126	Motor Vehicle/Equip Repl.	3,596,342
138	Hotel Motel Tax Fund	795,000
154	Real Estate Excise Tax Fund	113,142
155	General Govt. Special Projects	200,000
159	Transportation Benefit District	2,894,150
160	Rainy Day Fund	-
162	Capital Reserve	3,356,090
210	Bond Redemption Fund	2,881,090
508	Health Benefits Reserve	18,305,000
637	Police Pension Fund	1,893,000
638	Fire Pension Fund	2,806,000
Information Technology		
015	Information Technology	\$ 4,017,156
505	Computer Reserve Fund	4,114,176
507	Telecommunications Fund	778,308
Communications & Marketing		
018	Communications & Marketing	\$ 816,737
Community, Planning and Economic Development		
021	Community, Planning & Economic Development	\$ 3,818,333
145	Cumulative Res/Real Prop. Acq	180,850
171	Affordable & Supportive Housir	-
197	CHIP Loan Program	1,045,057
198	Comm Develop. Block Grants	618,562

DEPARTMENT/FUNDS		2023 BUDGET
Legal		
003	Legal	\$ 4,620,444
503	Self-Insurance Fund	11,672,731
Police		
031	Police	\$ 42,865,667
156	Criminal Justice Fund	5,974,902
Fire		
032	Fire	\$ 24,265,010
153	Emergency Medical Services	18,639,716
Parks, Community Services, and Facilities		
026	Animal Services	\$ 1,989,767
038	Facilities/Property Mgmt.	4,187,198
101	Parks & Recreation	6,940,795
112	Municipal Arts	640,808
146	Property Management	2,166,832
148	Cumulative Reserve /Parks	25,000
149	Senior Center Reserve	4,000
151	Fund for Animals	241,463
430	Everpark Garage	821,857
440	Golf	4,890,344
Library		
110	Library	\$ 5,037,224
152	Cumulative Reserve /Library	100,412
Public Works		
024	Engineering / Public Services	\$ 8,437,751
119	Street Improvements	3,969,200
120	Streets	3,090,811
130	Develop. & Const. Permit Fees	4,230,813
157	Traffic Mitigation	4,000,000
401	Water/Sewer Utility	233,753,102
402	Solid Waste Utility	2,273,041
450	Sno River Reg Wtr Auth	18,000
Transit		
425	Transit	\$ 46,856,588
Motor Vehicles		
501	Motor Vehicle Division	\$ 8,672,332

Total City Expenditure Budget \$ 543,182,437

BUDGET VS. ACCOUNTING BASIS

The City prepares a comprehensive annual financial report in conformance with generally accepted accounting principles (GAAP). The budget is not prepared using the same basis of accounting, and therefore cannot, in all cases, be compared to information reported in the annual report.

ACCOUNTING BASIS - Basis of accounting refers to the timing of when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. The Comprehensive Annual Financial Report (CAFR) reports the status of the City's finances in accordance with generally accepted accounting principles (GAAP). The accrual basis of accounting is used for all funds at the entity-wide reporting level. At the fund level, the accrual basis of accounting is used for all funds except the governmental fund types, which use the modified accrual basis of accounting.

The modified accrual basis differs from the accrual basis in the following ways:

- Purchases of capital assets are considered expenditures
- Long-term debt principal and interest payments are considered expenditures when due
- Revenues are recognized only when they become both measurable and available to finance expenditures of the current period
- Inventories and prepaid items are reported as expenditures when purchased
- Accumulated unpaid vacation, sick pay and other employee benefits are considered expenditures when paid
- Depreciation is recorded on an accrual basis only

BUDGET BASIS - The Governmental Fund types (General Fund, Special Revenue Funds, and Debt Service Funds) are budgeted on a modified accrual basis and can be compared to the fund operating statements in the City's annual financial report. However, to directly compare the General Fund per the annual financial report to the budget, the following funds, which are budgeted for separately, must be combined with the General Fund.

101 – Parks and Recreation Fund
 110 – Library Fund
 112 – Municipal Arts Fund
 114 – Conference Center Fund
 126 – Motor Vehicle and Equipment Replacement Reserve Fund
 145 – Cumulative Reserve for Real Property Acquisition Fund
 146 – Property Management Fund
 149 – Senior Center Reserve Fund
 160 – Contingency Reserve Fund

The Proprietary Fund types (i.e. Utilities, Transit, Motor Vehicle Division, etc.) and the Fiduciary Fund Types (i.e. Pension Trust) are budgeted on a modified accrual basis but are reported in the annual financial report using an accrual basis; therefore, these funds are not directly comparable between the two reports.

Budget & Financial Policies

INTRODUCTION

The financial integrity of our City government is of vital importance. Written, adopted financial policies have many benefits, such as assisting the Council and Administration in the financial management of the City, saving time and energy when discussing financial matters, engendering public confidence, and providing continuity over time as Council and staff changes occur.

The City of Everett budget emerges from a foundation of Council and administrative policies. These financial and budget policies create a framework for decision-making as we develop the City budget. The budget determines what services the City will offer, the level of these services, and how funds will be provided to finance them. Recognizing the importance of these decisions, the following policy statements reflect the principles and priorities the City uses in preparing the budget.

BUDGET POLICIES

GENERAL GOVERNMENT SIX-YEAR OUTLOOK

The City of Everett employs a budgeting model that allows potential policy decisions to be formulated and examined in a budgetary context spanning a period of six years. The six-year outlook model tests the City's ability to accomplish long-term goals by showing the consequences of any given budget decision as new General Government services are "tested" within this model prior to implementation. In this manner, policy makers can examine the probable long-term outcome of many possible decisions and select the one that serves the interests of Everett's citizens most effectively.

The General Government Six-Year Outlook identifies fund balances, revenue patterns, and expense trends which are subject to constant change but does not illustrate future budgets, services, or programs in any detail. The dynamic nature of local government, as well as historical precedent, suggests that even the current Operating Budget will be altered several times before the close of the year.

BALANCING THE OPERATING BUDGET

State law requires that the City adopt a balanced budget. Revised Code of Washington (RCW) 35.33.075 includes the following requirement: *"Appropriations shall be limited to the total estimated revenues contained therein including the amount to be raised by ad valorem taxes and the unencumbered fund balances estimated to be available at the close of the current fiscal year."*

The City adopts a *statutorily* balanced budget, but also seeks to adopt a *structurally* balanced budget for the General Government. A budget is *statutorily* balanced when total estimated resources (beginning fund balance plus revenues) equal the total appropriation (expenditures plus ending fund balance). In a *statutorily* balanced budget, beginning fund balance may be used as a revenue source. In contrast, in a *structurally* balanced budget, the total expenditure appropriation is limited to the annual estimated revenues. In a *structurally* balanced budget, beginning fund balance is not used as a revenue source.

It is not uncommon for cities to rely upon the beginning fund balance as a "revenue" source. As stated above, the City of Everett's goal is to attain structural balance, at least for the General Government, thereby eliminating reliance on these funds to supplement current income. Uncommitted operating surpluses (revenues that exceed expenditures) that occur at year-end may be held in reserve or re-appropriated to a capital reserve or long-term obligation rather than used as a supplemental source of revenue required to balance the budget each year.

In the event that adjustments are necessary to bring the budget into balance in the course of the fiscal period, administration will bring a budget amendment forward for approval by a supermajority of the City Council.

FUND BALANCE POLICY

Fund Balance is defined as the excess of assets over liabilities. The City desires to maintain a prudent level of financial resources to guard its citizens against service disruption in the event of unexpected temporary revenue shortfalls or unanticipated and extraordinary one-time expenditures. The General Government Fund Balance has been accumulated to meet this purpose and to provide stability and flexibility to respond to unexpected adversity and/or opportunities. The long-term target is to maintain a rolling beginning fund balance equal to 20% of operating revenues.

The City's goal is to maintain annual expenditure increases at a conservative growth rate and limit expenditures to anticipated revenues. Revenues in excess of operating expenditures, ("surplus funds"), may be transferred to a Capital Reserve, Long Term Obligation, or Debt Service Fund. Capital projects, Street Overlays and Motor Vehicle replacements may be funded from Capital Reserve funds.

The decision to retain a fund balance of 20% of operating revenues stems from the following considerations:

- This amount, in combination with the Rainy Day Fund, provides adequate funding to cover approximately three months of operating expenses.
- It provides the liquidity necessary to accommodate the City's uneven cash flow, which is inherent in its periodic tax collection schedule.
- It provides the liquidity to respond to contingent liabilities.

Fund balance may be accessed under the following conditions:

- A maximum of 25% of the General Government Fund Balance (5% of operating revenues) may be used to fund unforeseen expenditure requirements or unanticipated revenue fluctuations. The City will identify a plan to restore the Fund Balance to its target amount as part of the budget proposal.
- Except in the event of the declaration of an emergency by the City Council, a minimum Fund Balance equal to 15% of operating revenues will be maintained. A supermajority of the council is required to approve use of the Fund Balance if it falls below the 15% target. The City will identify a plan to restore the General Government fund balance to its target amount as part of the emergency budget proposal.

FINANCIAL POLICIES

RESERVES

Over a period of years, Everett created a series of reserve funds to accomplish specific long-term financial goals by meeting short-term annual budget objectives. Generally, each reserve fund is dedicated to a single purpose and has a stated financial goal. The City of Everett includes in its annual budget process an examination of the existing long-term financial goals and the reserve balances. The table below lists the balances of selected reserves. A narrative description of these reserve funds and the long-term financial goals follow.

Fund		12/31/2021 Balance	12/31/2022 Est. Balance	12/31/2023 Est. Balance
126	Motor Vehicle/Equip Replacement	\$ 6,366	\$ 2,877	\$ 1,699
146	Property Management	1,939	1,938	2,010
154	Real Estate Excise Tax Fund - CIP 3	8,183	7,631	10,882
160	Rainy Day Fund	4,509	4,509	4,509
162	Capital Reserve - CIP 1	12,127	21,629	24,861
162	Capital Reserve - CIP 2	12,794	14,393	15,286
162	Capital Reserve - CIP 4	3,714	2,843	3,085
503	Self-Insurance Fund - Tort Liability	5,931	4,140	3,500
503	Self-Insurance Fund - Unemployment Comp	276	268	150
503	Self-Insurance Fund - Worker's Comp	3,199	1,499	1,500
505	Computer Equipment Reserve	2,280	2,052	2,332
508	Health Benefits Reserve	7,922	7,987	7,547
637	Police Pension Fund	17,193	18,266	16,648
638	Fire Pension Fund	27,935	29,931	27,811
	TOTAL SELECTED RESERVES	\$ 114,368	\$ 119,963	\$ 121,820

Vehicle Replacement Reserve Fund - Fund 126

The Vehicle Replacement Reserve was created as a revolving fund to provide funding for general government vehicles and equipment replacements. The long-term goal is to provide adequate and stable funding for future vehicle replacement needs.

Property Management - Fund 146

The City added a reserve program to the Property Management fund for general government facilities maintenance and repairs. Additions to this reserve are included in the annual general government budget. The long-term goal is to provide adequate and stable funding for future maintenance of general government capital assets.

CIP 3 Reserve - Fund 154

The City created the Capital Improvement Program (CIP) 3 Reserve to finance improvements that will be funded from the second ¼ percent real estate excise tax. This tax was specifically enacted as a part of the state's growth management statutes, which call for the provision of resources for capital facilities that relate directly to growth. The long-term goal of this fund is to accumulate sufficient cash for Park and Street capital needs deemed appropriate within the scope of the Growth Management Act.

Rainy Day Reserve Fund - Fund 160

The Rainy Day Fund was created to accumulate funds to be used when extraordinary needs arise that require immediate budget attention. Examples include natural and man-made disasters, civic unrest and severe economic downturns. The Revised Code of Washington (RCW) 35.33.145 restricts the accumulation of monies in rainy day funds to 37.5¢ per \$1,000 of total assessed valuation (AV). The long-term goal is to increase the fund balance to its statutory limit by making ongoing contributions as the City's assessed valuation increases over time, and to provide a supplemental reserve to the 20% General Fund balance.

CIP 1 Reserve – Fund 162

Capital Improvement Program 1 (CIP1) was created in 2015 to provide a funding source for major repairs, renovations, and replacements of existing general government structures. The reserve is funded by property tax allocations and “surplus funds” from the General Fund when available and deemed appropriate by Administration and City Council. The long-term goal is to finance as many projects as possible with cash rather than debt. The short-term objective is to annually review the model and ensure all major maintenance and replacements of general government capital assets are being planned for.

CIP 2 Reserve - Fund 162

Capital Improvement Program 2 (CIP2) was created to finance capital projects that are consistent with the Comprehensive Plan and can be funded with the first ¼ percent real estate excise tax. Additional sources of funding may include contributions from the general fund, proceeds from property sales, and one-time revenues. The fund is currently fully programmed to provide funding for debt service on the following outstanding obligations:

- 2019 Limited Tax General Obligation (LTGO) bonds in the original amount of \$20,070,000 which were issued to refund the 2014 Floating Rate Limited Tax General Obligation Refunding Bonds. The 2014 bonds had been issued to refinance the City's remaining 2001 variable rate demand bonds (VRDBs) in the amount of \$8,200,000 together with \$27,415,000 in outstanding VRDBs originally issued by the Public Facilities District to construct the Events Center.
- 2012 LTGO bonds in the original amount of \$13,935,000 to pay the cost of refunding the 2003 LTGO Bonds which were issued to finance the construction of the Edward D. Hansen Conference Center.
- CIP 2 also provides \$500,000 per year to the Public Facilities District to support the District's remaining fixed rate debt.

CIP2's long-term goal is to make timely debt service payments on the outstanding capital improvement bonds and obligations.

CIP 4 Reserve - Fund 162

The City created the Capital Improvement Program 4 Reserve to provide funds for new or expanding general government structures. The reserve is funded by property tax allocations and “surplus funds” from the General Fund when available and deemed appropriate by Administration and City Council. The reserve may also be funded from property sales and one-time revenues. The long-term goal is to finance as many projects as possible with cash rather than debt. The short-term objective is to continue with an annual review and update to determine which projects will be funded with CIP 4 resources.

Self-Insurance Reserve Fund - Fund 503

There are several programs in the Self-Insurance Reserve fund each with its own targeted reserve balance. It is the normal practice of the City to restore reserve balances in the self-insurance programs to their targeted balances over a maximum of a five-year period if the reserve balance is overfunded/underfunded due to smaller/larger than anticipated claims.

- The Tort Liability reserve was created to provide for the payment of claims and judgments arising out of tort cases. The Tort Liability program is targeted toward a reserve balance of \$4.0 million. Due to higher

than anticipated potential claims in 2022, the program is expected to be below the targeted reserve amount by the end of 2023. If these claims are realized, the 2024 required contributions from the various City funds will be increased to bring the program’s funding level back to target.

- The Unemployment Compensation program is targeted toward a reserve balance of \$150,000. This program is expected to exceed the targeted reserve amount at the end of 2022 due to lower than anticipated claims. Required contributions from the various City funds were reduced for 2023 to bring the funding level to target.
- The Worker’s Compensation program is targeted toward a reserve balance of \$1,500,000, which represents approximately six months of the annual budgeted expenditures. This program is expected to be at target level at the end of 2022.

Information Technology Reserve Fund - Fund 505

The information technology reserve was created to track major technology projects; to provide funds for PC, laptop, software and infrastructure replacement; and to pay for technology related maintenance contracts. The long-term goal is to stabilize technology expenditures and increase the reserve balance to enable the City to cash fund major technology projects.

Health Benefit Reserve Fund - Fund 508

The health benefit reserve was created in 1995 following a major overhaul of employee health care service provisions at the City. The City sets the reserve target based on guidance from the State of Washington Department of Risk Management, and on estimated incurred-but-not-reported claims. The long-term goal is to continue the existence of this reserve to stabilize annual health care expenditures.

Police Pension Fund - Fund 637

The Police Pension Reserve was created to provide actuarially sound fund balances to match the pension liabilities accrued for covered police personnel. An actuarial study is commissioned every two years to assess the status of the pension plan and to set new reserve targets as required. The pension plan is expected to service retirees until approximately 2062. The long-term goal is to defease the accrued and future pension liabilities with a fully-funded reserve of approximately \$25.6 million by the year 2030.

	2023	2024	2025	2026	2027
Beginning Balance	18,266,198	16,648,198	15,176,198	15,950,198	16,747,198
General Fund Contribution	50,000	50,000	2,337,000	2,390,000	2,443,000
Interest Earnings/Other Misc	225,000	396,000	410,000	426,000	442,000
Cash Outlays	(1,893,000)	(1,918,000)	(1,973,000)	(2,019,000)	(2,055,000)
Ending Balance	16,648,198	15,176,198	15,950,198	16,747,198	17,577,198
Ending Balance as % of Goal	65%	59%	62%	66%	69%

Fire Pension Fund - Fund 638

The Fire Pension Reserve was created to provide actuarially sound fund balances to match the pension liabilities accrued for covered fire personnel. An actuarial study is commissioned every two years to assess the status of the pension plan and to set new reserve targets as required. The pension plan is expected to service retirees until approximately 2062. The long-term goal is to defease the accrued and future pension liabilities with a fully-funded reserve of approximately \$36.0 million by the year 2030.

	2023	2024	2025	2026	2027
Beginning Balance	29,931,054	27,811,029	25,867,004	26,608,004	27,372,004
General Fund Contribution	50,000	50,000	2,794,025	2,863,025	2,933,025
Interest Earnings	395,000	605,000	619,000	634,000	650,000
Insurance Premium Tax	240,975	240,975	240,975	240,975	240,975
Cash Outlays	(2,806,000)	(2,840,000)	(2,913,000)	(2,974,000)	(3,025,000)
Ending Balance	27,811,029	25,867,004	26,608,004	27,372,004	28,171,004
Ending Balance as % of Goal	77%	72%	74%	76%	78%

CASH MANAGEMENT POLICY

The City’s investment policies were developed in accordance with guidelines set by the Washington Municipal Treasurer’s Association.

The responsibility for daily cash management is delegated to the City Treasurer by ordinance. Custody of City funds rests with the City Treasurer in accordance with the City Charter. The investment of City funds is considered to be a significant responsibility in which due diligence is undertaken to adhere to the investment policy and protect the City’s assets.

As part of the City’s investment policy, the City Treasurer develops monthly portfolio reports, which are provided to Administration and City Council. These reports identify the cash and investments within each fund, interfund loans, and the mix of investments within the City’s accounts. In addition, a close review of the General Government cash position is analyzed to determine whether temporary operating loans between funds are necessary.

DEBT MANAGMENT POLICY

The City’s policy is to plan and direct the use of debt so that debt service payments will be a predictable and manageable part of the Operating Budget.

The City continues to pursue a moderate capital improvement program through a careful balance of increased debt and substantial pay-as-you-go capital projects. Each capital project that may be funded by debt is evaluated within the context of the City’s long-range debt management policy and the capital improvement program. Alternative financing sources are always considered. The City will not issue long-term debt to finance current operations.

Capital will be raised at the lowest possible cost through maintenance of a high credit rating and reputation of fiscal conservatism in the credit markets. The City’s bond rating for both general obligation debt and water & sewer revenue debt is AA+ by Standard & Poor’s Investor Services. The City continually works to maintain its bond rating through sound financial planning and decisions.

To the extent possible, the City will seek level or declining debt repayment schedules. Principal and interest will be paid in accordance with the terms of bond ordinances and loan agreements.

It is the intent of the City to avoid arbitrage. However, if bond proceeds are not used within the established time frame, the City will remit any rebatable earnings to the federal government in a timely manner in order to preserve the tax-exempt status of the outstanding debt.

Legal debt limits are set by the State Legislature and are based on a percentage of the total assessed valuation of all taxable property in the City, which is certified each year by the Snohomish County Assessor for the upcoming year. It is the City Council's policy to use less than 75% of the legal debt capacity for general obligation debt. The City's compliance with these debt limits is demonstrated in the Capital and Debt section of this document.

Only general obligation debt is subject to the legal debt capacity restrictions. Revenue bonds are not limited because no taxing power or general fund pledge is provided as security.

The City will maintain compliance with all covenants stated in bond ordinances, contracts, etc. In addition, the City maintains compliance with all regulatory disclosure requirements.

GENERAL REVENUE POLICIES

Revenue forecasts will be neither overly optimistic nor overly conservative. They will be as realistic as possible based on the best available information; with a slight inclination towards conservatism. Should economic downturns develop which could result in revenue shortfalls or fewer available resources, the City will make adjustments in anticipated expenditures to compensate.

The City will not incur debt to finance revenue shortfalls. Expenses will be reduced to conform to the long-term revenue forecast. Interfund loans are permissible to cover temporary gaps in cash flow, but only when supported by a well-defined repayment schedule.

The City will pursue tax collection efforts to the extent consistent with the marginal costs of collection.

Revenue Diversification

The City strives to maintain a diversified and stable revenue base to shelter public services from short-term fluctuations in any one revenue source. Currently, the City has a diversified, but variable revenue base. The City has chosen to manage these fluctuations by creating a fund balance policy that combines conservative expenditure growth with the ability to transfer surplus funds to a Capital Reserve, Long term Obligation or Debt Service Fund.

Fees and Charges

User fees will be imposed to cover the cost of services provided for unique or narrow segments of the community in order to provide maximum flexibility of general city taxes to meet the cost of services with broader benefits. Fees may be set at levels sufficient to cover the entire cost of service delivery, including all direct and indirect costs, or the service may be subsidized, as Council deems appropriate.

The City will continuously maintain its sewer and water distribution and collection systems. To insure that the enterprise funds remain self-supporting, rate structures will fully fund the direct and indirect costs of operations, capital plant maintenance, debt service, depreciation, and required system extensions. Detailed rate studies will be conducted every four years to update assumptions and ensure the long-term solvency and viability of the City's utility.

User fees will be reviewed during the budget process, by the responsible department, to ensure the fees and charges remain current and are adjusted for inflation and other factors as appropriate.

One-Time Revenues

It is the general policy of the City to use major one-time revenues to fund capital improvements or reserves. The use of one-time revenues to fund ongoing expenditures is discouraged. Unpredictable revenues are budgeted conservatively, and any amount collected in excess of the budget is generally carried forward in the fund balance.

Grants

Departments are required to provide advance notice to Administration and Finance of grant applications so that the effects on budget, cash flow, procurement, reporting and compliance requirements can be reviewed and understood beforehand. Potential grants will be reviewed to ensure that they are consistent with the City's priorities. All potential grants will also be carefully examined for matching requirements and future maintenance or replacement costs. 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. The City will refrain from using grants to meet ongoing, basic service delivery needs.

GENERAL EXPENDITURE POLICIES

High priority is given to expenditures that will reduce future operating costs, such as investment in technology and equipment that streamline operations.

An appropriate balance will be maintained between budget dollars provided for direct public services and dollars provided to assure good management and legal compliance.

All department heads share in the responsibility of looking at and understanding the City's long-term financial viability, its general spending trends, its projected incomes, and educating themselves, their division heads and employees on the necessary short and long-term balance between revenues and expenditures.

Before the City undertakes any agreements that would create fixed ongoing expenses, the cost implications of such agreements will be estimated for current and future years with the aid of our five-year outlook financial planning model.

Organizations that are not part of the City, but which receive funding from the City, shall not have their appropriation carried forward from year to year unless contractually authorized and directed by City Council. Annual review and reauthorization of funding is required.

All bonds, notes, contracts, accounts payable, and other monetary liabilities will be paid when due and shall have the most superior lien position during the allocation of resources in budget planning.

Maintenance and Replacement

The City inventories and assesses the condition of its buildings, equipment and vehicles annually. The budget process includes a multi-year projection of facilities and vehicle replacement requirements. The budget will provide sufficient funding for adequate maintenance and orderly replacement of capital plant and equipment. Future maintenance needs for all new capital facilities will be estimated and included as decision criteria.

Capital Improvements

The City will maintain a multi-year Capital Improvement Plan (CIP) and update it annually. The CIP will be developed in conjunction with the operating budget to insure that all operation and maintenance costs associated with new capital improvements are adequately addressed. The City will maintain its assets at a level adequate to protect the capital investment and minimize future maintenance and replacement costs.

Operating/Capital Expenditure Accountability

It is the City's policy to compare actual expenditures to budget, generally on a monthly basis. If necessary, actions are taken to bring the budget into balance.

Unfunded Mandates Policy

The imposition upon the City of laws and regulations from state and federal legislation is expensive and diverts locally generated revenues into programs that higher levels of government have mandated without funds to pay for them. The long-term goal is to assist state and federal legislators in recognizing the need to provide funds to accompany any mandate that is directed to the local level and to allow local officials alternative ways of responding to problems of public concern.