
BUDGET PROCESS AND POLICIES

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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 April with the development of the budget calendar for the year. Budget 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. These parameters include items such as permitted growth in M & O and growth of the labor base unrelated to contract increases and benefit costs. 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 effects that cause changes in expenditures. The Finance Department budgets for all non-departmental expenditures and projects separately based on the unique requirements of each program. The Finance Department updates general government revenue and expenditure projections annually for a five-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 and packets for Administration's review. Discussions are held with department staff regarding services provided and resources needed. 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. After all base expenditures are calculated and budget requests are summarized, the budget is brought into balance by selecting new programs to add and current services to alter or discontinue.

Finance and Administration develop target budgets for the departments in August. Departments use the targets to develop their line item budgets. The proposed budget document is completed by mid-October.

The Mayor delivers his budget message to City Council at the first of three public budget hearings, with the first hearing typically held at the end of October. 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 place prior to the expenditure of any City funds.

Monitoring the Budget

The Finance Department prepares monthly reports comparing actual to budgeted revenues and expenditures to present 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, it may do so by ordinance, after presentation of a budget advisory, which explains the reasons and discloses the impact of the amendment.

BUDGET CALENDAR

OPERATING BUDGET CYCLE	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												
Budget training for departments												
Departments submit requests for new programs												
Update current and budget year revenue projections												
Update/refine current and budget year expenditure forecasts												
Council Budget Briefings - Status updates, revenue forecasts, etc.												
Council Revenue Workshop/Public Hearing												
Budget balanced												
Prepare proposed budget document												
Adopt Annual Property Tax Ordinance (three readings are required to adopt an ordinance)												
Present Mayor's message and proposed budget to Council												
Conduct 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.

1. **The Budget Instruction Package** - May
The Budget Instruction Package is updated and completed in May and made available online to fund managers and staff with budgetary responsibility. This document serves as an overall guide. It includes sections on annual budget highlights, specific budget development instructions, appendices with format examples, and supplemental forms.
2. **The Proposed Budget** - October
Pursuant to state law, the Proposed Budget must be submitted to City Council at least sixty (60) days before the end of the year. This document represents a balance of departmental budget requests, projected revenues, and sound financial planning. 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.
3. **The Original Adopted Budget** - Late February/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***.)
4. **The Five-Year Outlook** - Year-round effort
The Five-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:

Organizational Chart: Organizational charts depict the fund operation by function.

Mission Statement: A broad, brief description of the overall purpose of the department/fund.

Summary: The fund's expenditure budget and FTE count.

Revenue Description: The revenue description outlines the sources of revenue for the fund, revenue trends for the current budget year, and significant changes that are expected to occur within the next few years.

Inventory of Services: Each fund is divided into its separate activities (services). This is to enable the reader to better understand the activities of each department, the cost of each activity and the expected results from each activity. Each inventory of service form may include the following components:

- **Summary Box:** The box on the top right 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 that activity. The revenue offsets exclude non-voted, unrestricted taxes.
- **Description:** Outlines the service the activity provides, and describes what the department does. Activity descriptions may or may not match the department's accounting structure—categorizing by program, function, or activity.
- **Expected Results:** Describes what the activity accomplishes, or the desired end result.
- **Accomplishments:** Describes the major accomplishments during the last year related to the activity.
- **Goals:** Goals are statements of activity impacts or desirable conditions. Examples are the development or improvement of a program, the implementation of a policy or procedure, or the completion of a project or task. They may be specific, measurable, planned achievements and may relate to efficiency, service quality, or program effectiveness.
- **Future Trends:** Outlines emerging issues anticipated to affect the activity over the next several years.
- **Performance Measures:** The following types of performance measures may be incorporated in the activity form:
 - **Workload measures** – Input indicators measure resources that the organization consumes. Output indicators measure activities the organization undertakes or accomplishes.
 - **Effectiveness measures** - Measure performance of service in terms of efficiency, service quality and outcomes (results). Effectiveness measures show how a department meets its goals.

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 proposed budget for the coming year, the original and amended budget for the current year, and actual expenditures for the previous year.

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, and 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 Funds 101-120 as listed below. All City regular property tax revenues are accounted for within the General Government.

- 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 Arts 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 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 of the special revenue funds listed below meet the strict definition of a special revenue fund, but were created for management control and budgeting purposes. These funds are underlined below. For financial reporting purposes, the underlined funds are combined with the general fund.

- 126** The **Motor Vehicle and Equipment Replacement Reserve Fund** accumulates funds to provide for the replacement of general government motor vehicles and equipment.
- 138** The **Hotel/Motel Tax Fund** accumulates the hotel/motel tax for tourism promotion and publicity 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 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 real estate development in Everett.
- 159** The **Transportation Benefit District Fund** accounts for funding for funding for the preservation, maintenance, and construction of local transportation infrastructure in Everett.
- 160** The **Contingency Reserve 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**, a major 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 combination 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: 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 funds to pay principal redemption and interest payments on various bond issues.
- 243** The **Local Improvement District (LID) Guaranty Fund** was established in 1919 to guarantee the payments of LID bonds 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. 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 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 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 **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.

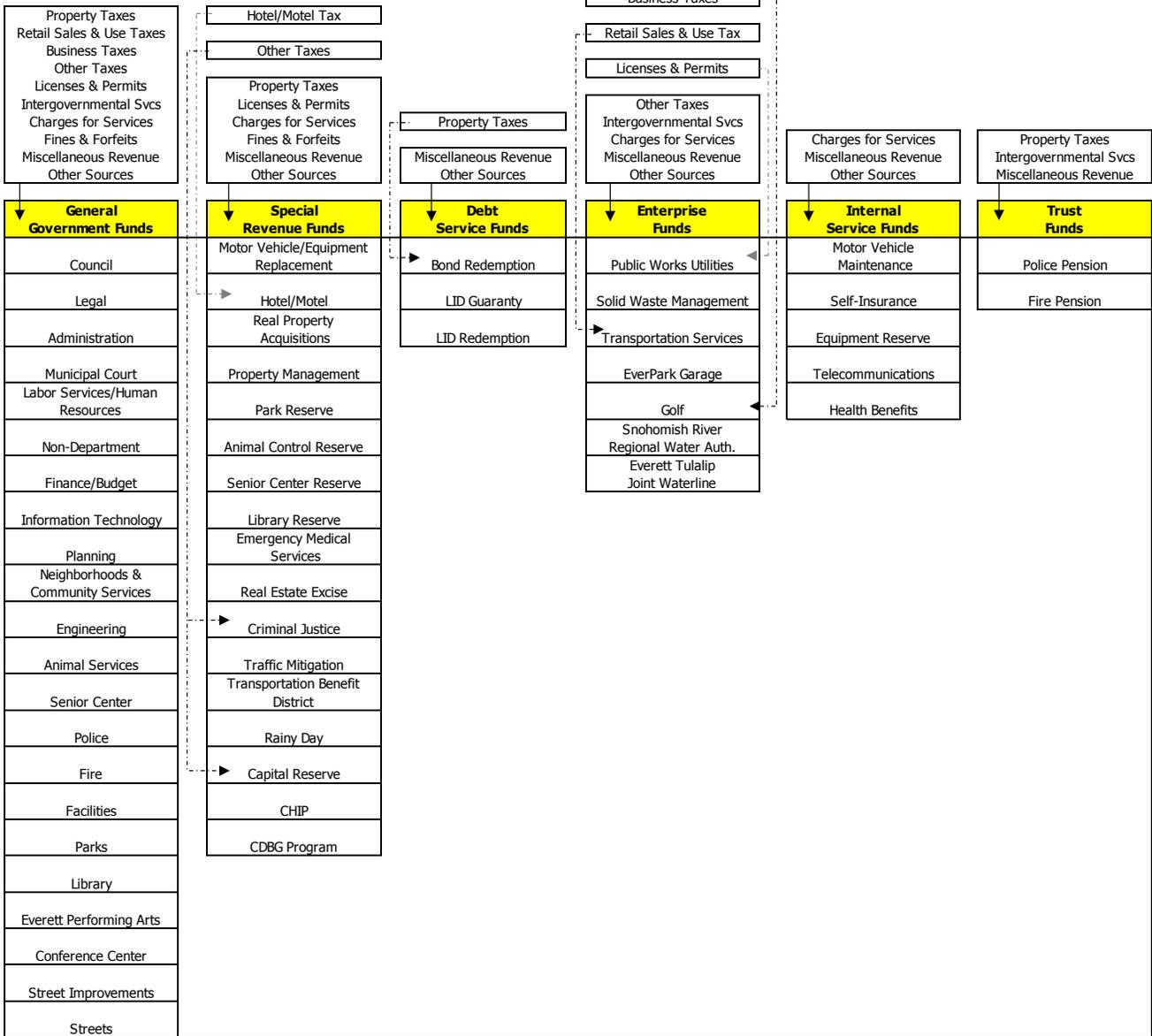
- 501** The **Motor Vehicle Operating Fund** accounts for the costs of operating a maintenance facility for automotive equipment and other machinery used by City departments. Such costs are billed to the other departments at actual cost, including depreciation.
- 503** The **Self-Insurance Fund** receives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

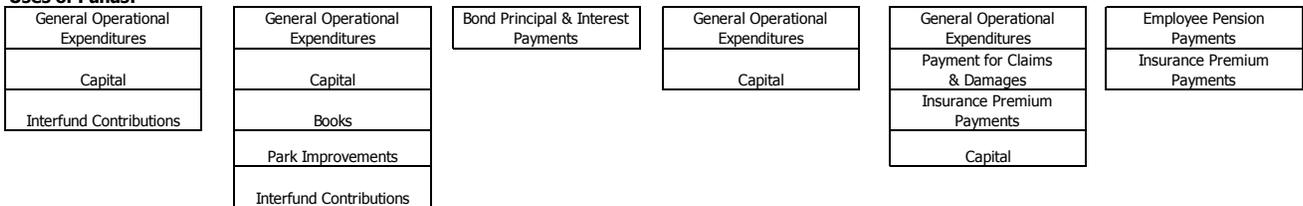
- 637** The **Police Pension Fund** receives funding from property taxes and investment interest to pay for retirement benefits not covered by the State's Law Enforcement Officers' Retirement System to active and retired police officers hired before March 1, 1970; and to pay for medical expenses not covered by medical insurance for active and retired police officers hired before October 1, 1977.
- 638** The **Fire Pension Fund** receives funding from 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 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 it manages. These relationships are listed below along with the 2017 expenditure budget, excluding ending fund balances.

DEPARTMENT/FUNDS		2017 BUDGET
City Council		
001	City Council	589,143
Administration		
004	Administration	2,424,975
112	Municipal Arts	943,234
114	Conference Center	925,842
Legal		
003	Legal	4,466,898
503	Self-Insurance Fund	7,885,663
Finance		
005	Municipal Court	2,101,275
009	Gen Gov't Non-dept	22,391,026
010	Finance	2,298,022
115	General Govt Special Projects	-
126	Motor Vehicle/Equip Replacement	2,490,328
138	Hotel Motel Tax Fund	600,000
154	Real Estate Excise Tax Fund	525,157
159	Transportation Benefit District	1,300,000
160	Rainy Day Fund	-
162	Capital Reserve	3,531,496
210	Bond Redemption Fund	3,069,991
243	LID Guaranty Fund	20,000
299	LID Redemption	13,985
508	Health Benefits Reserve	15,624,418
637	Police Pension Fund	1,392,607
638	Fire Pension Fund	2,118,102
Labor Relations/Human Resources		
007	Labor Rel./ Human Resources	1,767,033
Information Technology		
015	Information Technology	2,304,694
505	Computer Reserve Fund	2,738,023
507	Telecommunications Fund	1,488,336
Planning and Community Development		
021	Planning/Comm Development	1,828,947
197	CHIP Loan Program	1,766,140
198	Comm Develop. Block Grants	900,325

DEPARTMENT/FUNDS		2017 BUDGET
Community Services		
022	Neighborhoods & Comm Svcs	300,795
026	Animal Services	1,478,331
027	Senior Center	525,022
149	Senior Center Reserve	76,696
151	Fund for Animals	90,000
Police		
031	Police	34,887,740
156	Criminal Justice Fund	5,986,949
Fire		
032	Fire	21,216,641
153	Emergency Medical Services	8,496,205
Facilities and Property Management		
038	Facilities/Property Management	3,191,788
145	Cumulative Res/Real Prop. Acquis.	1,946,546
146	Property Management	2,118,909
430	Everpark Garage	378,580
Parks and Recreation		
101	Parks & Recreation	9,362,533
148	Cumulative Reserve /Parks	628,914
440	Golf	4,490,398
Library		
110	Library	5,308,786
152	Cumulative Reserve /Library	108,345
Public Works		
024	Engineering / Public Services	6,283,501
119	Street Improvements	3,998,702
120	Streets	3,109,902
157	Traffic Mitigation	3,884,252
401	Water/Sewer Utility	88,579,021
402	Solid Waste Utility	2,551,295
450	Sno River Reg Wtr Auth	18,000
451	Everett Tulalip Joint Water Line	15,000
Transportation Services		
425	Transit	28,099,585
501	Motor Vehicle Division	6,907,354

Total City Expenditure Budget \$ 331,545,450

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 (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
- 115 – General Government Special Projects 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 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 financial 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

Five-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 five years. The five-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 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.

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, long term obligation, or debt service fund, 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, the 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, 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:

- 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 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.

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. The table below lists the balances of selected reserves. A narrative description of these reserve funds and the long-term financial goals follow.

Reserve Fund Summary				
Fund	12/31/2015 Balance (rounded)	12/31/2016 Est. Balance (rounded)	12/31/2017 Est. Balance (rounded)	
126	Motor Vehicle/Equip Replacement	\$ 6,288,200	\$ 6,630,200	\$ 5,562,800
146	Real Property Management	2,284,000	1,572,000	864,300
154	Real Estate Excise Tax Fund - CIP 3	3,572,800	1,393,700	3,159,400
160	Rainy Day Fund	4,119,000	4,243,900	4,373,900
162	Capital Reserve - CIP 1	-	2,525,000	4,525,000
162	Capital Reserve - CIP 2	9,531,800	9,439,900	9,114,700
162	Capital Reserve - CIP 4	8,129,100	4,337,000	6,587,600
503	Self-Insurance Fund - Tort Liability	4,406,000	4,479,800	3,500,000
503	Self-Insurance Fund - Unemployment Comp	171,900	188,700	150,000
503	Self-Insurance Fund - Worker's Comp	2,739,100	1,741,100	1,500,000
505	Computer Equipment Reserve	1,531,500	1,182,800	1,241,400
508	Health Benefits Reserve	5,908,500	6,413,200	6,701,600
637	Police Pension Fund	17,160,500	18,128,500	17,290,900
638	Fire Pension Fund	30,575,300	29,944,600	29,015,300
	TOTAL SELECTED RESERVES	\$ 96,417,700	\$ 92,220,400	\$ 93,586,900

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. 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.

	2017	2018	2019	2020	2021
Beginning Fund Balance	4,243,945	4,373,945	4,508,945	4,648,945	4,793,945
General Fund Contribution	130,000	135,000	140,000	145,000	150,000
Ending Fund Balance	4,373,945	4,508,945	4,648,945	4,793,945	4,943,945
Assessed Value (000)	14,869,446	15,529,876	16,135,773	16,588,488	17,000,258
Maximum Rate	0.375	0.375	0.375	0.375	0.375
Maximum Balance	5,576,042	5,823,704	6,050,915	6,220,683	6,375,097
Ending Fund Balance as a % of Maximum Balance	78%	77%	77%	77%	78%

CIP 1 Reserve – Fund 162

The 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 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

The 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. The fund is currently fully programmed to provide funding for debt service on the outstanding obligations as follows:

- In 2014, the City issued 2014 Floating Rate Limited Tax General Obligation Refunding Bonds 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. CIP 2 also provides \$500,000 per year to the Public Facilities District to support the District's remaining fixed rate debt. In 2012, the City issued \$13,935,000 of Limited Tax General Obligation (LTGO) bonds 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 expenditures are funded from the existing fund balance, real estate excise tax revenue, and contributions from the general fund. This reserve may also be funded from property sales and one-time revenues. 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 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 \$3.5 million. Due to smaller than anticipated claims in 2015 and 2016, the program is expected to exceed the targeted reserve amount by the end of 2016. The City will restore the program's funding level in 2017 by reducing the required contributions from the various City funds.
- The Unemployment Compensation program is targeted toward a reserve balance of \$150,000. This program is currently at its funding 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 currently at its funding target.

Computer Equipment Reserve Fund - Fund 505

The computer equipment 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 \$20.3 million by the year 2030.

	2017	2018	2019	2020	2021
Beginning Balance	18,128,442	17,290,835	17,550,770	17,825,517	18,123,453
General Fund Contribution	-	1,130,378	1,186,897	1,246,242	1,308,554
Interest Earnings/Other Misc	555,000	523,064	532,259	542,107	552,562
Cash Outlays	(1,392,607)	(1,393,507)	(1,444,409)	(1,490,413)	(1,551,143)
Ending Balance	17,290,835	17,550,770	17,825,517	18,123,453	18,433,426
Ending Balance as % of Goal	85%	87%	88%	89%	91%

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 \$19.1 million by the year 2030.

	2017	2018	2019	2020	2021
Beginning Balance	29,944,580	29,015,350	28,527,106	28,011,941	27,462,370
General Fund Contribution	-	527,830	554,222	581,933	611,029
Interest Earnings	1,005,000	943,455	926,199	907,889	888,567
Insurance Premium Tax	183,872	191,227	198,876	206,831	215,104
Cash Outlays	(2,118,102)	(2,150,756)	(2,194,462)	(2,246,224)	(2,288,621)
Ending Balance	29,015,350	28,527,106	28,011,941	27,462,370	26,888,449
Ending Balance as % of Goal	152%	150%	147%	144%	141%

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 analyzed to determine whether temporary operating loans between funds may be necessary.

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 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 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 maintains compliance with all regulatory disclosure requirements.

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.

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 shall 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.

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 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. All capital improvements will be made in accordance with the adopted plan. The City will maintain 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" 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.

	2017	2018	2019	2020	2021
Population Estimate	108,300	109,383	110,477	111,582	112,697
Per Capita Funding	\$ 6.42	\$ 6.59	\$ 6.77	\$ 6.95	\$ 7.14
Book Budget	695,119	720,834	747,928	775,492	804,660

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.

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