
FINANCIAL STRUCTURE AND POLICIES

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ORDER OF FUND PRESENTATION

The City budget is organized in fund number order. The departmental budget section includes all of the City 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. It accounts for all financial resources except those required to be accounted for in other funds and is generally considered to represent the ordinary operation of a municipality. It derives the majority of its revenues from property, sales, utility, business & occupation taxes, and state-shared revenues.

The **General Fund** accounts for operations such as Police, Fire, Engineering, Planning, and supporting departments such as Finance, Legal, and Information Technology.

General Government: When a schedule refers to the "General Government," it includes the General Fund (Fund 001-038), Parks, Library, Municipal Arts, Conference Center, Special Governmental Projects, Street Improvements, and Streets (Funds 001-120). All City General Government property tax revenues are accounted for here.

- 101 The **Parks and Recreation 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, city municipal arts programs, and the 1% for Art program.
- 114 The **Conference Center Fund** accounts for the maintenance and operations at the City's Edward D. Hansen Conference Center.
- 115 The **General Government Special Projects Fund** accounts for specific non-recurring projects.
- 119 The **Street Improvement Fund** accounts for asphalt street overlays and 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.

Special Revenue Funds: Special revenue funds account for the proceeds of specific revenue sources that are restricted for specific expenditure purposes. Other restricted resources are accounted for in debt service, trust, and capital projects funds.

- 126 The **Motor Vehicle and Equipment Replacement Reserve Fund** accumulates funding to provide for the replacement of general government motor vehicles and equipment.
- 138 The **Motel Tax Fund** accumulates the hotel/motel tax for tourism promotion and publicity of the City, promotion of the Events Center and capital improvements at the stadium.
- 144 The **Downtown Improvement Fund** receives and utilizes parking fines to implement downtown improvements.
- 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 money 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** 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.
- 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 development in Everett.
- 160** The **Contingency Reserve Fund** is a reserve fund for emergencies and contingency expenses funded from 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.
- 197** The **Community Housing Improvement Program (CHIP) Fund** accounts for low interest loans to low-income homeowners and non-profit organizations throughout Everett and administration of those loans. Loans are provided through a loan pool of federal funds, including HUD Block Grant and 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. The financing is from Community Development Block Grant HUD funds.

Debt Service Funds: The 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. Debt service funds are also used to account for the accumulation of resources for and payment of, special assessment bond principal and interest from special assessment levies when the government is obligated in some manner for the payment.

- 210** The **Bond Redemption Fund** accumulates money from special property tax levies, other taxes, and investment interest to pay principal redemption and interest payments on various bond issues. Included are the following programs:

247 2001 Variable Rate Demand Limited Tax General Obligation Bonds --
\$13,000,000 variable rate demand limited general obligation bonds issued in 2001 for capital purposes.

- 250 2012 Limited Tax General Obligation Refunding Bonds** -- \$13,935,000 limited tax general obligation bonds issued to refund the 2003 Limited Tax General Obligation Refunding Bonds that were originally issued to fund the construction of the Conference Center located at the Everett Events Center and to refund the outstanding 1993 Everett Performing Arts Certificates of Participation and the 1993 LTGO Fire Station #7/Animal Shelter bonds.
- 243** The **Local Improvement District (LID) Guaranty Fund** was established in 1919 to guarantee the payments of LID bonds, warrants and other short-term obligations.
- 299** The **Consolidated Local Improvement District (LID) Bond Redemption Fund** collects special assessments levied against benefited properties for payment of principal and interest for special assessment 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, but 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 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.
- 336** The **Water and Sewer System Improvements Fund** accounts for all design and construction costs for critical water and sewer system improvements.
- 338** The **Solid Waste Improvements Fund** accounts for all design and construction costs for leachate system improvements, methane gas system improvements and related landfill gas and leachate controls, including portions of the low permeability barrier, and other projects associated with the environmental protection of the Landfill Site.
- 342** The **City Facilities Construction Fund** accounts for construction of new city facilities.
- 354** The **Parks CIP 3 Construction Fund** accounts for the design and construction of various park improvements funded by the City of Everett Capital Improvement Program III.

Enterprise Funds: Enterprise funds account for operations: (a) that are normally financed and operated in a manner similar to private business enterprises where the intent of the governing body is that other 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** 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** accounts for activities related to transit services, paratransit services, and regional transportation management through Everett Station.

- 430** The **Parking Garage Fund** accounts for off-street parking facilities to support the central business district and the relief of traffic congestion.
- 440** The **Golf Fund** accounts for the operation and 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.
- 451** The **Everett-Tulalip Joint Water Line Fund accounts** for the interlocal agreement to develop and construct a joint water line with the Tulalip Tribes of Washington.

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.

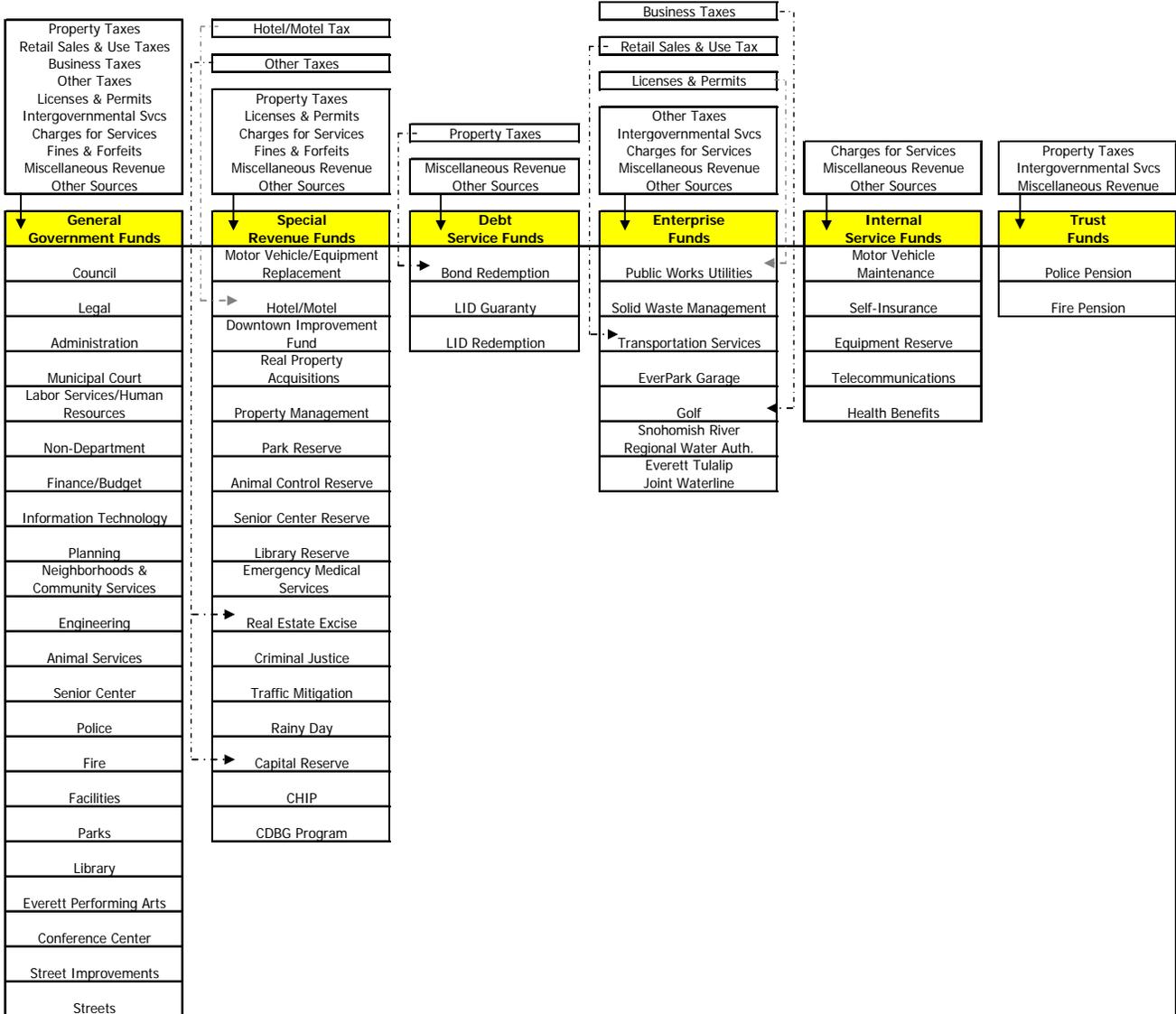
- 501** The **Motor Vehicle Operating Fund** accounts for the costs of operating a maintenance facility for automotive equipment and other machinery used by City departments. Such costs are billed to the other departments at actual cost, including depreciation.
- 503** The **Self-Insurance Fund** receives 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 **Computer 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 health benefits to employees of the City.

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.

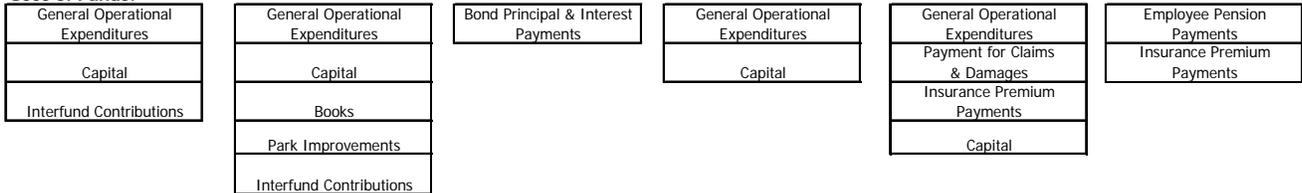
- 637** The **Police Pension Fund** receives funding from property taxes and investment interest to pay for retirement benefits not covered by the State's Law Enforcement Officers' and Fire Fighters' Retirement System to active and retired police officers hired before March 1, 1970; and to pay for medical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

Each department in the City is responsible for preparing budgets for all of the funds that the department manages. Below is a list of the City's departments and the funds that they are accountable for budgeting and managing.

| DEPARTMENT | FUNDS |
|---|---------------------------------|
| City Council | |
| 001 | City Council |
| Administration | |
| 004 | Administration |
| 112 | Municipal Arts |
| 114 | Conference Center |
| Legal | |
| 003 | Legal |
| 503 | Self-Insurance Fund |
| Finance | |
| 005 | Municipal Court |
| 009 | Gen Gov't Non-dept |
| 010 | Finance |
| 115 | General Govt Special Projects |
| 126 | Motor Vehicle/Equip Replacement |
| 138 | Hotel Motel Tax Fund |
| 154 | Real Estate Excise Tax Fund |
| 156 | Criminal Justice Fund |
| 160 | Rainy Day Fund |
| 162 | Capital Reserve |
| 210 | Bond Redemption Fund |
| 243 | LID Guaranty Fund |
| 299 | LID Redemption |
| 508 | Health Benefits Reserve |
| 637 | Police Pension Fund |
| 638 | Fire Pension Fund |
| Labor Relations/Human Resources | |
| 007 | Labor Rel. / Human Resources |
| Information Technology | |
| 015 | Information Technology |
| 505 | Computer Reserve Fund |
| 507 | Telecommunications Fund |
| Planning and Community Development | |
| 021 | Planning/Comm Development |
| 197 | CHIP Loan Program |
| 198 | Comm Develop. Block Grants |

| DEPARTMENT | FUNDS |
|---|-----------------------------------|
| Community Services | |
| 022 | Neighborhoods & Comm Svcs |
| 026 | Animal Services |
| 027 | Senior Center |
| 149 | Senior Center Reserve |
| 151 | Fund for Animals |
| Police | |
| 031 | Police |
| Fire | |
| 032 | Fire |
| 153 | Emergency Medical Services |
| Facilities and Property Management | |
| 038 | Facilities/Property Managment |
| 145 | Cumulative Res/Real Prop. Acquis. |
| 146 | Property Management |
| 430 | Everpark Garage |
| Parks and Recreation | |
| 101 | Parks & Recreation |
| 148 | Cumulative Reserve /Parks |
| 440 | Golf |
| Library | |
| 110 | Library |
| 152 | Cumulative Reserve /Library |
| Public Works | |
| 024 | Engineering / Public Services |
| 119 | Street Improvements |
| 120 | Streets |
| 144 | Downtown Improvement Fund |
| 157 | Traffic Mitigation |
| 401 | Water/Sewer Utility |
| 402 | Solid Waste Utility |
| 450 | Sno River Reg Wtr Auth |
| 451 | Everett Tullip Joint Water Line |
| Transportation Services | |
| 425 | Transit |
| 501 | Motor Vehicle Division |

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:

1. Purchases of capital assets are considered expenditures.
2. Redemptions of long-term debt are considered expenditures when due.
3. Revenues are recognized only when they become both measurable and available to finance expenditures of the current period.
4. Inventories and prepaid items are reported as expenditures when purchased.
5. Interest on long-term debt is recorded as an expenditure when due.
6. Accumulated unpaid vacation, sick pay and other employee benefits are considered expenditures when paid.
7. Depreciation is recorded on an accrual basis only.

Budget Basis: The Governmental Fund types (i.e. the General Fund, Parks, Emergency Medical Services Fund) are budgeted on a modified accrual basis and can be directly compared to the fund operating statements in the City annual report. The Proprietary Fund types (i.e. Utilities, Transit or Motor Vehicle Division) and the Fiduciary Fund Types (i.e. Pension Trust) are budgeted on a modified accrual basis and are depicted in the annual report using an accrual basis; therefore, these funds are not directly comparable between the two reports.

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.

City staff members develop annual operating budget requests after receiving general direction from Administration. 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

Strategic Planning

The City of Everett employs a budgeting model that allows policies to be formulated and tested in a budgetary context spanning a period of five years. The five-year outlook model demonstrates the City's ability to accomplish long-term goals by showing the consequences of any given budget decision. Virtually all 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.

Over a period of years, Everett has created a series of reserve funds to accomplish specific long-term financial goals through 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 development of new goals and targets. The Reserve Policies section describes those funds that represent the long-term financial goals established jointly by the Council and Mayor.

The General Government Five-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. It must be noted that the Five-Year Outlook does not simply take the current year's revenues and expenses and merely trend them into the future based on some assumed rate of inflation. By trending revenues and expenses forward at some anticipated rate of inflation we could only answer the question, "Where will we end up in the future if nothing changes?" The Five-Year Outlook is designed to help make two fundamental decisions: "Where do we want to go?" and, "How are we going to get there?"

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 Fund Balance has been accumulated to meet this purpose, 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 goals are 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:

- The Fund Balance target will be maintained at 20% of Operating Revenues. Surplus Funds may be transferred to a Capital Reserve, Long Term Obligation, Debt Service Fund, or may be used to restore the target fund balance.
- 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 such that 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.

Balancing the Operating Budget

RCW 35.33.075 requires that the City adopt a balanced budget based on 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. 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 may not be used as a revenue source.

It is not uncommon for cities to rely upon the beginning fund balance as a "revenue" source. But, as previously stated, it is Everett's strategic goal to attain structural balance, thereby eliminating reliance on these funds to supplement current income. Any uncommitted operating surpluses (revenues that exceed

expenditures) that occur at year-end may be held in reserve or reappropriated to a capital reserve, long term obligation, or debt service fund, rather than used as a supplemental source of revenue required to balance the budget each year.

It is the intent of this policy that the budget be structurally balanced (a) at the time of adoption, (b) throughout the budget year, and (c) at year-end, taking into consideration the Fund Balance access conditions listed above.

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

RESERVE POLICIES

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 development of new goals and targets. Listed below are funds that represent the long-term financial goals established jointly by the Council and Mayor.

Vehicle Replacement Reserve Fund - Fund 126

The Vehicle Replacement Reserve was created as a revolving fund to receive and process new equipment and to prepare older equipment for sale. The long-term goal is to provide adequate and stable funding for future vehicle replacement needs.

Property Management/Facilities Reserve - Fund 146

The City added a reserve program to the Property Management fund to create a reserve for general government facilities maintenance and repairs. Additions to this reserve are included in the annual general government budget.

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 serve as a contingency reserve 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). This limit was first reached in 1998. The long-term goal is to maintain the fund at 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 2 Reserve - Fund 162

The Capital Improvement Program 2 Reserve was created to finance capital projects that are to be funded by the first ¼ percent real estate excise tax. In 2001, CIP 2 financed \$13,000,000 in bonds that were used to purchase property for the site of the Everett Events Center. CIP 2 also provides the funds required for debt service payments for the \$15,000,000 bonds issued in 2003 for the Edward D. Hansen Conference Center. Additionally, CIP 2 provides \$500,000 each year to the Everett Public Facilities District for debt support. Debt redemption will be serviced from the existing fund balance and from the long-term revenue source, first ¼ percent real estate excise taxes. CIP 2's long-term goal is to meet all bond covenants and to make timely debt service payments on the outstanding capital improvement bonds and obligations. This reserve may also be funded from property sales and one-time revenues.

CIP 4 Reserve - Fund 162

The City created the Capital Improvement Program 4 Reserve to provide funds for future general government capital projects. The reserve is funded by 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 in 1955 to provide for the payment of claims and judgments arising out of torts. The Tort Liability program is targeted toward a reserve balance of \$3.0 million.
- The Unemployment Compensation program is targeted toward a reserve balance of \$150,000.
- The Worker's Compensation program is targeted toward a reserve balance of \$1,000,000, which represents approximately four months of the annual budgeted expenditures.

Computer Equipment Reserve Fund - Fund 505

The computer equipment reserve was created to track major technology projects; to provide funds for PC, software and infrastructure replacement; to pay for maintenance contracts, and to provide a revolving fund for departments for unanticipated minor technology projects. However, no reserves are set aside for major technology projects. The long-term goal is to stabilize technology expenditures.

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 the year 2058. The long-term goal is to defease the accrued and future pension liabilities with a fully-funded reserve of over \$20.0 million by the year 2030.

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 the year 2058. The long-term goal is to defease the accrued and future pension liabilities with a fully-funded reserve of over \$22.2 million by the year 2030.

| Reserve Fund Summary | | | | |
|-----------------------------|---|---|--|--|
| Fund | | 12/31/2011 Balance (rounded) | 12/31/2012 Est. Balance (rounded) | 12/31/2013 Est. Balance (rounded) |
| 126 | Motor Vehicle/Equip Replacement | \$ 6,876,000 | \$ 6,850,000 | \$ 4,284,000 |
| 146 | Real Property Management | 5,748,000 | 4,597,000 | 2,192,000 |
| 154 | Real Estate Excise Tax Fund - CIP 3 | 5,953,000 | 624,000 | 167,000 |
| 160 | Rainy Day Fund | 4,119,000 | 4,119,000 | 4,119,000 |
| 162 | Capital Reserve - CIP 2 | 12,562,000 | 10,082,000 | 8,388,000 |
| 162 | Capital Reserve - CIP 4 | 12,556,000 | 5,549,000 | 5,850,000 |
| 503 | Self-Insurance Fund - Tort Liability | 4,021,000 | 3,336,000 | 3,000,000 |
| 503 | Self-Insurance Fund - Unemployment Comp | 1,102,000 | 265,000 | 225,000 |
| 503 | Self-Insurance Fund - Worker's Comp | 1,019,000 | 1,200,000 | 1,200,000 |
| 505 | Computer Equipment Reserve | 960,000 | 810,000 | 776,000 |
| 508 | Health Benefits Reserve | 1,932,000 | 2,459,000 | 1,943,000 |
| 637 | Police Pension Fund | 18,079,000 | 16,762,000 | 15,254,000 |
| 638 | Fire Pension Fund | 32,570,000 | 31,535,000 | 30,523,000 |
| | TOTAL SELECTED RESERVES | \$ 107,497,000 | \$ 88,188,000 | \$ 77,921,000 |
| 002 | General Fund Balance | \$ 29,202,000 | \$ 22,100,000 | \$ 22,400,000 |

ASSET POLICIES

Cash Management

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 presented and analyzed to determine whether temporary operating loans between funds may be necessary. The General Government has not required an interfund loan for operating needs for more than sixteen years.

LIABILITY POLICIES

Debt Management 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 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 and Local Improvement District (LID) 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 provides the Comprehensive Annual Financial Report (CAFR) to established national information repositories each year to comply with state and national regulatory disclosure requirements.

Debt Service Targets

The International City Managers' Association publishes guidelines designed to measure the financial health of a city. A recommended measure of fiscal control is to limit the issuance of debt such that annual debt service payments are less than 10% of the general expense budget. The City's general obligation debt portfolio currently stands at approximately \$30,490,000 which requires annual contributions averaging \$2.31 million per year from the General Fund into the debt service reserve accounts and debt service payments averaging about \$3.5 million paid out from the debt service reserves each year. Debt service payments include the 2010 LTGO bonds which are paid from Solid Waste Fund 402 solid waste revenues, not the General Fund.

The table below shows the city's debt service share of the general government budget. In all years the city's debt is below the recommended measure.

| | 2013 | 2014 | 2015 | 2016 | 2017 |
|---------------------------|-------------|-------------|-------------|-------------|-------------|
| Gen. Govt. Exp. Budget | 111,699,407 | 124,806,215 | 130,291,776 | 135,523,274 | 140,982,363 |
| Debt Service Contribution | 1,897,850 | 2,031,300 | 2,180,300 | 2,748,950 | 2,692,600 |
| Share of Budget | 1.7% | 1.6% | 1.7% | 2.0% | 1.9% |
| Debt Service Payment | 3,127,850 | 3,240,050 | 3,362,800 | 3,901,450 | 3,812,600 |
| Share of Budget | 2.8% | 2.6% | 2.6% | 2.9% | 2.7% |

REVENUE POLICIES

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.

Deficit financing and borrowing to support on-going operations will play no part in the City's responses to 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 of a short duration.

The City will pursue a vigilant tax collection effort 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 Capital Reserve, Long term Obligation or Debt Service Funds.

Fees and Charges

User fees will be imposed to cover the cost of services provided for unique or narrow segments of the community. Fees may be set at levels sufficient to cover the entire cost of service delivery, or the service may be subsidized, as Council deems necessary.

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.

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.

All potential grants shall be carefully examined for matching requirements. Some grants may not be accepted if the local matching funds cannot be justified. Grants may also be rejected if programs must be continued with local resources after grant funds are exhausted.

EXPENDITURE POLICIES

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 models.

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. All capital improvements will be made in accordance with the adopted plan. The City will maintain all of its assets at a level adequate to protect the capital investment and minimize future maintenance and replacement costs.

Library Books

The City of Everett is dedicated to providing the community with timely and accessible materials and information at both the Main and Evergreen Branch Libraries. The "Library Book" budget now includes books, serials, electronic databases, audiobooks, e-books, CDs, and DVDs. The combined effects of inflation and the ever-increasing needs of a growing population make this commitment a continuing challenge. In an effort to maintain the library's collection at an effective level, the book budget will increase or decrease as population and inflation increase or decrease.

| | 2013 | 2014 | 2015 | 2016 | 2017 |
|---------------------|---------|---------|---------|---------|---------|
| Population Estimate | 103,300 | 104,333 | 105,376 | 106,430 | 107,494 |
| Per Capita Funding | \$ 6.00 | \$ 6.16 | \$ 6.33 | \$ 6.50 | \$ 6.67 |
| Book Budget | 619,800 | 642,900 | 666,861 | 691,715 | 717,495 |

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. The City has collected and circulated an extensive list of unfunded mandates with the intent of educating elected officials about their cost impact on local governments.