Appendix
Comprehensive Financial Management Policy

Purpose

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

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

Objectives

In order to achieve its purpose, the Comprehensive Financial Management Policy has the following objectives for the City's fiscal performance.

A. To guide City Council and management policy decisions that have significant fiscal impact.

B. To set forth operating principles that minimize the cost of government and financial risk.

C. To employ balanced and fair revenue policies that provide adequate funding for desired programs.

D. To maintain appropriate financial capacity for present and future needs.

E. To promote sound financial management by providing accurate and timely information on the City's financial condition.

F. To protect the City's credit rating and provide for adequate resources to meet the provisions of the City's debt obligations on all municipal debt.

G. To ensure the legal use of financial resources through an effective system of internal controls.

H. To promote cooperation and coordination with other governments and the private sector in the financing and delivery of services.

Significant Changes

The development of the biennial budget provides the opportunity to review the City's Comprehensive Financial Management Policies and make necessary adjustments due to new or revised City ordinances and policies, State laws, or recommendations made by national accreditation and/or approval authorities. The Comprehensive Financial Management Policies were reviewed by Finance and other department staff and warrant only minor changes in the 2009-2010 Budget. These changes are highlighted in the following table.

2009-2010 Policy Changes

Page/Section	Title	Change Summary
Page 8-13 Section IX, E.	Cash Reserves	Provides guidance for use of General Fund reserves. Sets an ending Fund balance target of 15 percent.
Page 8-15 Section X, B. 3.	Rainy Day Reserve Target and Purpose	Eliminate entirely reference to a Rainy Day reserve and adds new language that targets 15% of General Fund revenues as an ending fund balance or reserve. Provides examples of when the reserve can be used such as natural disaster, or counter cyclical basic revenue growth.
Page 8-15 Section X, B. 4.	Bond Rating and Reserve	Relates General Fund reserve to City's exceptional bond rating.
Page 8-60 Figure 8-5	Investment Policy	Maximum maturity for Agency Coupon Securities changed from 3 years to 5 years and the total portfolio will be managed such that the weighted average modified duration does not exceed 2.5 years (reduced from 36 months).

Comprehensive Financial Management Policy
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XIV. Investment Policy (*Figure 8-5*)

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XVI. Budget Ordinances *(Figure 8-7)*

Ordinance 5845, Human Services Funding, 12/1/08
Ordinance 5846, Establishing Development Services Fee, 12/1/08
Ordinance 5847, Water Rates and Charges, 12/1/08
Ordinance 5848, Sewer Rates and Charges, 12/1/08
Ordinance 5849, Storm and Surface Water Rates and Charges, 12/1/08
Ordinance 5850, 2009 Property Taxes, 12/1/08
Ordinance 5851, 2009-2010 Budget and 2009-2015 CIP Budget Adoption, 12/1/08

I. FINANCIAL PLANNING POLICIES

The City shall develop and maintain a six-year Financial Forecast that estimates resource and expenditure behavior for the two bienniums beyond the current budget period. This Forecast will provide the City's decision-makers with an indication of the long-term fiscal impact of current policies and budget decisions. This planning tool must recognize the effects of economic cycles on the demand for services and the City's resources. To this end, the Forecast should differentiate between revenue associated with one-time economic activities and revenues derived as a result of base economic growth. City financial planning should ensure the delivery of needed services (many of which become more critical during economic downturns) by assuring adequate reliance on ongoing resources in order to support continued City services during economic downturns.

The City is a major force in a complex regional economic system. The City must understand and anticipate changes in both regional and national economic trends in order to engage in strategic financial and management planning.

A. General Fund:

1. The Finance Department will prepare and maintain a Financial Forecast for General Fund operations based on current service levels and current funding sources. This forecast will include the upcoming biennium as well as the two bienniums beyond the current period (a total of six forecast years). This future-oriented look will provide insight into whether the current mix and level of resources are likely to continue to be sufficient to cover current service levels. The forecast also allows staff and City Council to test various "what-if" scenarios and examine the fiscal impact on future bienniums.

2. The City will constantly test both its planning methodology and use of planning tools in order to provide information that is timely, accurate, and widely disseminated to users throughout the City.

3. Departments will forecast and monitor their respective revenues and expenditures with assistance from the Finance Department. The Finance Department will assist departments in developing appropriate systems for such monitoring and will retain overall fiscal oversight responsibility for the General Fund.

4. The Financial Forecast is updated at least two times each year. Any unexpected changes in economic conditions or other circumstances may prompt more frequent updates. Any significant changes are reported to the Leadership Team, City Manager, and Council.

B. Utility Funds:

1. Financial forecasting will be done for the three Utility Funds in a manner similar to the General Fund. The purpose of these forecasts will be to allow the City Council and citizens to evaluate the longer-term financial needs of these programs.

2. The forecasts should rely on the same basic economic assumptions as the General Fund Forecast. These forecasts will also identify other assumptions used in their preparation and the risks associated with them.

3. The forecasts must identify how they will impact rate structures.

C. Parks Enterprise Fund:

1. Financial forecasting will be done for the Parks Enterprise Fund in a manner similar to the General Fund. The purpose of this forecast will be to allow the City Council and citizens to evaluate the longer-term financial needs of the funds' programs.

2. The forecasts should rely on the same basic economic assumptions as the General Fund Forecast. This forecast will also identify other assumptions used and the risks associated with them.

D. Development Services Fund:

1. Financial forecasting will be done for the Development Services Fund in a manner similar to the General Fund. The purpose of this forecast will be to allow the City Council and citizens to evaluate the longer-term financial needs of the funds' programs.

2. The forecasts should rely on the same basic economic assumptions as the General Fund Forecast. This forecast will also identify other assumptions used and the risks associated with them.

E. Resource/Expenditure Estimating: The financial planning and subsequent budgeting for all funds will be based on the following principles:

1. Resource and expenditure estimates should be prepared on a realistic basis with a target of ± 2% variance from the estimate for resources and ± 1% variance for expenditures.

2. Expenditure estimates should anticipate contingencies that are reasonably predictable.

II. GENERAL BUDGET POLICIES

A. Resources Greater than Budget Estimates: Resources (fund balance) greater than budget estimates in any internal service fund shall be refunded to the contributing funds unless circumstances warrant retaining such monies for future expenditure in the current fund.

B. Budget Preparation: Department directors have primary responsibility for formulating budget proposals in line with City Council, Leadership Team, and City Manager priority direction, and for implementing them once they are approved.

The Finance Department is responsible for coordinating the overall preparation and administration of the City's biennial budget and Capital Investment Program Plan. This function is fulfilled in compliance with applicable State of Washington statutes governing local government budgeting practices.

The Finance Department assists department staff in identifying budget problems, formulating solutions and alternatives, and implementing any necessary corrective actions.

C. Public Hearings: The City Council will hold three public hearings on the budget. The first two will be held sufficiently early in the budget process to allow citizens to influence budget decisions and to allow the Council to indicate special priorities before City staff develops a preliminary budget recommendation. The third and final public hearing will be held shortly after the preliminary budget's initial presentation to the Council and before the Council's final budget deliberations. The final public hearing will be held prior to the time the Council fixes the annual property tax levy. If deemed necessary, additional public hearings may be conducted.

D. Overhead and Full Cost Allocation: Department budgets should be prepared in a manner to reflect the full cost of providing services.

E. Examination of Existing Base Budget: During each biennial budget development process, the existing base budget will be thoroughly examined to assure removal or reduction of any services that could be eliminated or reduced in cost.

F. Services to Keep Pace With Needs of Community: The City will strive to ensure that City service priorities keep pace with the dynamic needs of the community by incorporating a service needs review as part of the budget process.

G. Maintenance of Quality Service Programs: Quality service programs will be offered by the City of Bellevue. If expenditure reductions are necessary, service elimination is preferable to poor or marginal quality programs.

H. Maintenance of Existing Services vs. Additional or Enhanced Service Needs: Significant annual resource allocations needed to maintain existing service quality will compete directly with investment proposals during the budget evaluation process. Inflation adjustments will be provided for all operating budgets.

I. Budget Monitoring: The Finance Department will maintain a system for monitoring the City's budget performance. This system will provide the City Council with quarterly presentations to Council regarding fund level resource collections and department level expenditures. Included will be provisions for amending the budget during the year in order to address unanticipated needs, emergencies, or compliance with State of Washington budgetary statutes. Budget amendments requiring City Council approval will occur through a process coordinated by the Finance Department. Significant financial issues that need to be addressed between regular monitoring reports will be provided to Council as warranted.

J. Performance Budgeting: Performance measures will be utilized and reported in department budgets. The City will prepare trends, comparisons to other cities, and other financial management tools to monitor and improve service delivery in City programs.

K. Interfund Charges Based on Full Cost: Interfund charges will be based on recovery of the full costs associated with providing those services. Internal Service Agreements shall be established between vendor and client departments reflecting full cost recovery unless special circumstances exist. Any disputes will be brought to the City Manager or Deputy City Manager for resolution after thorough evaluation by the Finance Department.

L. Program Budget Presentation Format: The focus of the City's biennial budget presentation is directed at displaying the City's services plan in a Council and constituent-friendly format.

M. Distinguished Budget Presentation: The City will seek to obtain the Government Finance Officers Association Distinguished Budget Presentation Award for each biennial budget. The Budget will be presented in a way that clearly communicates the budget to members of the public.

III. UTILITY & OTHER FUND BUDGET POLICIES

A. Utilities Department Financial Policies: The Utilities Department Financial Policies, including Solid Waste Reserves policies, were last updated in the 2007-2008 Budget. These policies have been included as Figure 8-1.

B. Building Permit Revenues and Expenditures: Revenues derived from building permit fees shall be designated for the exclusive support of the development activities in the Development Services Fund. This fund will provide permit processing and compliance inspection services. Building permit fees shall include an overhead rate component to recover its share of general overhead costs, as well as department overhead from those departments directly involved in permit processing activities.

C. Parks Enterprise Revenues and Expenditures: Revenues derived from golf and certain culture and recreation fees shall be designated for the exclusive support of activities in the Parks Enterprise Fund. This fund will maintain and operate the golf course, tennis center, and Robinswood House, administer adult athletic programs, pay approved maintenance services and overhead charges to the General Fund, and fund golf course improvements in the Capital Investment Program Fund. The Parks Enterprise Fund may also charge the General Fund for a portion of their programs that are offered with a "fee subsidy". This charge is designed to allow youth and special populations access to programs at less than full cost, to encourage participation.

IV. STATE-MANDATED BUDGET REQUIREMENTS

Washington State law (RCW 35A.34) specifies requirements that must be followed in budgeting each of the City's funds. The following summarizes the key areas covered in Washington State law:

A. Key Requirements:

1. The timing, process, and responsibility for each step.
2. A standard account classification system prescribed by the State Auditor.
3. Preparation and filing of a preliminary budget by the chief administrative officer.
4. A "budget message" from the chief administrative officer explaining the content, financial policies, and major proposed changes.
5. A public hearing on the proposed preliminary budget conducted before adoption of a final budget, which shall be held on or before the first Monday in December.
6. Procedures for handling special situations such as mid-biennium emergencies.
7. Limitations on the expenditure of City funds and procedures for amending the budget.
8. Quarterly or more frequent reporting to the City's legislative authority on the revenue and expenditure status of each fund.
9. Budgeting of nonoperating/special purpose funds on a different basis from operating budget funds.

B. Fund Types: The City budgets all funds in accordance with the Optional Municipal Code, Section 35A.34 of the Revised Code of Washington, which is attached as Figure 8-2. In accordance with State law, the City prepares its biennial budget on an estimated cash receipts and disbursements basis and by a process that conforms to the stated timing requirements. The only exceptions are the following special purpose funds: special assessment (e.g., Local Improvement District (LID) Bond Fund) and custodial agency funds (e.g., Firemen's Pension Fund), where the City acts in a custodial capacity as the bookkeeper for monies belonging to others. The City maintains three primary types of funds: operating, capital project and other special purpose funds.

1. Operating funds finance the continuous, traditional service delivery functions of a municipality in Washington State. Expenditure authority (appropriations) for each of these funds lapses at the end of each biennium, and a new budget must be adopted by the City Council.

2. Capital project funds include the General and Utility Capital Investment Program Funds and the 2004 New City Hall Bond Fund which provide for the City's seven-year capital funding. This budget establishes the 2009-2010appropriations for the Funds.

3. Special purpose funds are distinguished from operating/budgetary funds by their limited objectives and/or finite life spans. Special purpose fund budgets do not lapse at the end of the biennium, but are carried forward until the monies are fully expended or their objectives are accomplished or abandoned (RCW 35A.34.270). Examples of special purpose funds are the Operating Grants and Donations Fund, and the Housing Funds. The City has nine active special purpose funds.

As required by State law, the 2009-2010 Budget reflects balanced expenditure and revenue estimates for each of the City's funds. Although revenue estimates are made only at the fund level, expenditure budgets are prepared at the department and division level for the purpose of administrative control.

V. BUDGET DEVELOPMENT PROCESS

The Finance Department is responsible for coordinating the overall preparation of the City's budgets. To accomplish this, staff issues budget instructions, conducts budget preparation training sessions, and communicates regularly with department staff. Their guidance provides the overall "rules of the game" within which the more detailed budget instructions and coordinating efforts are developed.

The following are key procedural steps in the City's budget development process. Note that the process and dates indicated below match the 2009-2010 process, and may be changed for future processes.

1. In March, the official "budget call" required by State law was made to all department directors or fund managers by the Budget Office as designees of the City Manager and Finance Director. Budget development instructions and other materials were provided to the departments at that time.

2. During February and March, an operating and CIP budget telephone survey was conducted. The telephone survey reached a statistically valid sample of Bellevue residents and queried residents on a variety of City services, including how important and satisfied residents were with these services.

3. Early in the process a budget retreat was held to provide an overview of the 2009-2010 Budget and 2009-2015 CIP, and to identify Council initiatives.

4. From late April to early October, departments reviewed and updated their existing budget, including expenditure and revenue estimates, performance data, and financial and program delivery outcomes. Additionally, Directors met with staff to gather their input on the budget.

5. Revenue and expenditure estimates were developed and updated by the Finance Department throughout the budget process. “Early Outlook” Financial Forecasts were prepared and presented to the Council.

6. The initial public hearing was held during May and a second public hearing was held in July to provide the public with ample opportunity to comment on recommended programs and/or ideas for new programs.

7. Between April and July the Council met in a series of Review Sessions to discuss all aspects of the budget with City management staff. Council held two budget retreats and provided policy guidance to the City Manager.

8. From March through July, departments prepared investment requests (cost/benefit proposals for new spending) and reduction proposals (cost/service reductions) for review and discussion by City management staff.

9. From June through September a Budget Advisory Team comprised of staff from key line departments met to review all investment requests and to provide advice to the Budget Division. The City Manager met with Leadership Team members to review department budget submittals. By mid October, the preliminary budget proposal was established.

10. During October, preliminary budget documents were prepared, printed, and filed with the City Clerk. This proposed budget was presented to the City Council in late October, and copies were made available to the public immediately after the presentation.

11. Between late October and early December, the City Council will meet in a series of budget sessions to review and discuss the recommended budget.

12. The third and final public hearing will be held in November during the time the City Council discusses the preliminary budget proposal. Citizens will be able to comment on recommended programs and/or ideas for new programs at these public hearings.

13. In early December, the City Council will adopt the budget by ordinance and establish the budget appropriation for the next biennium (January 1, 2009 through December 31, 2010).

14. The final budget is published and distributed during the first quarter of the following year. Copies are made available to the public and are available on the City’s website.

15. Monthly and quarterly budget monitoring reports are prepared by the Finance Department to report on actual performance compared to budget estimates and to identify any remedial actions that may be needed.

16. As required by State law, a mid-biennium update will occur during the year following adoption of the biennial budget. This update is required by state law and allows for budget modifications and technical adjustments.

17. The budget development process described above is supplemented by information generated by the City's Financial Forecast. The forecast is a financial tool that provides the City's decision-makers with an indication of the long-term fiscal impact of current policies and budget decisions.

18. The budget process is also supplemented by information on service delivery performance and benchmarking with discussions and publication of a Comparative Cities Performance Report and an Annual Performance Report.

VI. BUDGET ADJUSTMENT & AMENDMENT PROCESSES

Under the provisions of State law and the City's operating procedures, the operating budget may be adjusted or amended in two different ways. Adjustment of the budget involves a reallocation of existing appropriations and does not change the budget "bottom line". Amendment of the budget involves an addition to or reduction of existing appropriations.

A. Adjustment: Under the first method, departmental expenditures and requirements are monitored throughout the year. Certain departments may develop the need for additional expenditure authority to cover unanticipated costs that cannot be absorbed within the budget, while other departments will not require their full budget authorizations. The Finance Department reviews and analyzes all department and/or fund budgets to determine what adjustments are necessary and whether the adjustments can be made within existing appropriation limits. These changes are then reviewed with the affected department and/or fund managers. When an adjustment is needed, Finance staff will look first to savings within the department; and then transfers between departments. No City Council action is needed as State law allows budget adjustments to be done administratively.

B. Amendment: Amending the City's budget occurs whenever the requested changes from department and/or fund managers will cause the existing appropriation level for the fund to change. This situation generally occurs when the City Council authorizes additional appropriation. This is done by an ordinance that amends the original budget and states the sources of funding for the incremental appropriations.

VII. AGENDA MEMORANDUM REVIEW

The Finance Department will review all agenda items submitted for City Council action. The objective of these reviews will be to ensure compliance with the budget and disclosure of all fiscal issues to the Council. This information will be presented in the fiscal impact section of each agenda memorandum.

VIII. REVENUE POLICIES

The City must be sensitive to the balance between the need for services and the City's ability to raise fees, charges, and taxes to support those services.

A. Mix of Revenues: The City should strive to maintain a diversified mix of revenues in order to balance the sources of revenue amongst taxpayers and to provide ongoing stability and predictability.

1. Property taxes and other stable revenues provide a reliable base of revenues during periods of economic downturn.

2. The City's overall revenue structure should be designed to recapture for the City some of the financial benefits resulting from City economic and community development investments.

3. The City will strive to keep a total revenue mix that encourages growth, and keeps Bellevue economically competitive and a City of choice for people to live and do business.

B. Taxes Should Be Selected for Balance, Applicability, and Probable Economic Impact: The following factors will be considered when the City's taxes are increased, decreased, extended, or changed in any way.

1. Stability of the tax source over its expected life.

2. Suitability for a pledge against future debt, if that is part of the City Council's long-range intent for the revenue source.

3. Spread the tax burden throughout the City's tax base by utilizing a broad array of the tax sources available, and by investigating mitigation of inequities and hardships where appropriate (e.g., property tax exemptions and deferrals, and utility tax rebates for low-income elderly people). State and local legislative remedies for detrimental tax impacts should be sought where appropriate.

4. Apply the tax impact information for both residential and business taxpayers against a future vision of what the tax policy decision is intended to foster.

C. Property Tax Revenues for Park Maintenance: Revenues derived from the Property Tax Lid Lift for Park Maintenance, which Bellevue voters approved in May 1988, shall be deposited in the General Fund to pay all costs necessary to fund the maintenance and operating costs of specific park facilities.

D. Charges for Services: As much as is reasonably possible, City services that provide private benefit should be supported by fees and charges in order to provide maximum flexibility in use of general City taxes to meet the cost of services of broader public benefit. Charges for services that benefit specific users should recover full costs, including all direct costs, capital costs, department overhead, and Citywide overhead. Departments that impose fees or service charges should prepare and periodically update cost-of-service studies for such services. A subsidy of a portion of the costs for such services may be considered when consistent with legal requirements to meet other City interests and objectives, such as remaining competitive within the region.

E. Backup Convention Center Financing: In accordance with Ordinance No. 4094 (passed on 12/4/89) and Ordinance No. 4229 (passed on 3/4/91), 0.01% of the City's total gross receipts business and occupation taxing authority of 0.2%, is reserved as a backup financing mechanism for the Convention Center should additional financing beyond that contemplated in the adopted Convention Center Financing Plan become necessary. In addition, any additional increase in the City’s B&O tax (measured by gross receipts) shall first require an analysis of the status of the Convention Center Financing Plan. This information must be included in any fiscal impact notes on agenda materials presented to the City Council for the purpose of increasing the B&O tax rate described above. Ordinance Nos. 4094 and 4229 are attached as Figures 8-3 and 8-4.

IX. OPERATING POLICIES

The City should accommodate both one-time and ongoing expenditures within current resources, establish and adequately fund reserves, regularly monitor and report on budget performance, evaluate the fiscal impact of new proposals, operate as efficiently as possible, and constantly review City services for appropriateness and effectiveness.

A. Expenditures Should be Within Current Resource Projections: Ongoing expenditures should be equal to or less than ongoing revenues. Each City fund budget must identify ongoing resources that at least match expected ongoing annual requirements. One-time resources and non-recurring ending fund balances will be applied to reserves or to fund one-time expenditures; they will not be used to fund ongoing programs.

B. Unrestricted Resources Should Remain Unrestricted: Unless otherwise stated explicitly by the City Council, unrestricted resources will not be earmarked for specific purposes in the General Fund. This will preserve the ability of the Council to determine the best use of available resources to meet changing service requirements.

C. Continual Improvement of Service Delivery: The City will seek to optimize the efficiency and effectiveness of its services through Business Process Improvement (BPI) efforts, performance budgeting and measuring, and by assessing its services with comparable cities to reduce costs and improve service quality.

D. Cash Management: The Finance Department will develop, maintain, and constantly seek to improve cash management systems which ensure the accurate and timely accounting, investment, and security of all cash assets. All cash received by City departments will be deposited with Finance within 24 hours of receipt.

E. Cash Reserves: The City will maintain adequate cash reserves in order to reduce the potential need for borrowing or service reductions during periods of economic downturn, natural catastrophe, or for other, one-time extraordinary expenditures. Annually, the City will target 15% of General Fund revenues as a General Fund ending balance, commonly known as a reserve.

F. Fund Balances: Accruals and non-cash enhancements to revenues will not be made as a means to influence fund balances at year-end or during budget discussions.

G. Fixed Asset Inventories: Accurate inventories of all physical assets (including roads infrastructure), their condition, life spans, and cost will be maintained to ensure proper stewardship of public property. The Finance Director will establish policies and appropriate procedures to manage fixed assets, including establishing the threshold dollar amount for which fixed asset records are maintained and how often physical inventories will be taken.

H. Allocation of Overhead Costs: Overhead costs will be allocated to determine the full cost of providing services. Overhead costs will be allocated according to consistent methodology developed in consultation between the Finance Department and other operating departments.

I. Utility Debt Coverage Ratio Target: The City Council adopted the following debt service coverage policy for the bonds issued by the City's Waterworks Utility on March 7, 1994 by Resolution No. 5759:

"The City Council will establish utility rates/charges and appropriations in a manner intended to achieve a debt service coverage ratio (adjusted by including City taxes as an expense item) of approximately 2.00. The City Council authorizes the Waterworks Utility to utilize this policy in development of pro forma projections which will be disseminated to the bond rating agencies and to the financial community generally."

X. FUND DESCRIPTION & RESERVE POLICIES

Fund descriptions and reserve policies have been developed in a standard format for all City funds and are included in the 2009-2010 Budget Detail volume.

A. Fund Descriptions include the following:

1. Fund Type

2. Fund Description

3. Year Created

4. Major Revenue Sources

5. Major Expenditures

6. Fund Custodian

7. Reserve Policy

8. Other Notes

B. Reserve Policies include the following:

1. Budgeting for Reserves: The City will maintain and justify budgeted reserves.

2. Expenditure of Budgeted Reserves: Reserves included in the operating budget shall not be expended without the express written approval of the Finance Director.

3. Annually the City will target 15% of General Fund revenues as a General Fund ending balance. This balance is to protect the City's essential service programs during periods of economic downturn, which may temporarily reduce actual resources or cut the growth rate of City resources below that necessary to maintain pre-existing service levels. Additionally, the ending fund balance, commonly known as a reserve, can be used in the event of a natural catastrophe, counter cyclical basic revenue growth (Property, Sales, and B & O taxes combined) below 5 percent for the biennium, or because of unfunded federal or state mandates.

4. The target of 15% of annual General Fund revenues as a General Fund reserve shall be sufficient to maintain the City's exceptional bond rating for both its unlimited and limited general obligation tax bonds.

XI. CAPITAL INVESTMENT PROGRAM PLAN POLICIES

A number of important policy considerations are the basis for the Capital Investment Program (CIP) Plan. These policies provide guidelines for all financial aspects of the CIP, and ultimately affect the project selection process.

A. Relationship of Long-Range Plans to the CIP Plan: Virtually all of the projects included in the CIP are based upon formal long-range plans that have been adopted by the City Council. This ensures that the City's Capital Investment Program, which is the embodiment of the recommendations of these individual planning studies, is responsive to the officially stated direction of the City Council as contained in the Comprehensive Plan and supporting documents. Examples of these supporting documents are: Transportation Facility Plans (Central Business District (CBD), Bellevue-Redmond Overlake Transportation Study (BROTS), East Bellevue Transportation Study (EBTS), Newcastle), the Parks and Open Space Plan, the Municipal Facilities Plan, the Fire Master Plan, the CBD Implementation Plan and the Comprehensive Plans of the Water, Sewer, and Storm & Surface Water Utilities. There are exceptions, but they are relatively small when compared to the other major areas of expenditure noted above. These exceptions include activities such as the Neighborhood Enhancement Program (NEP) and the Community Development Program.

B. Establishing CIP Priorities: The City uses the following basic CIP project prioritization and selection process.

1. Each CIP program area establishes criteria to be used in the prioritization of specific projects submitted for funding. These specific criteria are developed in conjunction with City Council priorities and input from citizens and associated City boards and commissions (if applicable). The criteria established for this CIP are displayed in the 2009-2015 CIP Plan document in the tab titled “CIP Project Prioritization Criteria”.

2. The Finance Department determines revenue projections available to the non-utility CIP in consultation with various revenue-generating departments and the amount of resources available for new projects for each new seven-year Plan.

3. The Finance Department and City Manager evaluate the various CIP projects and selects those with the highest priority.

4. Within the available funding, the highest priority projects are then selected and funded in the CIP.

5. CIP program area managers recommend an expenditure plan to the Finance Department and City Manager, which includes all capital costs and any applicable maintenance and operations (M&O) and/or required short-term financing costs. Program area managers are responsible for the cost estimates of their proposed programs, including future M&O costs related to the implementation of completed projects.

6. A Preliminary CIP Plan is recommended to the City Council by the City Manager along with the operating budget recommendations.

7. The City Council reviews the Operating and Preliminary CIP Plan, holds a public hearing(s) to allow for citizen input, makes desired alterations, and then officially adopts the budget and establishes related appropriations as a part of the City’s biennial budget process.

C. Types of Projects Included in the CIP Plan: The CIP Plan will display, to the maximum extent possible, all major capital projects in which the City is involved. While the following criteria may be used as a general guide to distinguish which projects should be included or excluded from the CIP Plan, there are always exceptions which require management's judgment.

   For purposes of the CIP Plan, a CIP project is generally defined to be any project that possesses all of the following characteristics:

   1. Exceeds an estimated cost of $100,000;

   2. Involves totally new physical construction, reconstruction designed to gradually and systematically replace an existing system on a piecemeal basis, replacement of a major component of an existing facility or computer system, or acquisition of land or structures; and

   3. Involves City funding in whole or in part, or involves no City funds but is the City's responsibility for implementing, such as a 100% grant-funded project or 100% Local Improvement District funded project.

D. Scoping and Costing Based on Predesign Study: It has proven difficult to develop accurate project scopes, cost estimates, and schedules on which no preliminary engineering or community contact work has been done. To address this problem, some projects are initially proposed and funded only for preliminary engineering and planning work. This funding will not provide any monies to develop final plans, specifications, and estimates to purchase rights-of-way or to construct the projects. However, generally, an estimated amount, sufficient to cover these costs based on a rough preliminary estimate is earmarked within the program area.

E. Required Project Features and Financial Responsibility: If a proposed project will cause a direct impact on other publicly-owned facilities, an equitable shared and funded cost plan must be coordinated between the affected program areas.

F. Predictability of Project Timing, Cost, and Scope: The predictability of timing and costs of projects is important to specific private developments, such as the provision of street improvements or the extension of major sewer lines or water supply, without which development could not occur. These projects generally involve significant financial contributions from such private development through impact fees, developer extension agreements, LIDs, and other means. Once a project has been approved by the City Council in the CIP, project scheduling is a priority to maintain.

G. Local Improvement Districts (LID): This policy limits the use of LIDs to specific instances. Examples of when future LIDs may be formed are as follows: 1) where old agreements exist committing property owners to LID participation on future projects; 2) when current development activity or very recently past development activity has exempted these projects from the assessment of Transportation Impact Fees; 3) when a group of property owners wish to accelerate development of a certain improvement; 4) when a group of property owners desire a higher standard of improvement than the City's project contemplates; or 5) when a group of property owners request City assistance in LID formation to fund internal neighborhood transportation facilities improvements, which may or may not have City funding involved. If City funding is proposed by the project sponsors (property owners), they shall so request of the City Council (through the City Clerk) in writing before any LID promotion activity begins. The City Manager shall analyze such request within 45 days and report his conclusions and recommendation to Council for their consideration. The Council shall by motion affirm or deny the recommendation. The Council's affirmative motion to financially participate shall expire in 180 days, unless the project sponsors have submitted a sufficient LID petition by that time.

In the event the request is for street resurfacing in advance of the City's normal street resurfacing cycle, the City's contribution shall not exceed 50% of all project eligible costs.

On capital projects whose financing depends in part on an LID, interim financing will be issued to support the LID's portion of the project budget at the same time or in close proximity to the issuance of the construction contract. The amount of the interim financing shall be the current estimate of the final assessment roll as determined by the administering department.

In the event that the project is 100% LID funded, interim financing shall be issued either in phases (i.e., design phase and construction phase) or up front in the amount of the entire estimated final assessment roll, whichever means is estimated to provide the lowest overall cost to the project as determined by the Finance Department.

H. CIP Non-Utility Maintenance and Operating (M&O) Costs: Non-utility CIP project M&O costs identified in the project description, as approved by the City Council, shall have a funding plan. Preferably, operating budget tax sources will not be provided for this purpose. More suitable sources of funding include: General CIP Revenue (the combination of the 5/10 and 3/100 of 1% of sales and B&O tax rates that have been allocated to the CIP for general capital purposes), property tax lid lifts, project-generated revenues e.g., user fees, or other new taxes. When the fund source for a project is General CIP Revenue, costs will be budgeted in the operating budget and an amount equivalent to their estimated cost will be reallocated from the CIP to the operating budget. This amount is adjusted upward each year by the anticipated inflation rate after first making any necessary adjustments (e.g., partial vs. full-year costs) and eliminating any one-time items. The amounts of these transfers are checked periodically for reasonableness.

I. Preserve Existing Capital Infrastructure Before Building New Facilities: It is the City's policy to ensure that adequate resources are allocated to preserve the City's existing infrastructure before targeting resources to build new facilities that also have operating and maintenance obligations. This policy addresses the need to protect the City's historical investment in capital facilities and to avoid embarking on a facility enhancement program, which when coupled with the existing facilities requirements, the City cannot afford to adequately maintain.

J. New Facilities Should Be of High Quality, Low Maintenance, Least Cost: This policy has guided the development and execution of the CIP Plan through an emphasis on lowest life-cycle cost. Projects should only be built if the necessary funding to operate them is provided. Also, priority is given to new facilities that have minimal ongoing maintenance costs so as to limit the impact upon both the CIP and the operating budget.

K. Public Input for Capital Projects: The City makes a serious commitment to public involvement. All of the City's long-range plans have been developed through an extensive citizen involvement program. Citizen involvement occurs at the long-range plan development stage, during CIP review and adoption, during master planning processes, during design and construction of specific projects, and through public processes associated with City boards and commissions. Public hearings are held during the CIP Plan development process to allow the public to comment on the recommended projects. The projects themselves call for an extensive public outreach effort, allowing those most closely effected to influence the design of the projects. While public input is essential to the successful implementation of the CIP Plan, staff and Council must also remain conscious of the overall effect upon costs when responding to requests of project neighbors.

L. Basis for Project Appropriations: During the City Council's biennial CIP Plan review, the City Council will appropriate the estimated project costs for the biennium for all projects in the CIP Plan. Subsequent adjustments to appropriation levels for amendments to the CIP Plan may be made by the City Council at any time.

M. Balanced CIP Plan: The CIP Plan is a balanced seven-year plan. This means that for the entire seven-year period, revenues will be equal to project expenditures in the Plan. It is anticipated that the plan will have more expenditures than revenues in single years of the Plan, but this imbalance will be corrected through the use of interim financing as needed. However, over the life of the seven-year plan, all planned interim debt will be repaid and all Plan expenditures, including interest costs on interim debt will be provided for with identified revenues. Any project funding plan, in which debt is not retired within the current seven-year Plan, must have specific City Council approval.

N. Use of Debt in the CIP: The CIP is viewed as a long-term program that will continually address capital requirements far into the future. As such, the use of long-term debt has been minimized, allowing the City to put money into actual projects that benefit Bellevue residents and businesses rather than into interest payments to financial institutions. To that end, this policy limits debt to short-term obligations, primarily for cash flow purposes. Debt incurred will be paid back before the end of the current CIP. Finance staff monitor CIP cash flow regularly and utilize fund balances to minimize the amount of borrowing required. Projected financing costs are included within a project in the General Government program area. There are exceptions to this policy for extraordinary circumstances, where Councilmanic or voted long-term debt have been issued to achieve major City goals that otherwise could not have been achieved, or would have been delayed an unacceptable amount of time.

O. Finance Director's Authority to Borrow: The Finance Director is authorized to initiate interim and long-term borrowing measures, as they become necessary, as identified in the current CIP Plan.

P. CIP Plan Update and Amendment: The CIP Plan will be updated at least biennially as a part of the City's biennial budget process. The City Council may amend the CIP Plan at any time if a decision must be made and action must be taken before the next CIP review period. The City Council has delegated authority to the City Manager to administratively approve CIP Plan adjustments, except for changes in project scope or changes that total more than 10% of a project's adopted CIP Plan budget (unless a 10% adjustment is less than $10,000), or regardless of the percentage, budget changes totaling more than $100,000. The Council has further authorized the City Manager to administratively approve the acceleration of project schedules so long as they can be accomplished without causing cash flow problems and with the understanding that any controversial issues would be brought before the City Council. All project additions or deletions must be approved by the City Council.

Q. Formalization of Monetary Agreements: All agreements between the City and outside jurisdictions shall be in writing specifying the financial terms of the agreement, the length of the agreement, and the timing of any required payments. Formalization of these agreements will protect the City's interests. Program areas shall make every effort to promptly request any reimbursements that are due the City. Where revenues from outside jurisdictions are ongoing, these requests shall be made at least quarterly, unless alternative arrangements are approved by the City Manager or City Council.

R. Projected Grant Revenues: At the Finance Director's discretion, grant-funded capital expenditures are budgeted prior to the specific grant award. City overhead or indirect costs for grant-funded programs will be included in all grant proposals, where permitted. With grant-funded capital acquisitions, the City will attempt to recover ongoing M&O costs, and replacement costs associated with the acquisition.

S. Projected Revenues from Future Land Sales: The City recognizes that City-owned land is an asset that can be sold to finance CIP projects. With this in mind, the City shall cautiously allow land sale proceeds to be used as a funding source by program areas that have oversight responsibility for the land. The land shall be valued based on an appraisal performed either by the Transportation Department or an outside appraisal company. A conservative value shall be used to provide a cushion for economic shifts. The timing of the proceeds shall be estimated based on the length of time the property is likely to be on the market. However, if the land does not sell in a timely manner or its value turns out to be overestimated, then the program area must either reallocate revenue sources from other projects within its area, find an agreeable replacement funding source, or cease work on the project, if possible.

T. Land Sale Remnants: The City is frequently left with property remnants following the completion of a project that required rights-of-way (ROW) acquisition. These remnants represent an asset to the program area that purchased them. If the project selling the land remnants is still active, the revenue from the sale shall be receipted as land sale proceeds in the project, therefore serving to partially offset the ROW acquisition costs. If the project is already completed at the time of the remnant sale, the land sale proceeds can either be used by the selling program area to help fund another of that program area's projects, or they can be deposited in the Land Purchase Revolving Fund for future use by the purchasing program area.

U. Applicable Project Charges: CIP projects should reflect all costs that can be clearly shown to be necessary and applicable. Staff charges to CIP projects will be limited to time spent actually working on those projects and shall include an overhead factor to cover the applicable portion of that person's operating cost.

XII. INTERGOVERNMENTAL REVENUES

Many service costs of the City are influenced by other governments, either because of service overlap or service mandates imposed by the county, state, or federal government. The City should take advantage of opportunities to enhance service delivery through intergovernmental cooperation, shared revenues, and grants while aggressively opposing mandates that distort local service priorities.

A. Grants Should Not Fund Ongoing Services: The City will refrain from using grants to meet ongoing service delivery needs. In the City's financial planning, grants will be treated in the same manner as all other temporary and uncertain resources and will not be used to fund ongoing, basic service needs. With grant-funded capital acquisitions, the City will attempt to recover ongoing maintenance and operating costs, and replacement costs associated with the acquisition.

B. Grant Agreements Reviewed for Compliance with Regulations: All grant agreements will be reviewed by the appropriate City staff, including Finance, City Attorney's Office, and sponsoring department, to ensure compliance with state, federal, and City regulations.

C. Budgeting for Grant Expenditures: At the City Manager's discretion, grant-funded capital expenditures are budgeted prior to the specific grant award. City overhead or indirect costs for grant-funded programs will be included in all grant proposals, where permitted. With grant-funded capital acquisitions, the City will attempt to recover ongoing maintenance and operating costs, and replacement costs associated with the acquisition.

D. Protecting the City's Interests: The City will aggressively oppose state or federal actions that mandate expenditures that the City Council considers unnecessary. The City will pursue intergovernmental funding to support the incremental cost of those mandates.

E. Intergovernmental Agreements: The City will work with other governments to identify the jurisdiction most capable and appropriate to provide specific public services. All intergovernmental agreements and contracts for service delivery will be brought forward to the City Council for approval.

XIII. ACCOUNTING, AUDITING, & FINANCIAL REPORTING POLICIES

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

A. Accounting Records and Reporting: The City will maintain its accounting records in accordance with state and federal law and regulations. Budgetary reporting will be in accordance with the state's budget laws and regulations. The City will report its financial condition and results of operations in accordance with state regulations and generally accepted accounting principles (GAAP) applicable to governments.

B. Auditing: The State Auditor will annually perform the City's financial and compliance audit. Their opinions will be contained in the City's Comprehensive Annual Financial Report (CAFR). Results of the annual audit shall be provided to the Council in a timely manner.

C. Excellence in Financial Reporting: As an additional independent confirmation of the quality of the City's financial reporting, the City will annually seek to obtain the Government Finance Officers Association Certificate of Achievement for Excellence in Financial Reporting. The CAFR will be presented in a way designed to communicate with citizens about the financial affairs of the City.

D. Simplified Fund Structure: The City will minimize the number of funds. The funds will be categorized in accordance with generally accepted accounting principles (GAAP) for reporting purposes, although some funds may be functional classifications but may also be referred to by City of Bellevue fund types.

XIV. INVESTMENT POLICY

The City shall maintain a current investment policy. A copy is attached as Figure 8-5.

As an additional independent confirmation of the integrity of the City's Investment Policy, the City's policy has been certified by the Municipal Treasurers' Association of the United States and Canada.

XV. DEBT MANAGEMENT POLICY

The City shall maintain a current debt policy. A copy is attached as Figure 8-6.

XVI. BUDGET ORDINANCES

Budget Ordinances are attached as Figure 8-7.

- Ordinance 5845, Human Services Funding, 12/1/08
- Ordinance 5846, Establishing Development Services Fee, 12/1/08
- Ordinance 5847, Water Rates and Charges, 12/1/08
- Ordinance 5848, Sewer Rates and Charges, 12/1/08
- Ordinance 5849, Storm and Surface Water Rates and Charges, 12/1/08
- Ordinance 5850, 2009 Property Taxes, 12/1/08
- Ordinance 5851, 2009-2010 Budget and 2009-2015 CIP Budget Adoption, 12/1/08

Appendix
City of Bellevue - Debt Policy

October 23, 2006

Background

The City of Bellevue (City) maintains conservative financial policies to assure strong financial health both in the short- and long-term. The City is an infrequent issuer of debt with debt primarily used as a tool to finance large capital investments such as property acquisitions.

Maintaining the City's bond rating is an important objective of the City's financial policies. To this end, the City is constantly working to improve its financial policies, budgets, forecasts, and financial health.

Purpose

This policy sets forth the criteria for issuance and repayment of debt. The primary objective of the Debt Policy is to establish criteria that will protect the City's financial integrity while providing a funding mechanism to meet the City's capital needs. The underlying approach of the City is to borrow only for capital improvements that cannot be funded on a pay-as-you-go basis. The City will not issue long-term debt to finance current operations.

All debt issued will be in compliance with this policy, Bellevue City Code (BCC) Chapter 2.30 - Registration Procedure for Bonds and Obligations, Chapter 35A.40 Revised Code of Washington (RCW) - Fiscal Provisions Applicable to Code Cities and Chapter 43.80 RCW - Fiscal Agencies along with all other City, State, and Federal laws, rules, and regulations.

Scope

This Policy provides general guidance for the issuance and management of all City debt. In addition, it includes the management of all debt absorbed by the City through utility assumptions or the like. It does not include the debt issued by the Bellevue Convention Center Authority.

Responsibility

Authority to issue and manage debt is derived from BCC 2.37.030. This section gives the Finance Director authority to act in the capacity of City Treasurer, which includes the duties of debt management.

This section also authorizes the Finance Director to appoint a subordinate employee from the Department to assist in the performance of the duties of City Treasurer. The Finance Director has appointed the Investment and Debt Manager to act as the Debt Manager to assist in the duties of debt issuance, interest payments, principal repayments and other debt-related activities.

The Finance Director is responsible for assuring that the activities related to the issuance and payment of bonds or other obligations not jeopardize the bond rating.

Budgeting and Capital Planning

The City shall develop and maintain a capital planning process such as the biennial Capital Investment Program Plan for consideration and adoption by the City Council as part of the City's budget process. The Finance Department is responsible for coordinating and analyzing the debt requirements. This will include timing of debt, calculation of outstanding debt, debt limitation calculations and compliance, impact on future debt burdens, and current revenue requirements.

Prior to issuance of debt, the City will prepare revenue projections, such as the biennial budget or the Financial Forecast, to ensure that there is adequate revenue to make principal and interest payments.

Types of Long-Term Debt

The following is a description of the types of long-term debt the City may issue:

1. **General Obligation**

   This debt is backed by the full faith and credit of the City. The State RCW limits this debt to 2.5% of the assessed valuation of the City for each of three purposes:

   A. **General Purposes**
   Debt issued in this category can be used for any purpose allowed by law.

   Non-Voted
   The City Council may authorize the issuance of general obligation debt up to 1.5% of the City's assessed value without a vote of the public as long as there is an available source of funding to pay the debt service. This funding source can be the diversion of an existing revenue source or a new revenue coming from the enactment of a new tax or other revenue source. The debt can take the form of bonds, bond anticipation notes, lease-purchase agreements, conditional sales contracts, certificates of participation, or other forms of installment debt.

   Voted
   The City Council may place any general obligation debt issue before the electorate. According to State law, if a debt issue is placed before the City's electorate, it must receive a 60% or greater yes vote and have a turnout of at least 40% of those voting at the previous general election. Voted issues are limited to capital purposes only.

   B. **Open Space and Parks**
   Debt issued in this category must be used for park and open space and/or recreation facilities. All debt in this category must be approved by the voters.

   C. **Utilities**
   Debt issued in this category must be used for utility infrastructure. All debt in this category must be approved by the voters.

2. **Revenue Debt**

   Revenue bonds are generally payable from a designated source of revenue generated by the project which was financed. No taxing power or general fund pledge is provided as security. Unlike general obligation bonds, revenue bonds are not subject to the City's statutory debt limitation nor is voter approval required.

3. Local Improvement District (LID) Debt

LID bonds are payable solely from assessments of property owners within the local improvement district. Similar to revenue debt, no taxing power or general fund pledge is provided as security, and LID bonds are not subject to statutory debt limitations.

The debt is backed by the value of the property within the district and a LID Guaranty Fund. The LID Guaranty Fund is required by State law.

Short-Term Debt and Interim Financing

The City may utilize short-term borrowing in anticipation of long-term bond issuance or to fund cash flow needs in anticipation of tax or other revenue sources. Short-term borrowing excludes the City's warrant redemption process.

In accordance with BCC 3.37.070, the Finance Director is authorized to make loans from one City fund to another City fund for periods not exceeding three months. The Finance Director or designee is required to assure that the loaning fund will have adequate cash balances to continue to meet current expenses after the loan is made and until repayment from the receiving fund.

Limitation of Indebtedness

In addition to the limitations required by the RCW, the City's indebtedness is further limited by this policy to assure strong financial health. The limitations are applied to the assessed value of the City to arrive at a dollar value of indebtedness. For example, the 2008 assessed valuation used to determine the 2009 property tax levy was $31.5 billion, and the statutory limitation for general obligation debt is 2.5%. Therefore, the City's statutory debt limitation is $787.5 million. The following matrix shows the general limitation by type of debt. These limitations may be modified by the City Council up to the statutory limitation at the Council's discretion.

Type of Debt	Statutory Limitations	Policy Limitations	2006 Bellevue Actual
General Obligation:	2.5%	1.75%	0.70%
Non-Voted	1.5%	1.0%	0.69%
Voted	1.0%	0.75%	0.01%
Open Space and Parks	2.5%	1.75%	0.01%
Utilities	2.5%	1.75%	0.00%
Revenue	no limit	no limit *	NA
Local Improvement District	no limit	no-limit *	NA

* Revenue and LID debt is not limited because no taxing power or general fund pledge is provided as security.

Structure and Term of Debt

1. Debt Repayment

The City shall pay all interest and repay all debt in accordance with the terms of the bond ordinance. The maturity of bonds issued should be the same or less than the expected life of the project for which the bonds were issued. To the extent possible, the City will seek level or declining debt repayment schedules.

2. Variable-Rate Securities

When appropriate, the City may choose to issue securities that pay a rate of interest that varies according to a pre-determined formula or results from a periodic remarketing of the securities. However, the City will avoid over use of variable-rate debt due to the potential volatility of such instruments.

Professional Services

The City's Finance Department shall be responsible for the solicitation and selection of professional services that are required to administer the City's debt program.

1. Bond Counsel

All debt issued by the City will include a written opinion by bond counsel affirming that the City is authorized to issue the proposed debt. The opinion shall include confirmation that the City has met all city and state constitutional and statutory requirements necessary for issuance, a determination of the proposed debt's federal income tax status and any other components necessary for the proposed debt.

2. Financial Advisor

A Financial Advisor(s) will be used to assist in the issuance of the City's debt. The Financial Advisor will provide the City with objective advice and analysis on debt issuance. This includes, but is not limited to, monitoring market opportunities, structuring and pricing debt, and preparing official statements of disclosure.

3. Underwriters

An Underwriter(s) will be used for all debt issued in a negotiated or private placement sale method. The Underwriter is responsible for purchasing negotiated or private placement debt and reselling the debt to investors.

4. Fiscal Agent

A Fiscal Agent will be used to provide accurate and timely securities processing and timely payment to bondholders. In accordance with Chapter 43.80 RCW, the City will use the Fiscal Agent that is appointed by the State.

Method of Sale

The City will generally issue its debt through a competitive process but may use a negotiated process under the following conditions.

- The bond issue is, or contains, a refinancing that is dependent on market/interest rate timing.
- At the time of issuance, the interest rate environment or economic factors that affect the bond issue are volatile.
- The nature of the debt is unique and requires particular skills from the underwriter(s) involved.
- The debt issued is bound by a compressed time line due to extenuating circumstances such that time is of the essence and a competitive process cannot be accomplished.

Credit Ratings

The City will maintain good communication with bond rating agencies about its financial condition. This effort will include providing periodic updates on the City's general financial condition, coordinating meetings, and presentations in conjunction with a new issuance. The City will continually strive to maintain its bond rating by improving financial policies, budgets, forecasts and the financial health of the City.

Credit enhancements may be used to improve or establish a credit rating on a City debt obligation. Credit enhancements should only be used if cost effective.

Refunding Debt

A debt refunding is a refinance of debt typically done to take advantage of lower interest rates. Unless otherwise justified, such as a desire to remove or change a bond covenant, a debt refunding will require a present value savings of three percent of the principal amount of the refunding debt being issued.

Arbitrage Rebate Monitoring and Reporting

The City will, unless otherwise justified, use bond proceeds within the established time frame pursuant to the bond ordinance, contract or other documents to avoid arbitrage. Arbitrage is the interest earned on the investment of the bond proceeds above the interest paid on the debt. If arbitrage occurs, the City will pay the amount of the arbitrage to the Federal Government as required by Internal Revenue Service Regulation 1.148-11. The City will maintain a system of recordkeeping and reporting to meet the arbitrage rebate compliance requirement of the IRS regulation. For each bond issue not used within the established time frame, the recordkeeping shall include tracking investment earnings on bond proceeds, calculating rebate payments, and remitting any rebatable earnings to the federal government in a timely manner in order to preserve the tax-exempt status of the outstanding debt.

Covenant Compliance

The City will comply with all covenants stated in the bond ordinance, contract, etc.

Ongoing Disclosure

The Debt Manager shall be responsible for providing annual disclosure information to established national information repositories and for maintaining compliance with disclosure statements as required by state and national regulatory bodies. Securities & Exchange Commission disclosure shall occur by the date designated in the bond ordinance, which is currently July 31 of each year. Disclosure shall take the form of the Comprehensive Annual Financial Report (CAFR) unless information is required by a particular bond issue that is not reasonably contained within the CAFR.

Appendix
City of Bellevue – Investment Policy

Revised: December 1, 2008

Objectives

This policy sets forth criteria for the operation of the investment portfolio. It will be recognized that the primary objective of the Investment Policy is to establish a conservative set of investment criteria that will prudently protect Bellevue's (hereafter referred to as the City) principal sums and enable the City to generate a fair rate of return from its investment activities while assuring adequate liquidity to meet its cash flow needs. All investment activity will be in compliance with RCW 35A.40.050 "Fiscal - Investment of Funds' and any other statutes or regulatory requirements, such as Internal Revenue Codes, which may apply.

Scope

This policy guides the investment of all available City funds except it does not include assets held in escrow in order to defease refunded debt, nor does it include retirement funds managed by others such as the state, the Municipal Employees Benefit Trust, and deferred compensation plan providers.

Responsibility

Authority to manage the investment program is derived from Bellevue City Code Section 3.37.060. This section gives the Finance Director authority to determine the amount of money available in each fund administered by the City for investment purposes, and the authority to invest such moneys in all forms of investments that are authorized by law. This section also authorizes the Director to appoint a subordinate employee(s) to assist in the performance of these duties.

The Finance Director will provide a letter(s) of authorization to individuals or firms on the approved broker/dealer list specifically designating City staff who have the authority to commit the City to investment transactions.

The Finance Director or his designee will establish written investment procedures including a glossary of investment terms for the operation of the investment program, consistent with this investment policy.

Types of Investment and Diversification

The City may invest in any of the securities identified as eligible investments as defined by RCW 35A.40.050 "Fiscal - Investment of Funds". For purposes of this policy, the major eligible investment categories have been further restricted as follows:

1. **United States Treasury Debt Obligations**

   - Maximum % of Portfolio 100%
   - Maximum Maturity 5.5 years
   - Securities will be held by the City's third party safekeeping agent in the City's name.

2. United States Agency Coupon Securities

- Maximum % of Portfolio 100%
- Maximum Maturity 5 years
- Maximum % of Portfolio Per Issuer 25%
- Defined by RCW 43.84.080 to include obligations of any United States government-sponsored corporation whose obligations are eligible as collateral for advances to member banks as determined by the Board of Governors of the Federal Reserve System.
- Does not allow investment in variable rate securities (those where the interest rate changes based on an index or reference rate) or securities whose value depends on the value of an underlying asset (such as a pool of mortgages or small business loans).
- Securities will be held by the City's third party safekeeping agent in the City's name.

3. United States Agency Discount Notes

- Maximum % of Portfolio 100%
- Maximum Maturity 1 year
- Maximum % of Portfolio Per Issuer 25%
- Defined by RCW 43.84.080 to include obligations of any United States government-sponsored corporation whose obligations are eligible as collateral for advances to member banks as determined by the Board of Governors of the Federal Reserve System.
- Does not allow investment in variable rate securities (those where the interest rate changes based on an index or reference rate) or securities whose value depends on the value of an underlying asset (such as a pool of mortgages or small business loans). Variable rate securities held prior to the adoption of this policy may be held to maturity.
- Securities will be held by the City's third party safekeeping agent in the City's name.

4. Repurchase Agreements secured by United States Government and United States Agency Debt Obligations

- Maximum % of Portfolio 50%
- Maximum Maturity 30 days
- Collateral Maximum % of Portfolio per Issuer. Agency amounts should stay within the 25% limit.
- A Master Repurchase Agreement must be executed with the broker/dealer prior to initiating a repurchase agreement investment with the broker/dealer.

- Collateral equal to 102% of the repurchase agreement must be delivered to the City's third party safekeeping agent.

- Only US Treasury and US Agency securities may be accepted as collateral.

- Securities will be held by the City's third party safekeeping agent in the City's name.

5. Certificates of Deposit, and other Interest Bearing Bank Deposits with instate financial institutions recognized by the State of Washington Public Deposit Protection Commission (PDPC) as qualified to hold public deposits.

- Maximum % of Portfolio 50%

- Maximum Maturity 1 year

- Maximum % of Portfolio Per Issuer 10%

6. Bankers Acceptances purchased on the secondary market

- Maximum % of the Portfolio 50%

- Maximum Maturity 6 months

- Maximum % of Portfolio Per Issuer 10%

- Securities will be held by the City's third party safekeeping agent in the City's name.

7. Commercial Paper Issued by United States Corporations in compliance with the provisions adopted by the State Investment Board.

- Required Investment Rating A1, P-1

- Maximum % of Portfolio 15%

- Maximum Maturity 90 days

- Maximum Percent of Portfolio Per Issuer 5%

- Securities will be held by the City's third party safekeeping agent in the City's name.

8. State of Washington Local Governmental Investment Pool

- Maximum % of Portfolio 100%

- A copy of the pool's investment policy must be obtained and reviewed.

The portfolio and issuer limits listed above shall be complied with at the time of a security purchase. However, no sale of securities shall be required to meet revised limits due to a decrease in the total size of the portfolio.

Weighted Average Duration and Liquidity

The total portfolio (including short-term money market and cash accounts) will be managed such that the weighted average modified duration does not exceed 2.5 years.

The portfolio should be laddered with staggered maturities to assure that: 1) adequate resources are available to meet cash flow requirements without forced liquidation of investments, and 2) price volatility and reinvestment risks are minimized.

Prudence

“Investments shall be made with the same judgement and care which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering probable safety of their principal as well as probable income to be derived.”

The standard of prudence to be used by employees authorized to commit the City to investment transactions shall be the "prudent person" standard. Employees meeting the prudent person standard shall be relieved of personal responsibility for an individual security's subsequent performance, provided appropriate action is taken to control adverse developments.

Performance

The portfolio shall be managed to obtain a fair rate of return, keeping in mind the primary objectives of protecting the City’s capital and assuring adequate liquidity to meet cash flow needs.

For purposes of this policy, “fair rate of return” will be a band between the average yield of the ninety-day Treasury bill and the 2-year Treasury note for the period of time being evaluated. The goal is for the portfolio to generally perform within or above the band.

Ethics and Conflicts of Interest

Employees involved in the investment process shall refrain from personal business activity that could conflict with proper execution of the investment program, or which could impair their ability to make impartial investment decisions. These employees shall disclose to the City Manager and Finance Director any material financial interests in financial institutions that conduct business within this jurisdiction, and they shall further disclose any large personal financial/investment positions that could be related to performance of the City’s portfolio, particularly with regard to the time of purchases and sales. Employees shall subordinate their personal investment transactions to those of the City.

Authorized Financial Dealers and Institutions

The Finance Director will approve financial institutions to be eligible to conduct investment business with the City. A current list of approved brokerage firms will be maintained by the Finance Director or his/her designee. This list may include primary dealers (government securities reporting to the Market Reports Division of the Federal Reserve Bank of New York), regional dealers that qualify under Securities and Exchange Commission (SEC) Rule 15c3-1 (uniform net capitalization), and national banks.

To become authorized to provide investment services to the City, each institution must provide an annual letter to the City from the individual providing the service certifying that he or she has read the City’s investment policy and assures that all transactions with the City will fall within the policy boundaries. This letter shall also certify that the firm and broker assigned to this account have the required credentials and licenses with the NASD, SEC or appropriate agencies and that they must immediately notify the City if at any time the firm or broker is not in compliance with SEC rule 15C3-1, the firms capital position falls short of the Capital Adequacy or uniform Net Cap Rule standard, or a material control weakness is identified by the firm's independent auditor. In addition, each institution must also provide the City with a copy of their annual audited financial report or Consolidated Report of Condition (call report).

In the case of certificates of deposit, those financial institutions recognized by the PDPC (Public Deposit Protection Commission) are qualified to hold public deposits

Broker Allocation

Investment transactions will be based upon the financial institution or brokerage firm that offers the best price to the City on each particular transaction. The City will make its best effort to obtain three bids for purchase or sale of government agency securities other than new issues. If circumstances dictate fewer than three bids due to the volatility of the market place, lack of bids, etc., the Finance Director or the Accounting, Tax and Treasury Manager has the authority to waive this. Generally all brokers will not have the same inventory of agency securities available to sell, but should be able to offer comparable alternatives. Treasury security transactions will be accomplished at or within the bid or asked price spread indicated on the live Bloomberg screens or similar reliable real time investment information service. Issues not actively traded on such services will be subject to the three bid requirement. Bankers Acceptances and Certificates of Deposit (other than a compensating balance CD) also require the acquisition of at least three bids, and acceptance of the most attractive rate from among comparable alternatives. Where two or more institutions or brokers have offered the same low bid, allocation will go to the lowest bidder that has provided the best service to the City.

Safekeeping and Custody

All security transactions, including collateral for repurchase agreements, entered into by the City shall be conducted on a delivery versus payment (DVP) basis. Securities will be held by a third party custodian designated by the Finance Director or his designee as evidenced by safekeeping receipts in the City's name.

Investment Committee

An Investment Committee will be established by the City Manager, and will include at least three members from the business community knowledgeable in the area of institutional investment management. This Committee will periodically meet to review the investment program and make recommendations to the Finance Director with regard to proposed changes to the investment policy.

Internal Control

Investment procedures will be defined, documented, and implemented by the Finance Director or his/her designee to assure adequate internal control of the investment process.

The Finance Director or his/her designee will establish a process of periodic independent review by an external auditor or competent staff not assigned to the investment function.

The Washington State Auditor's Office will customarily conduct independent annual reviews of the investment function.

Reporting

Investment reports will be prepared and provided on a monthly basis to meet the needs of the users including sufficient detail to provide an accurate and meaningful representation of the portfolio, showing its performance in relation to established benchmarks and its compliance with the investment policy.

Policy Adoption

The Investment Policy is adopted by the City Council as part of the biennial budget. The Finance Director has authority to approve changes to this Investment Policy.

Waterworks Utility

Financial Policies

December, 2008

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INTRODUCTION

The Waterworks Utility is the financial consolidation of the Sewer, Storm & Surface Water and Water Utilities of the City of Bellevue for debt rating and coverage purposes as established in Ordinance No.'s 2169, 2845, 3158 and 4568. It pledges the strengths and revenues of the three separate Utilities for the common financial good while keeping each Utility financially separate for budgeting, rate-setting, revenues, expenditures, debt and accounting.

These "Financial Policies" apply uniformly to the Sewer, Storm & Surface Water and Water Utilities with few, unique exceptions which are identified separately. This update reflects changes consistent with current long-range financial planning, particularly with regard to renewal and replacement funding, the use of debt and rate policies. They supersede the Financial Policies, which were adopted under Resolution No. 5967 in 1995.

These policies do not stand-alone. They must be taken in context with the other major City and Utilities documents and processes. For instance, each Utility has its own Comprehensive Plan, which documents its unique objectives, planning, operations and capital needs. These Comprehensive Plans have historically had a 20-year planning horizon. Future Comprehensive Plans will need to evaluate long term renewal and replacement of aging facilities, much of which were constructed in the 1950's and 1960's during periods of high growth rates and are approaching the end of their useful life. Life cycle costs should be considered in planning the future capital facilities and infrastructure needs.

The City has a seven-year City-wide Capital Investment Program (CIP) Plan which is updated with each biennial budget cycle. All major City capital projects are included. Generally, they are described as over $25,000; involving new physical construction, reconstruction or replacement; and involving City funding. The CIP identifies the level and source of funding for each project. The CIP includes specific sections for each Utility which identify near-term capital projects consistent with each current Utility Comprehensive Plan and several projects of general scope including renewal and rehabilitation, capital upgrades, response to growth and other system needs.

I. GENERAL POLICIES

A. *Fiscal Stewardship*

The Waterworks Utility funds and resources shall be managed in a professional manner in accordance with applicable laws, standards, City financial practices and these Financial Policies.

Discussion:

It is incumbent on Utility management to provide professional fiscal management of utility funds and resources. This requires thorough knowledge of and conformance with the City financial management processes and systems as well as applicable laws and standards. It also requires on-going monitoring of revenues and expenses in order to make decisions and report to City officials, as needed, regarding the status of Utilities financing. Independent financial review, analysis and recommendations should be undertaken as needed.

B. *Self-sufficient Funding*

Each Utility shall remain a self-supporting enterprise fund.

Discussion:

The revenues to each Utility primarily come from customer charges dependent on established rates. State law requires that utility funds be used only for utility purposes. Since each Utility has somewhat differing service areas, it is essential for ratepayer equity that they be kept financially separate and accountable. The City's General Fund can legally contribute to the Utility funds but does not. The City budgeting process includes a balanced and controlled biennial Utility budget. This requires careful preparation of expense and revenue projections that will be reviewed by City management, the Environmental Services Commission, the general public and the City Council prior to approval of any change in Utility rates.

C. *Comprehensive Planning Policies*

Comprehensive Plans for the Water and Sewer Utilities shall be completed or updated every six years, using a 20-year planning horizon or greater and considering life cycle costs to identify funding needs. Comprehensive Storm & Surface Water System Plans and individual Storm & Surface Water Basin Plans will be completed and updated as required using similar criteria for planning infrastructure needs.

Substantial portions of the City utility systems were constructed in the 1950's and 1960's. These systems are approaching the end of their useful life as illustrated on the following Exhibit 1 - Watermain Replacement Spending and Exhibit 2 - Sewermain Replacement Spending. The storm & surface water infrastructure is of similar age but has not been graphed. It most likely has a relatively shorter expected life span. The object is to determine and follow a survivor curve replacement schedule rather than the replacement schedule based on age alone. Assumptions for survivor curves and useful lives are revisited periodically. These were assessed in 2004 and updated for the most recent engineering and financial findings. Significant changes include the adjustment of replacement costs to current price levels, categorization of pipe assets based on expected useful lives, and replacement of major non-pipe Utility assets such as pump stations and reservoirs. The Exhibits illustrate an example survival replacement curve based on preliminary estimates only. As real needs are determined, they will replace the estimated curves. Renewal and/or replacement will require substantial reinvestment in the future and have major rate impacts if large portions of the systems have to be replaced in relatively short periods of time. The actual useful life of underground utilities is difficult to determine and the best available data is needed to be able to plan for the orderly and timely renewal and/or replacement. For this purpose, the comprehensive plans need to have at least 20 year planning horizons and must address the aging of the Utility systems.

Long term comprehensive planning for the Utility systems is required in order to assure that the future financial needs are anticipated and equitable funding plans can be developed. In order to keep funding plans current, comprehensive plans need to be updated approximately every six years (as required by State law for water and sewer comprehensive plans). These Financial Policies will then be reviewed and updated as needed.

Exhibit 1
Watermain Replacement Spending
(Based on 75-Year Expected Asset Life)

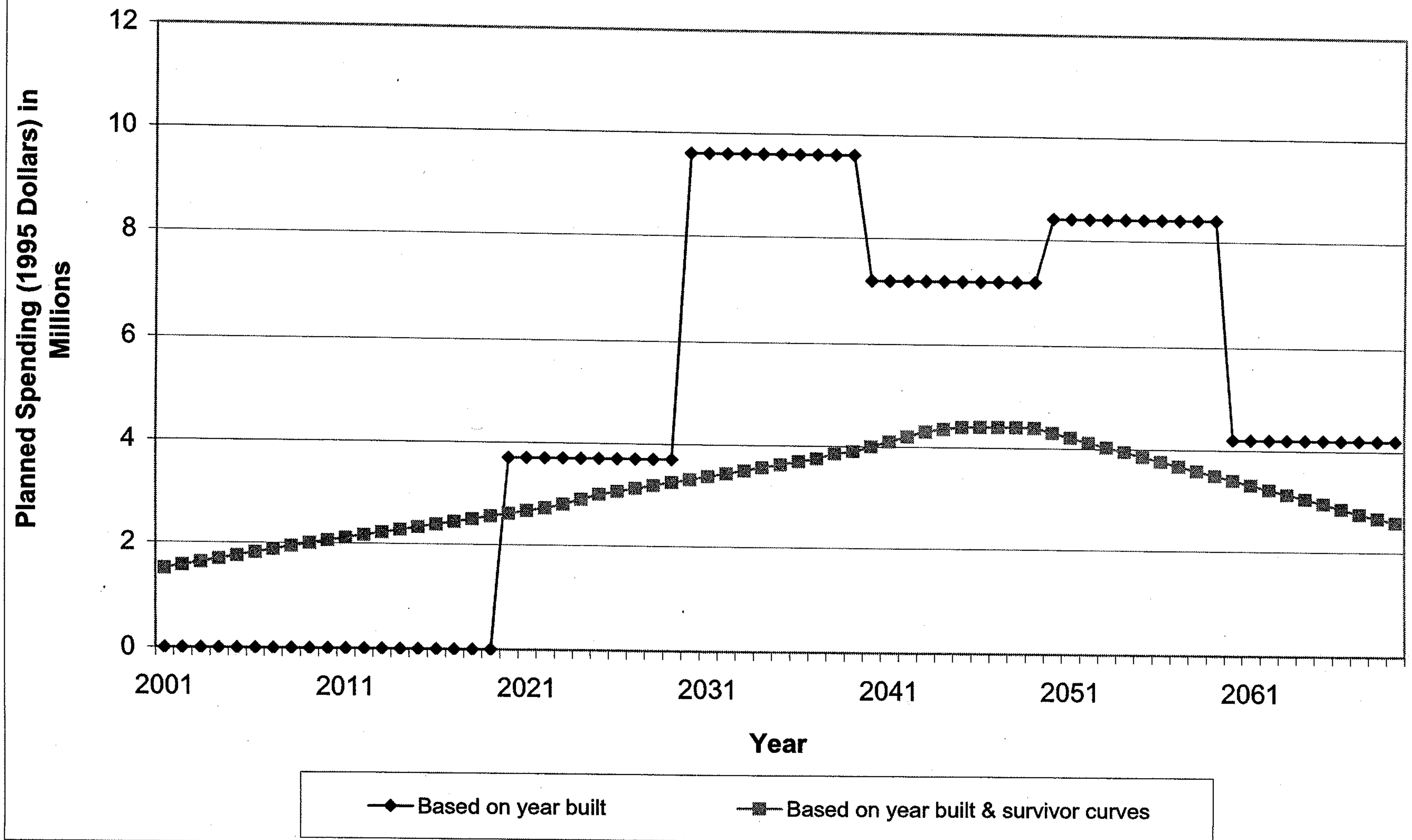
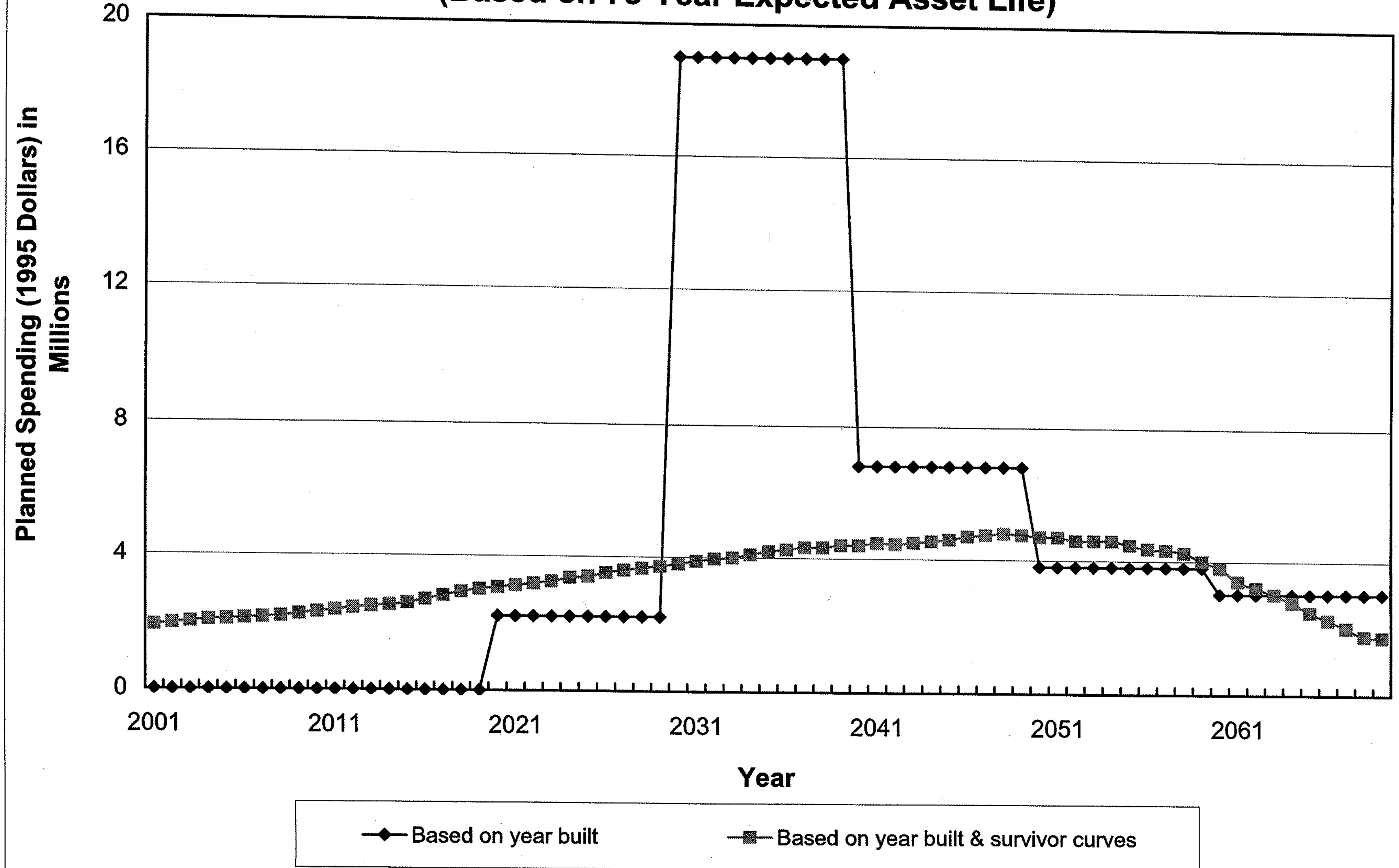


Exhibit 2
Sewermain Replacement Spending
(Based on 75-Year Expected Asset Life)



II. CAPITAL INVESTMENT PROGRAM POLICIES

A. *General Scope*

The Utilities Capital Investment Program (CIP) will provide sufficient funds from a variety of sources for implementation of both short- and long-term capital projects identified in each Comprehensive Plan and the City-wide Capital Investment Program as approved by the City Council.

Financial planning for long-term capital investment shall be based on principles that result in smooth rate transitions, maintain high credit ratings, provide for financial flexibility and achieve inter-generational equity.

Discussion:

These near-term capital projects are usually identified in each Comprehensive Plan which also provides the criteria and prioritization for determining which projects will be constructed. Several projects of general scope are also included to allow for on-going projects that are less specifically identified due to their more inclusive nature.

In addition to these near-term projects, funding should be provided for long-term capital reinvestment in the system to help minimize large rate impacts as the systems near the end of their useful life and have to be renewed or replaced. Ordinance No. 4783 established a Capital Facilities Renewal & Replacement (R&R) Account for each Utility to provide a funding source for this purpose. Other policies describe how this Account is to be funded and expended.

A reinvestment policy by itself, without some form of planned and needed expenditure, could lead to excessive or unneeded expenditures, or conversely unnecessary accumulations of cash reserves. The reinvestment policy needs to tie the planned expenditures over time with a solid, long-term financial plan that is consistent with these policies.

The actual needs for the renewal/replacement expenditures should relate to the on-going need to minimize system maintenance and operating costs consistent with providing safe and reliable service, the age and condition of the system components, and any regulatory or technical obsolescence. In essence, plant should be replaced when it is needed and before it fails. As such, the goal setting measure of how much is an appropriate annual or periodic reinvestment in renewals and replacement of existing assets should be compatible with the age and condition of the infrastructure and its particular circumstances.

WP0459C-ORD
06/27/95

ORIGINAL

CITY OF BELLEVUE, WASHINGTON

ORDINANCE NO. 4783

AN ORDINANCE creating utility capital replacement accounts for the Water, Sewer and Storm and Surface Water Utilities within the Utility Capital Investment Fund for the purpose of accumulating funding for long term replacement of utility facilities.

WHEREAS, the Utilities 1995 Cost Containment Study prepared by Financial Consulting Solutions Group, Inc. (FCSG) recommends that current utility rates recover from the ratepayers amounts which at a minimum are equal to the depreciated value of the original cost of utility facilities and at a maximum are amounts equal to the replacement value of utility infrastructure; and

WHEREAS, FCSG recommends that utility funds not needed for current expenditure be placed in a replacement account to be used in the future in combination with current revenues and/or debt financing to replace capital facilities nearing the end of their useful life; and

WHEREAS, implementation of FCSG's recommendations would promote intergenerational rate equity and provide more stable rates to customers over the long term; and

WHEREAS, the Council desires to make an initial, 1995 deposit of $600,000 in savings from the Water Fund into the new capital replacement account for the Water Utility; now, therefore,

THE CITY COUNCIL OF THE CITY OF BELLEVUE, WASHINGTON, DOES ORDAIN AS FOLLOWS:

Section 1. The purpose of this ordinance is to establish capital facilities replacement accounts within the Utility Capital Investment Fund in order to assure a future funding source for replacement of utility facilities nearing the end of their useful life. The City Council will determine each year, as part of the adoption of the utilities operating budgets, how much, if any, utility revenue during the upcoming year shall be designated for transfer to a replacement account. The City Council may also authorize the receipt of other funds directly into these capital facility replacement accounts. Once deposited the funds will accumulate with interest. The decision regarding when and how to utilize such accumulated funds for the replacement of utility facilities will be made as part of the Utility Comprehensive Plans and Utility Capital Investment Program approval process.

WP0459C-ORD
06/27/95

ORIGINAL

Section 2. The following new accounts are established in the Utility Capital Investment Fund:

Capital Facilities Replacement Account - Sewer
Capital Facilities Replacement Account - Water
Capital Facilities Replacement Account - Storm and Surface Water

Section 3. There is hereby authorized the 1995 transfer from the Water Utility Operating Fund to the Capital Facilities Replacement Account - Water the amount of $600,000.

Section 4. This ordinance shall take effect and be in force five days after its passage and legal publication.

PASSED by the City Council this 24th day of July, 1995, and signed in authentication of its passage this 24th day of July, 1995.

(SEAL)

Donald S. Davidson, DDS, Mayor

Approved as to form:

Richard L. Andrews, City Attorney

Richard L. Kirkby, Assistant City Attorney

Attest:

Myrna L. Basich

Myrna L. Basich, City Clerk

Published July 28, 1995

B. *Funding Levels*

Funding for capital investments shall be sustained at a level sufficient to meet the projected 20 year (or longer) capital program costs.

Funding from rate revenues shall fund current construction and engineering costs, contributions to the Capital Facilities Renewal and Replacement (R&R) Account, and debt service, if any.

Inter-generational equity will be assured by making contributions to and withdrawals from the R&R Account in a manner which produces smooth rate transitions over a 20 year (or longer) planning period.

On an annual basis, funding should not fall below the current depreciation of assets expressed in terms of historical costs less any debt principal payments.

Discussion:

These policies are based on the experience gained by developing a long-term Capital Replacement Funding Plan. In absence of such a plan, the range of capital investment funding should fall between the following minimum and maximum levels:

The minimum annual rate funding level would be based on the current depreciation of assets expressed in terms of historical costs, less any debt principal payments.

The maximum annual rate funding level would be based on the current depreciation of assets expressed in terms of today's replacement costs, less any debt principal payments.

The minimum level based on historical cost depreciation approximates the depletion of asset value. Some of the cost may already be in the rates in the form of debt service. Depreciation less debt principal repayment provides a minimum estimate of the cost of assets used. Any funding level below this amount defers costs to future rate payers and erodes the Utility's equity position, which puts the Utility's financial strength and viability at risk.

The maximum level based on replacement cost depreciation represents full compensation to the utility, in terms of today's value, for the depletion of assets. The replacement cost depreciation, again less debt principal repayment, provides a ceiling to an equitable definition of "cost of service".

The purpose of long-term capital reinvestment planning is to establish a target funding level which is based on need and to assure that funds will be available for projected capital costs in an equitable manner. The best projection of the needed capital reinvestment is based on a "survival curve" approach, approximating the timing and cost of replacing the entire system. This defines the projected financial needs and allows determination of equitable rate levels, funding levels for current capital construction and engineering, contributions to and withdrawals from the R&R Account, and the use of debt, if any. It also provides a means to project depreciation on both historical cost and replacement cost basis which are used to calculate minimum and maximum funding levels, debt to fixed asset ratios, and debt coverage levels, if debt is used. These later measures can be used to assure that the financial plan meets conventional standards.

C. *Use of Debt*

The Utilities should fund capital investment from rates and other revenue sources and should not plan to use debt except to provide rate stability in the event of significantly changed circumstances, such as disasters or external mandates.

Resolution No. 5759 states that the City Council will establish utility rates/charges and appropriations in a manner intended to achieve a debt service coverage ratio (adjusted by including City taxes as an expense item) of approximately 2.00". Please note that the Moody's Investor Services rating should be Aa2 (not Aa as stated in Resolution No. 5759).

Discussion:

The Utilities are in a strong financial position and have been funding the Utility Capital Investment Program from current revenues for a number of years. The current 20 year and 75 year capital funding plans conclude that the entire long-term renewal and replacement program can be funded without the use of debt if rates are planned and implemented uniformly over a sufficient period. Customers will pay less over the long-term if debt is avoided, unless it becomes truly necessary due to unforeseen circumstances such as a disaster or due to changes in external mandates. Having long-term rate stability also assures inter-generational equity without the use of debt because the rate pattern is similar to that achieved by debt service.

Use of low interest rate debt such as the Public Works Trust Fund loans, by offering repayment terms below market rates, investment earnings or even inflation, should be viewed as a form of grant funding. When available or approved, such sources should be preferred over other forms of rate or debt funding, including use of available resources. Since such reserves would generate more interest earnings than the cost of the loan, the City's customers would be assured to benefit from incurring such debt.

WP0254C-RES
03/03/94

CITY OF BELLEVUE, WASHINGTON

RESOLUTION NO. 5759

A RESOLUTION relating to financial policy for the Waterworks Utility and adopting a debt service coverage policy for the Waterworks Utility

WHEREAS, the City of Bellevue is consistently recognized for its prudent financial management; and

WHEREAS, the City of Bellevue's Water and Sewer Bonds are currently rated Aa by Moody's Investor Services and AA- by Standard & Poor's Corporation, which are considered to be excellent ratings; and

WHEREAS, these excellent ratings result in lower interest costs on the City's Water and Sewer bonds, which, in turn, may result in lower water, sewer and storm drainage costs; and

WHEREAS, it is important to the rating agencies and to the financial community that the City articulate its financial goals for its Waterworks Utility; and

WHEREAS, a desirable debt service coverage ratio, the ratio of revenues available for debt service to the annual debt service requirement, positively affects the Utility's bond ratings; and

WHEREAS, the City Council deems it in the City's best interest to establish a debt service coverage policy target for the purpose of protecting its current bond rating and to allow for the development of financial projections, NOW, THEREFORE,

THE CITY COUNCIL OF THE CITY OF BELLEVUE, WASHINGTON, DOES RESOLVE AS FOLLOWS:

Section 1. The City Council hereby adopts the following debt service coverage policy for the bonds issued by the City's Waterworks Utility.

The City Council will establish utility rates/charges and appropriations in a manner intended to achieve a debt service coverage ratio (adjusted by including City taxes as an expense item) of approximately 2.00. The City Council authorizes the Waterworks Utility to utilize this policy in development of pro

WP0254C-RES
03/03/94

forma projections which will be disseminated to the bond rating agencies and to the financial community generally.

PASSED by the City Council this 7th day of March, 1994, and signed in authentication of its passage this 8th day of March, 1994.

(SEAL)

Donald S. Davidson, DDS, Mayor

Attest:

Myrna L. Basich

Myrna L. Basich, City Clerk

D. *Capital Facilities Renewal & Replacement (R&R) Account*

1. Sources of Funds

Revenues to the R&R Account may include planned and one-time transfers from the operating funds, transfers from the CIP Funds above current capital needs, unplanned revenues from other sources, Capital Recovery Charges, Direct Facility Connection Charges and interest earned on the R&R Account.

2. Use of Funds

Funds from the R&R Account shall be used for system renewal and replacement as identified in the CIP. Because these funds are invested, they may be loaned for other purposes provided repayment is made consistent with the need for these funds and at appropriate interest rates. Under favorable conditions, these funds may be loaned to call or decrease outstanding debt.

3. Accumulation of Funds

The R&R Account will accumulate high levels of funds in advance of major expenses. These funds will provide rate stability over the long-term when used for this purpose and *should not be used for rate relief.*

Discussion:

Revenues from Capital Recovery Charges, Direct Facility Connection Charges and interest earned on the R&R Account are deposited directly into the R&R Account. Other transfers are dependent on the long-term financial forecast, current revenues and expenses, and CIP cash flows. The long-term financial forecast projects a certain funding level for the transfers to the CIP and the R&R Accounts. Rates should be established consistent with this long-term financial plan and will generate the funds for such transfers. Setting rates at lower levels may result in current rate payers contributing less than their fair share for long-term equity.

R&R Account funds must only be used for the purpose intended; that is, the long-term renewal and replacement of the utility systems. They may be used for other purposes if it is treated as a loan, which is repaid with appropriate interest in time for actual R&R needs for those funds.

These accounts are each projected to accumulate tens of millions of dollars in order to meet the anticipated costs for the actual projects at the time of construction. It is the intent of these policies that these reserve funds will not be used for other purposes or to provide rate relief because that would defeat the long-term equity and could lead to the need for the use of debt to fund the actual needs when they occur.

III. SYSTEM EXPANSION AND CONNECTION POLICIES

A. *Responsibilities*

Those seeking or who are required to have Utility service are responsible for extending and/or upgrading the existing Utility systems prior to connecting.

Discussion:

It is the responsibility of the party seeking Utility service to make and pay for any extensions and/or upgrades to the Utility systems that are needed to provide service to their property. The extensions or upgrades must be constructed to City standards and requirements. This is typically accomplished through a Developer Extension Agreement with the City wherein requirements are documented, standards are established, plans are reviewed and construction is inspected and approved. Service will not be provided until these requirements are met.

The philosophical underpinning of this policy is that "growth pays for growth". Historically, developers constructed much of the City's utility infrastructure. If the infrastructure eventually would benefit more than the initial developer, the Utility signed a Latecomer Agreement to reimburse the original financier from charges to those connecting and receiving benefit at a later point in time. When the cost to extend and/or upgrade the system to accommodate development or redevelopment is beyond the means of a single developer, the Utility has employed a variety of methods to assist in the construction of the necessary infrastructure. Local Improvement Districts (LID's) historically have been used to provide financing for infrastructure for new development, with the debt paid over time by the property owners. Most of the older Utilities infrastructure was financed by this method.

The Utility has in some cases up-fronted the infrastructure construction for new development or redevelopment from rate revenues which are later reimbursed with interest, in whole or in part, by subsequent development through direct facility connection charges (see Cost Recovery Policy). Examples are the water and sewer infrastructure for Cougar Mountain housing development and Central Business District (CBD) redevelopment. Another example is the use of the Utility's debt capacity to provide for development infrastructure whereby the City sells bonds at lower interest rates than can private development, constructs the infrastructure, and collects a rate surcharge from the benefited area to pay off the bonds. Examples of this type of financing include the Lakemont development drainage infrastructure and the Meydenbauer Drainage Pipeline in the CBD.

B. *Cost Recovery*

The Utility shall establish fees and charges to recover Utility costs related to: (1) development services, and (2) capital facilities that provide services to the property.

The Utility may enter into Latecomer Agreements with developers for recovery of their costs for capital improvements, which benefit other properties in accordance with State law. The Utility will add an administrative charge for this service.

Discussion:

In general, Utility costs related to development services are recovered through a variety of fees and charges. There are fixed rates for some routine services based on historical costs and inflation. There are fixed plus direct cost charges and applicable overhead for developer extension projects to cover the lengthy but variable level of development review and inspection typically required to implement these projects. These rates are reviewed periodically to ensure that the cost recovery is appropriate.

When the means of providing the infrastructure to serve a new development or redevelopment are beyond the means of a single developer, the Utility may elect to assist the developer by using: LID's, Latecomer Agreements, special debt (to be paid by special rate surcharges), up-fronting the costs from Utility rate revenues (to be reimbursed by future developers with interest through direct facility connection charges), or other lawful means. It is the intent of this policy to fully recover these costs, including interest, so as to reimburse the general rate payer.

Latecomer charges allow cost recovery for developers and private parties, for facilities constructed at their own expense and transferred to the Utility for general operation. Properties subsequently connecting to those systems will pay a connection charge that will be forwarded to the original individual or developer or the current owner depending on the terms of the Latecomer Agreement. The Utility collects an overhead fee on this charge for processing the agreements and repayments.

C. *Use of Revenues*

All capital-related revenues such as Capital Recovery Charges and Direct Facility Connection Charges should be deposited in the Capital Facilities Renewal & Replacement Accounts.

Discussion:

Capital Recovery Charges are collected from all newly developed properties in the form of monthly rate surcharges over a ten year period to reimburse the Utility for historical costs that have been incurred by the general rate base to provide the necessary facilities throughout the service area. These Capital Recovery Charges should be deposited in the Capital Facilities Renewal & Replacement Accounts.

Direct Facility Connection Charges are collected for capital improvements funded by the City as described above in Section 2 under Cost Recovery. The total cost of the improvement is allocated to the area of benefit and distributed on an equitable basis such as per residential equivalent unit. Interest is collected in accordance with State law.

D. *Affordable Housing Consideration*

The Utility shall base connection charges on the number of units allowed under the basic zoning. Only incremental cost increases will be charged to affordable housing units.

Discussion:

The City has adopted bonus density incentives for developers to build units specifically for affordable housing. Under historical practices these additional units would have been charged the same connection fee as all other units, resulting in a lower cost per unit for all units. While this is fair, it does not create any incentive to develop affordable housing. By charging only the incremental increased facility cost to the affordable housing units, all developers who include an affordable housing component will experience no increase in cost because of the affordable bonus density units. The cost per unit for affordable units is thereby reduced. The cost per unit for all other units, based on underlying land use zoning, remains unchanged.

IV. RATE POLICIES

A. *Rate Levels*

Rates shall be set at a level sufficient to cover current and future expenses and maintain reserves consistent with these policies and long-term financial forecasts.

Changes in rate levels should be gradual and uniform to the extent that costs (including CIP and R&R transfers) can be forecast.

Cost increases or decreases for wholesale services shall be passed directly through to Bellevue customers.

Local and/or national inflation indices such as the Consumer Price Index (CPI) shall be used as a basis for evaluating rate increases.

At the end of the budget cycle, fund balances that are greater than anticipated and other one-time revenues should be transferred to the R&R account until it is shown that projected R&R account funds will be adequate to meet long-term needs, and only then used for rate relief.

Discussion:

A variety of factors including rate stability, revenue stability, the encouragement of practices consistent with Utility objectives and these Waterworks Utility Financial Policies are considered in developing Utility rates. The general goal is to set rates as low as possible to accomplish the on-going operations, maintenance, repair, long-term renewal and replacement, capital improvements, debt obligations, reserves and the general business of the Utility.

Long-range financial forecast models have been developed for each of the Utilities, which include estimated operating, capital and renewal/replacement costs for a 75 year period in order to plan for funding long-term costs. Operating costs are assumed to remain at the same level of service and don't include impacts of potential changes due to internal, regional or federal requirements. Capital costs, including renewal/replacement, are projected based on existing CIP costs and approximated survival curves for the infrastructure. The models are used to project rate levels that will support the long-term costs and to spread rate increases uniformly over the period. This is consistent with the above policy that changes in rate levels should be gradual and uniform. Uniform rate increases help ensure that each generation of customers bears their fair share of costs for the long-term use and renewal/replacement of the systems.

The biennial budget process provides an opportunity to add to or cut current service levels and programs. The final budget, with the total authorized expenses including transfers to the CIP Fund and the R&R Account, establishes the amount of revenue required to balance the expenses. A balanced budget is required. The budgeted customer service revenue determines the level of new rates. For example, if the current rates do not provide sufficient revenues to meet the projected expenses, the costs have to be reduced or the rates are increased to make up the shortfall.

For purposes of these policies, wholesale costs are defined as costs to the Utilities from other regional agencies such as the Seattle Public Utilities and/or the Cascade Water Alliance (CWA), and King County Department of Natural Resources for sewer treatment and any agreed upon Storm & Surface Water programs. Costs which are directly based on the Utilities' revenues or budgets such as taxes, franchise fees and reserve levels that increase proportionally to the wholesale increases are included within the definition of wholesale costs.

B. *Debt Coverage Requirements*

Utility rates shall be maintained at a level necessary to meet minimum debt coverage levels established in the bond covenants and to comply with Resolution No. 5759 which establishes a target coverage ratio of 2.00.

Discussion:

Existing revenue bond covenants legally require the City's combined Waterworks Utility, which includes the Water, Sewer and Storm & Surface Water Utilities, to maintain a minimum debt coverage ratio of 1.25 on a combined basis. In 1994, Council also adopted Resolution No. 5759 that established a policy, which mandates the Utilities to maintain a target combined debt coverage ratio of approximately 2.00, to further protect the City's historically favorable Utility revenue bond ratings. Water and Sewer Utility resources are counted in the official coverage calculation though Storm & Surface Water is responsible for the major portion of current outstanding Utility debt. Requiring Storm & Surface Water to separately maintain the minimum 1.25 legal debt coverage level and to move toward the 2.00 level will help ensure that necessary coverage requirements are met, and that customers of the other Utilities will not be unfairly burdened with the cost of meeting this obligation. It also ensures that sufficient coverage is available to the Water and Sewer Utilities if they need to incur debt.

C. *Frequency of Rate Increases*

Utility rates shall be evaluated annually and adjusted as necessary to meet budgeted expenses including wholesale cost increases and to achieve financial policy objectives.

Discussion:

In 1996, the City changed to a biennial budget process and adopted a two-year Utilities budget including separate rates for 1997 and 1998. This practice will continue on a biennial basis. However, Utility rates will be evaluated on an annual basis and adjusted as necessary to ensure that they are effectively managed to achieve current and future financial policy objectives. Annual rate reviews will include preparation of forecasts covering a twenty-year period for Utility revenues, expenditures, reserve balances and analysis of the impact of various budgetary elements (i.e. CIP transfers, R&R Account transfers, debt service costs, debt coverage levels, operating expenses, and reserves) on both current and future rate requirements.

D. *Rate Structure - Sewer*

The Sewer Utility rate structure will be based on a financial analysis considering cost-of-service and other policy objectives, and will provide for equity between customers based on use of the system and services provided.

Discussion:

In 1993, a Sewer Rate Study was performed that resulted in Council approval of a two-step, volume-based rate structure for single-family customers based on winter average metered water volumes instead of the traditional flat rate structure. Flat rate structures were seen as inequitable to low-volume customers who paid the same amount as high volume customers. Rates are based on the level of service used, rather than the availability of service.

The revenue requirements are based on the "average" single-family winter average volume calculated annually from the billing database. The charge for an individual customer is based on their winter average and then charged at that level each bill for the entire year to avoid charging for irrigation use. The customer's winter average is based upon the prior year's three winter bills because the current year's bills include winter months, which would result in the average constantly changing. Customers without prior winter averages to use for a basis are charged at the "average" volume until they establish a "winter-average" or sufficient evidence that their use is significantly different than the "average".

E. *Rate Structure - Storm & Surface Water*

The Storm & Surface Water Utility rate structure will be based on a financial analysis considering cost-of-service and other policy objectives, and will provide adjustments for actions taken under approved City standards to reduce related service impacts.

Discussion:

In the existing Storm & Surface Water rate structure, customer classes are defined by categories of development intensity, i.e., *undeveloped, lightly developed, moderately developed, heavily developed* and *very heavily developed.* Based on theoretical run-off coefficients for each of these categories, higher rates are charged for increasing degrees of development to reflect higher run-off resulting from that development. Under this structure, billings for both residential and non-residential customers are determined by total property area and rates assigned to applicable categories of development intensity. Customers providing on-site detention to mitigate the quantity of run-off from their property receive a credit equal to a reduction of one rate level from their actual development intensity. Property classified as "wetlands" is exempt from Storm & Surface Water service charges.

Large properties, over 35,000 square feet, with significantly different levels of intensity of development may be subdivided for rate purposes in accordance with Ordinance No. 4947. In addition, properties with no more than 35,000 square feet of developed area in the light and moderate intensity categories may, at the option of the owner, defer charges for that portion of the property in excess of 66,000 square feet. The property owner may apply for a credit against the Storm & Surface Water charge when they can demonstrate that the hydrologic response of the property is further mitigated through natural conditions, on-site facilities, or actions of the property owner that reduce the City's costs in providing Storm & Surface Water quantity or quality services.

Future design of a water quality rate component will also use cost-of-service principles to assign defined water quality costs to customer classes, according to their proportionate contribution to Utility service demand. It is anticipated that these rate structure revisions will also provide financial incentives to customers taking approved actions to mitigate related water quality impacts.

F. *Rate Structures - Water*

The water rate structure will be based on a financial analysis considering cost-of service and other policy objectives, and shall support water conservation and wise use of water resources.

Discussion:

The water rate structure consists of fixed monthly charges based on the size of the customer's water meter and volume charges, which vary according to customer class and the actual amount of water that the customer uses. There are three different meter rate classifications: domestic, irrigation and fire standby. The different charges are based on a cost-of-service study.

State law and the wholesale water supply contract require the Utility to encourage water conservation and wise use of water resources. Seattle first established a seasonal water volume rate structure for this purpose in 1989 with higher rates in the summer than in the winter. In 1990, based on a water rate study and the desire to provide a conservation-pricing signal to our customers, the City adopted an increasing block rate structure for local volume rates. The rate structure was revised in 1991 to pass through an increase in wholesale water costs, which also included a higher seasonal water rate for summer periods. The block water rate structure was revised again in 1997, to incorporate new cost-of-service results from a 1996 water rate study.

An increasing block rate structure, charges higher unit rates for successively higher water volumes used by the customer. The current rate structure has four rate steps for single-family and three rate steps for multi-family customers, based on metered water volumes. All irrigation-metered water is charged at a separate, higher rate. Because non-residential classes do not fit well in an increasing block rate approach due to wide variations in their size and typical water use requirements, seasonal rates, with and without irrigation, were established for these customers. This rate structure will be thoroughly reviewed, as more historical information is available on the effect of the increasing block and seasonal rate structure.

In 1997, an additional category of fire protection charges was added for structures and facilities that benefit from the City water system but are not otherwise being charged for water service. For example, a number of homes are on private wells but are near a City-provided fire hydrant and enjoy the additional benefit of fire protection yet didn't pay for the benefit on a water bill. The charge is based on an equivalent meter size that would normally serve the facility. It also applies to facilities that have terminated water service but still stand and require fire protection, such as homes or buildings that are not occupied.

G. *Rate Equity*

The rate structure shall fairly allocate costs between the different customer classes. Funding of the long-term Capital Investment Program also provides for rates that fairly spread costs over current and future customers.

Discussion:

As required under State law, Utility rates will provide equity in the rates charged to different customer classes. In general, rates by customer class are designed to reflect the contribution by a customer group to system-wide service demand, as determined by cost-of-service analysis. The RCW also authorizes utility rates to be designed to accomplish "any other matters, which present a reasonable difference as a ground for distinction". For example, increasing water rates for irrigation and higher levels of use is allowed to encourage the wise use and conservation of a valuable resource. Formal rate studies are periodically conducted to assure ongoing rate equity between customer classes and guide any future rate modifications necessary to support changing Utility program or policy objectives.

Contributions from current rates to the R&R Account also provide equity between generations of rate payers by assuring that each user pays their fair share of capital improvements, including renewal and replacement, over the long-term. (See sections B and D under the Capital Investment Program Policies).

H. *Rate Uniformity*

Rates shall be uniform for all utility customers of the same class and level of service throughout the service area. However, special rates or surcharges may be established for specific areas, which require extraordinary capital investments and/or maintenance costs. Revenues from such special rates or surcharges and expenses from capital investments and/or extraordinary maintenance shall be accounted for in a manner to assure that they are used for the intended purposes.

Discussion:

The City Water and Sewer Utilities originally formed by assuming ownership of three separate operating water districts and two sewer districts. In the assumption agreements, each included a provision that requires the Utility to uniformly charge all customers of the same class throughout the entire service area. The basic rates are set for all customers, inside and outside of the City, except for local utility taxes in Bellevue, and franchise fees in Clyde Hill, Hunts Point, Medina, and Yarrow Point. Unlike the Water and Sewer Utilities, the Storm & Surface Water Utility only serves areas within the City limits.

Under state law, Utilities are required to charge uniform rates to all customers in a given customer class, regardless of property location within the service area. The only exception permitted is for certain low-income customers (see below).

However, when conditions in particular service areas require extraordinary capital improvement or maintenance costs to be incurred, special rates or surcharges may be adopted to recover those costs directly from properties contributing to the specific service demand, instead of assigning that cost burden to the general Utility rate base. This will only apply for costs above and beyond normal operations, maintenance and capital improvements. For example, rate surcharges are being used to recover debt service costs for capital facilities in Lakemont and the CBD. An additional rate surcharge for Lakemont properties is being collected for extraordinary maintenance costs of the storm water treatment facility.

I. *Rate Assistance*

Rate assistance programs shall be provided for specific low-income customers as permitted by State law.

Discussion:

Continual increases in all utility rates have had a significant impact on low-income customers. The City has adopted a rate discount or rebate program for disabled customers and senior citizens over 62 years old and with income below certain levels as permitted under State law and defined in Ordinance No. 4458. It has two levels, one discounting Utility rates by 40 percent and the other level by 75 percent, based on the customer's income level. Customers that indirectly pay for Utility charges through their rent can obtain a rebate for the prior year's Utility charges on the same criteria. The City also rebates 100 percent of the Utility Tax for these customers. The cost of this program is absorbed in the overall Utility expenses and is recovered through the rate base. The General Fund provides for the Utility tax relief.

There are other low-income customers who are less than 62 years old and currently receive no Utility rate relief. However, the City has instituted a separate rebate of Utility taxes for qualified low-income citizens.

V. OPERATING RESERVE POLICIES

A. *Operating Reserve Levels*

The Utilities' biennial budget and rate recommendations shall provide funding for working capital, operating contingency, and plant emergency reserve components on a consolidated basis in accordance with the attached Summary of Recommended Consolidated Reserve Levels table and as subsequently updated.

Discussion:

Utility resources not spent for operations remain in the fund and are referred to as reserves. At the end of each year, these funds are carried forward to the next year's budget and become a revenue source for funding future programs and operations. Under the terms of this policy, the Utility budget is targeted to include a balance of funds for the specific purposes stated above. While included in the total operating budget, these reserves will only be available for use pursuant to these reserve policies. Setting aside these budget resources in the reserve balance will help to ensure continued financial rate stability in future Utility operations and protect Utility customers from service disruptions that might otherwise result from unforeseen economic or emergency events.

The working capital reserve is maintained to accommodate normal cyclical fluctuations within the two month billing cycle and during the budget year. These are higher for Water than for Sewer and Storm & Surface Water due to more variable revenues and expenditures. They are described in terms of a number of days of working capital as a percentage of a full-year's budget.

The operating contingency reserve protects against adverse financial performance or budget performance due to variations in revenues or expenses. Again, the Water Utility is most susceptible to year-to-year variations in water demand. They are described in terms of percentages of budgeted wholesale costs and operations and maintenance (O&M) costs.

The plant emergency contingency reserve provides protection against a system failure at some reasonable level. The Storm & Surface Water Utility requires the largest reserve due to the risk of major flood damage to Utility facilities. Water and Sewer Utilities protect against the cost of a major main break or failure. These do not protect against the loss of facilities that are covered by the City's Self-Insurance to which the Utilities pay annual premiums nor are they sufficient to respond to a major disaster, such as a major earthquake.

The reserves of the three utilities have historically been treated separately. This protects against cross-subsidy, thereby retaining rate equity for each utility, each of which has different customers. However, it results in higher reserve targets, with more funds retained than otherwise may be needed. Sharing risks among utilities can reduce reserves. This does not require that reserves actually be consolidated into a single fund, but simply that individual reserve targets reflect the strength provided by the availability of cross-utility support. Under the "consolidated" scenario, cash shortfalls in one reserve could be funded through inter-utility loans, to be repaid from future rates. The likelihood that a serious shortfall would occur in more than one fund at the same time is slight and the benefits of lower overall reserve levels will benefit rate payers. Also, the rate policies and the debt coverage policy will ensure that there will be a strong financial response to any significant shortfall. The risk is considered a prudent financial policy.

City of Bellevue

Summary of Recommended Consolidated Reserve Levels

	Water		Wastewater		Storm Drainage	
Type of Reserve	Basis	Level	Basis	Level	Basis	Level
Working Capital – Reserves against revenue and expense fluctuations within the 2 month billing cycle and during the budget year.	70 days of budgeted O&M costs (excludes debt service, capital funding).	$5,292,000	30 days of Metro costs and 20 days of City O&M costs (excludes debt service, capital funding).	$2,273,000	29 days of budgeted O&M costs (excludes debt service, capital funding).	$654,000
Operating Contingency – Reserves against annual budget shortfalls due to poor financial performance.	7.5% of water purchase costs and 11% of other water O&M costs.	$2,421,000	2% of Metro costs and 5% of other wastewater O&M costs.	$815,000	2.5% of O&M costs.	$206,000
Plant Emergency Contingency – Reserves against failure of a major facility or piece of equipment.	Cost for repair of water main break.	$100,000	Cost of repair for wastewater main break.	$100,000	$500,000 based on potential net cost of flood damage.	$500,000
Less: Allowance for duplicating or offsetting reserves	None.	$0	Working Capital and Operating Contingency include offsetting reserves equal to 2% of all O&M.	$(583,000)	None.	$0
Less: Allowance for consolidating reserves	2.5% of City O&M for interfund charges between utilities.	$(330,000)	1% City O&M for interfund charges between utilities.	$(78,000)	1% of City O&M for interfund charges between utilities.	$(82,000)
	Share of reduced plant emergency reserve.	$(15,000)	Share of reduced plant emergency reserve.	$(15,000)	Share of reduced plant emergency reserve.	$(70,000)
	Lesser of min. working capital or plant emergency reserves.	$(85,000)	Lesser of min. working capital or plant emergency reserves.	$(85,000)	Lesser of min. working capital or plant emergency reserves.	$(220,000)
Total		$7,383,000		$2,427,000		$988,000

Note: Reserve levels based on amended 2008 utility budgets.

For this purpose, O&M costs are the entire annual operating budget of the Utility less the annual debt service, Capital Investment Program transfers and R&R Account transfers. Independent reserve levels are the levels that would be required by an individual Utility Fund (Water, Sewer and Storm & Surface Water) at any point in time to cover financial obligations if any one of the three reserve components where called for; i.e., working capital, operating contingency or plant emergency. At any single time, the full independent reserve levels should be available for the individual stated purpose, again because it is unlikely that all three components would be called for at once. For example, the Water Utility needs $100,000 available for an emergency repair but it is not likely that the Sewer Utility will need $100,000 and the Storm & Surface Water Utility will need $500,000 all at the same point in time.

The consolidated basis is for budget and rate setting purposes only, to reduce the total revenue requirement by considering the reserve risk shared between the three utilities. The dual reserve levels should be considered as circumstances evolve.

In 2004, the Financial Consulting Solution Group (FCSG) performed an analysis of recommended changes to the Water Utility's working capital and operating contingency reserves to reflect the new wholesale water contract with CWA and to update reserve levels for current conditions. Under the new contract, billing practices for wholesale costs have changed as follows:

1. CWA payment occurs before the associated revenues are collected, resulting in a greater lag between wholesale expense and when revenues are collected.

2. CWA payments are distributed over the whole year based on predetermined percentages and not based on actual consumption during the year. Due to seasonal revenue variation, there is an accumulative deficit in revenues prior to the peak revenue period.

In addition, the total costs to Bellevue are now largely fixed for the year due to the "take or pay" nature of the contract between CWA and Seattle Public Utilities. This shifts the risk during a poor water sales year to the City since there will not be a corresponding reduction in water purchase costs when water sales are down.

Changes in both billing practices as well as the fixed nature of the wholesale costs will result in an increase in required reserves for working capital and operating contingency for the Water Fund.

B. *Management of Operating Reserves*

Related to the recommended target reserve levels, a working range of reserves is established with minimum and target levels. Management of reserves will be based on the level of reserves with respect to these thresholds, as follows:

Above target - Reserve levels will be reduced back to the target level by transferring excess funds to the R&R Accounts in a manner consistent with the long-range financial plan.

Between Minimum and Target - Rate increases would be imposed sufficient to ensure that: 1) reserves would not fall below the minimum in an adverse year; and 2) reserves would recover 50% of the shortfall from target levels in a normal year. Depending on the specific circumstances, either of these may be the constraint, which defines the rate increase needed.

Below Minimum - Rate increases would be imposed sufficient to ensure that even with adverse financial performance, reserves would return at least to the minimum at the end of the following year. To meet this "worst case" standard, a year of normal performance would be likely to recover reserve levels rapidly toward target levels.

Negative Balance - Reserves would be borrowed from another utility to meet working capital needs. Similar to the "below minimum" scenario, rate increases would be imposed sufficient to ensure that even with adverse financial performance, reserves would return from the negative balance to at least the minimum target at the end of the following year, which would allow for loan repayment within that time frame.

Discussion:

"Adverse financial performance" or "worst case" are defined by the 95% confidence interval based on historical patterns. The worst case year is currently defined as a year with sales volumes 15% below the sales volume for a normal year. This was determined by using statistical measurements of sales volumes for 18 years with a 95% confidence interval. That is, in any given year there is only a 5% chance that the worst case year would be more than 15% below the normal year. Another way to say the same thing is that in 19 out of 20 years the worst case year would not be more than 15% below the normal year.

Maintaining the 95% confidence interval, as more and more data becomes available, a worst case year could change upward or downward from the 15% variation from a normal year.

The recommended reserve policies are premised on the vital expectation that reserves are to be used and reserve-levels will fluctuate. Although budget and rate planning are expected to use the target reserve number, reserve levels planned to remain static are by definition unnecessary. It is therefore important to plan for managing the reserves within a working range between the minimum and target levels as stated in the above policies. There may be situations in short-range financial planning where reserves are maintained above target levels to overcome peaks in actual expenses.

In the event of an inter-utility loan, the balance for the borrowing utility would essentially be any cash balance less the amount owed. The lending utility would count the note as a part of its reserves, so that it does not unnecessarily increase rates to replenish reserves that are loaned.

In this management approach, there is still a risk that a major plant emergency could exceed the amount reserved. Such a major shortfall would require rate action to assure a certain level of replenishment in one year. To avoid rate spikes due to this type of action, they should be considered on a case-by-case basis. This will provide the flexibility to use debt or capital reserves in lieu of operating reserves to cover the cost and allow a moderated approach to replenishing reserves out of rates.

C. *Asset Replacement Reserves*

Utility funds will maintain separate Asset Replacement Accounts to provide a source of funding for future replacement of operating equipment and systems.

Anticipated replacement costs by year for the upcoming 20-year period, for all Utility asset and equipment items, will be developed as a part of each biennial budget preparation

process. Budgeted contribution to the Asset Replacement Account will be based on the annual amount needed to maintain a positive cash flow balance in the Asset Replacement Account over the 20-year forecast period. At a minimum, the ending Asset Replacement Account balance in each Utility will equal, on average, the next year's projected replacement costs for that fund.

The Utilities Department will observe adopted Equipment Rental Fund (ERF) and Information Services budget policies and procedures in formulating recommendations regarding specific equipment items to be replaced.

Discussion:

Providing reserves for equipment and information technology systems replacement allows monies to be set aside over the service life of these items to pay for their eventual replacement and alleviate one-time rate impacts that these purchases might otherwise require. Annual revenues set aside for this purpose will be based on aggregate Utility asset replacement cash flow needs over the long-term forecast period, instead of individual asset replacement amounts. This strategy will allow Utilities to minimize the progressive build-up of excess Asset Replacement Account balances that would result from creating and funding separate reserve accounts for individual Utility asset and equipment items.

SOLID WASTE RESERVES POLICY

Reserve Levels

Consistent with other Utility funds, this policy recommends that some resources be budgeted as reserves to provide funding for working capital and emergencies. Setting aside reserves will help to ensure continued financial rate stability in future Solid Waste operations, and protect customers from service disruptions that might otherwise result from unforeseen economic or emergency events. While included in the total operating budget, these reserves will only be available for use pursuant to these reserve policies.

The Solid Waste fund performs three main functions: management and administration of the contract for the collection/disposal of residential and commercial garbage and recycling; customer outreach and education; and management of waste reduction and recycling grant-funded projects.

The fund's two sources of income are fees and grant monies, as described below:

1. Management fees are paid to the fund per the garbage collection contract and provide base funding for all solid waste personnel, supplies and activities. Additional management fees are received for the commercial recycling program and are primarily used to compensate the contractor for that program.

2. The Solid Waste fund receives grant funding from several agencies for waste reduction and recycling projects. Grant agencies reimburse the fund for project expenses annually or semi-annually.

Reserve components are as follows:

1. Working Capital. Working capital reserves are necessary to accommodate normal cyclical fluctuations within the Solid Waste fund. There are two elements for this reserve component; one element supports Solid Waste Management and the other supports the grant-funded programs.

   The solid waste collection/disposal and recycling programs have fairly predictable revenues and expenditures. Because of this, 45 days of budgeted O&M expenses are adequate for this portion of the reserve.

   The grant-funded programs are pre-funded by the Solid Waste fund and reimbursement requests are made semi-annually or annually, depending on the grant agency agreement. While most grant agencies pay reimbursement requests within 45 days of receipt, the existing reimbursement billing schedule can result in carrying project expenses for up to a year before funds are received. For this reason, reserves equal to 100% of historical average grant budgets are included to support cash-flow.

2. Emergencies**.** A reserve component is necessary to fund emergencies such as windstorms. While the majority of funding may be provided by FEMA, a reserve is required to support some part of the City's portion of FEMA-covered emergencies, or additional clean-up/collection events due to weather-related emergencies. A reserve policy allocation is recommended to meet funding or cash flow needs. The basis for this component is the cost of a supplemental windstorm debris pick-up by a contractor. This reserve level amount is adjusted by the annual CPI.

   No reserve components are necessary for capital expenditures, operating contingency, debt service, liability or asset replacement since the majority of the operations are contracted and are not the City's responsibility. Reserves will be updated at each biennial budget development period.

Projected Solid Waste Target Reserves			
Type of Reserve	**Basis**	**2009 Level**	**2010 Level**
Working Capital – Reserves against revenue and expense fluctuations			
- Solid Waste collection/disposal and recycling programs	45 days of budgeted O&M	$167,000	$177,000
- Grant funded programs	100% of historical average of grant budget	$299,311	$299,311
Emergencies	$75,000 (2008 dollars) adjusted for annual CPI	$75,000	$75,000
TOTAL		$541,311	$551,311

Management of the Reserve

The policy is premised on the expectation that reserves are to be used and reserve levels will fluctuate. It is therefore important to plan for managing the reserves within a working range. There may be situations in short-range financial planning where reserves are maintained above or below target levels.

The target reserve level will be established during the budget development process. If the reserve balance, including grant receivables, is projected to be less than the next year's reserve requirement, a deficit is created. This deficit would be recouped via a rate increase or through an adjustment to expenses. If the deficit is significant, a rate increase may be phased in over a two-year period to alleviate a spike in rates.

Surplus funds are those funds over and above the target reserve level. As part of the biennial budget review, Council would direct the use of excess reserves.