

FINANCIAL POLICIES



Adopted by the

Port Angeles City Council

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TABLE OF CONTENTS

1. FINANCIAL POLICIES..... 4

 1.1. Goals & Objectives:..... 4

 1.2. Fiduciary Responsibility: 4

 1.3. Annual Review and Recommendations for Changes to Financial Policies: 4

2. LONG-RANGE FINANCIAL POLICIES..... 5

 2.1. Resolution of Conflict between Policies:..... 5

 2.2. Ability to Pay:..... 5

 2.3. Use of Reserves: 5

 2.4. Unassigned Fund Balance: 5

 2.5. General Fund Subsidy to Street Fund and Medic I Utility Fund:..... 6

 2.6. Issuance of New Debt and Ability to Pay: 6

 2.7. Considerations for Debt Financing: 6

 2.8. Disposition of Unused Property. 6

 2.9. Use of Highly Volatile Funding Sources:..... 7

 2.10. Consideration for Smaller Scale Public Works Projects: 7

 2.11. Capital Funding Priorities: 7

 2.12. Use of One-time Revenues:..... 7

 2.13. Property Tax and Future Budgets: 7

 2.14. Use of Banked Property Tax Capacity: 7

 2.15. Utility Excise Tax Rates: 8

 2.16. Setting of Fees and Charges for Building Permits:..... 8

 2.17. Setting of Fees and Charges for Parks and Recreation Programs and Services: 8

 2.18. Utility Rate Design:..... 8

 2.19. Economic Development Fund:..... 8

 2.20. Implementation of Utility Rate Increases: 9

 2.21. Annexation and Cost of Service Analysis: 9

 2.22. Employee Salaries and Benefits: 9

 2.23. Employee Contributions for Health Insurance: 9

 2.24. Payments by the City to Vendors and Employees: 9

3. OPERATING POLICIES..... 10

 3.1. Goals 10

 3.2. Revenue Policies..... 10

 3.3. Expenditure Policies 11

 3.4. Capital Improvement Policies 12

 3.5. Reserve Fund Policies 13

4. ACCOUNTING & REPORTING POLICIES..... 16

 4.1. Accounting Requirements:..... 16

 4.2. BARS – Budgeting, Accounting and Reporting System:..... 16

 4.3. Requirements of the Finance Department:..... 16

 4.4. External Auditing Requirement: 16

5. GRANT COMPLIANCE..... 17

 5.1. Grant Management..... 17

 5.2. Federal Funds – Sub-Recipients and Vendors..... 18

6. BUDGET POLICIES 20

 6.1. Primary Budget Responsibility 20

 6.2. Operating Budget 20

 6.3. Budgetary Control 21

7. DEBT MANAGEMENT POLICIES..... 22

 7.1. Goals 22

 7.2. Short-Term Debt..... 22

 7.3. Long-Term Debt..... 22

 7.4. General Obligation Bond Policy..... 22

8. INVESTMENT POLICIES 24

 8.1. Introduction 24

 8.2. Governing Authority 24

 8.3. Scope 24

 8.4. Objective..... 24

 8.5. Standards of Care..... 25

 8.6. Authorized Financial Institutions, Depositories, and Broker/Dealers..... 26

 8.7. Safekeeping, Custody and Controls..... 27

 8.8. Authorized Investments and Investment Parameters..... 27

8.9 Performance Standards.....30

8.10 Reporting Requirements.....30

8.11 Distribution of Income.....30

8.12 Investment Policy Adoption.....30

9. PURCHASING POLICIES..... 32

9.1. Goal 32

9.2. Interpretation of this Policy 32

9.3. Financial Information Provided to Council..... 32

9.4. Purchasing Policy Definitions 33

9.5. Policy Requirements 34

9.6. Requisitioned Purchase Orders (PO)..... 34

9.7. Blanket Purchase Order (BPO) 34

9.8. Receipt of Goods 35

9.9. FPO (Field Purchase Order) 35

9.10. Invoicing..... 35

9.11. Check Signing 35

9.12. Approval of Payment Claims 36

9.13. Contracts..... 36

9.14. Authority to Enter into Contracts, Leases or Rental Agreements (PAMC 3.05.060) 36

9.15. Change orders on construction contracts and amendments to professional service agreements (PAMC 3.05.110)..... 36

9.16. Definition of credit card (PAMC 3.05.120) 36

9.17. Issuance, use and control of credit cards (PAMC 3.05.130)..... 36

10. POST ISSUANCE COMPLIANCE FOR GOVERNMENTAL BONDS 38

10.1. Scope: 38

10.2. Purpose:..... 38

10.3. Schedule of Review:..... 38

10.4. Requirements at Bond Closing: 38

10.5. Requirements after Bond Closing:..... 38

10.6. Officials or Employees Responsible for Review:..... 38

10.7. Investment of Bond Proceeds: 40

10.8. Use of Bond-Financed Facilities:..... 42

10.9. Continuing Disclosure: 42

10.10. Material event notices:..... 43

10.11. Compliance with Bond Covenants:..... 44

1. FINANCIAL POLICIES

1.1. Goals & Objectives:

1.1.1. The Financial Policies assemble all of the City's key financial policies in one document. This comprehensive document provides the guidelines 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.

1.2. Fiduciary Responsibility:

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

1.3. Annual Review and Recommendations for Changes to Financial Policies:

1.3.1. The Chief Financial Officer shall, on an annual basis, prepare and deliver a report to the City Council and City Manager detailing the results of the review of the City of Port Angeles Financial Policies. In the report, the Chief Financial Officer shall make recommendations for revisions to existing policies, addition of new policies or the deletion of existing policies to accommodate any changes in generally accepted accounting principles (GAAP), changes in state regulations and laws or changes in federal regulations and laws.

1.3.2. Should a change be required in the City's Financial Policies as a result of a court decision or changes in state or federal laws before the City Council can review and take any action, the City Manager, upon recommendation by the Chief Financial Officer, is empowered to make any revisions to existing policies, creation of new policies or deletion of existing policies to allow the City of Port Angeles to be in compliance with governing authorities.

1.3.2.1. Provided that when the City Manager makes such change, the Chief Financial Officer shall immediately inform the City Council in writing of the change, the reason necessitating the change and the anticipated date the proposed revision will come before Council for their consideration.

2. LONG-RANGE FINANCIAL POLICIES

2.1. Resolution of Conflict between Policies:

2.1.1. If there is any conflict between the Long-Range Financial Policies and an individual financial policy contained elsewhere in this document, the Long-Range Financial Policy shall govern. In such case, the Chief Financial Officer shall notify the City Council and the City Manager in writing of the conflict together with recommendations that will correct any conflict going forward.

2.2. Ability to Pay:

2.2.1. Council shall consider the overall impact on the community and its “ability to pay” against the need to enact any tax, utility rate or fee/charge increase.

2.3. Use of Reserves:

2.3.1. Council shall not use reserves/fund balance as a funding source for on-going operations except on an emergency, short-term basis.

2.3.1.1. The use of rate stabilization reserves to provide for a “phase-in” of a larger utility rate increase shall be permitted provided that Council has adopted a scheduled plan for the utility rate increases as well as a plan to replenish the rate stabilization reserve account for funds previously advanced.

2.4. Unassigned Fund Balance:

2.4.1. Council shall direct that General Fund unassigned fund balance (“reserves”) be increased from its current minimum level of 10% of the current year General Fund expenditures to 25% of the current year General Fund expenditures.

2.4.1.1. To meet the additional funding requirement, Council shall consider the following actions in rank priority:

2.4.1.1.1. Allocation of any savings generated from prior year operations in the General Fund;

2.4.1.1.2. Allocation of additional utility excise tax revenues as a result of Council-adopted utility rate increases;

2.4.1.1.3. Allocation of new revenues to the General Fund resulting from levying the 1.0% increase in property tax as allowed by state law;

2.4.1.1.4. Allocation of any new sales tax revenue projected in the subsequent year operating budget for the General Fund; and

2.4.1.1.5. Reduction in overall spending in the General Fund necessary to generate the resources to be allocated to the General Fund unassigned fund balance as authorized by Council.

2.4.2. Council recognizes that the actions required to achieve a 25% unassigned fund balance in the General Fund may take an extended period to achieve. Therefore, the Council shall target a five-year horizon to achieve the desired funding level and Council shall review the target funding level on an annual basis as part of its deliberations for the next year’s operating budget.

2.5. General Fund Subsidy to Street Fund and Medic I Utility Fund:

- 2.5.1. Council shall consider implementing a “phase-out” of General Fund subsidy for the Street Fund (Fund #102) and the Medic 1 Utility Fund (Fund #409).
- 2.5.2. The phase-out shall be over a period of not less than three (3) years nor more than five (5) years.
- 2.5.3. Consideration of replacing funding currently provided by the General Fund for the Street Fund shall include the option of the creation and implementation of a Transportation Benefit District (TBD).
- 2.5.4. Prior to consideration of either a Council-approved TBD or placement on the ballot for voter-approval, the Chief Financial Officer together with the Director of Public Works and Utilities shall prepare a report for consideration by the City Council and City Manager that:
 - 2.5.4.1. Analyzes the proposed method of funding for the TBD, provide an estimate of the revenue for the next six (6) years to be generated if the TBD is approved, and provide a specific list of projects to be funded along with a timeline for completion of the identified projects.
- 2.5.5. Replacement funding for the Medic I Utility subsidy currently provided by General Fund for the Medic I Utility Fund shall be coordinated with an upward adjustment to applicable Medic I utility rates as provided in a Cost of Service Analysis (COSA). The COSA shall also include a time-line for the utility rate increases intended to replace funding support from the General Fund.

2.6. Issuance of New Debt and Ability to Pay:

- 2.6.1. Council shall consider, prior to the issuance of any new general government or utility debt, the overall impact of the City’s ability to repay the debt obligation from existing taxes or utility rates.
- 2.6.2. If new taxes and/or increases in utility rates are necessary to generate revenue for the new debt service, the Chief Financial Officer shall provide the City Council and the City Manager a report detailing the annual and total estimated costs of the debt repayment and the plan or schedule for future tax and/or utility rate increases required to pay for the new debt.

2.7. Considerations for Debt Financing:

- 2.7.1. Council shall require the following for consideration of debt financing for projects:
 - 2.7.1.1. If long-term debt financing is proposed, a financial analysis shall be required prior to any approval of the project that analyzes the long-term sustainability of funding from City resources, as well as the overall impact to the City’s total debt obligation.
 - 2.7.1.2. Any maintenance and operation (M&O) costs associated with the completed project must be identified along with the proposed source of funding for the M&O costs prior to seeking Council approval of the capital project.

2.8. Disposition of Unused Property:

- 2.8.1. Council shall consider selling of the Niichel property and other unused City properties to allow the City to have the resources to meet the debt service obligations of the 2005 Limited Term General Obligation Bond and its \$1,000,000 balloon payment in 2021.

2.9. Use of Highly Volatile Funding Sources:

2.9.1. Council shall prohibit the use of highly volatile funding sources such as Lodging Tax (“hotel-motel tax”), Real Estate Excise Tax I (REET-I), or Real Estate Excise Tax II (REET-II) for debt service or other long-term commitments. Preference for use of such volatile funding sources should be given to one-time capital expense, short-term funding commitments for a capital expense or saving to create a funding pool that can “cash-out” a capital project.

2.10. Consideration for Smaller Scale Public Works Projects:

2.10.1. Council shall require that the Department of Public Works and Utilities examine its proposed public works construction schedule to identify any opportunities to encourage local contractors to bid on projects that are in line with their company’s economic resources and/or bonding capabilities.

2.11. Capital Funding Priorities:

2.11.1. Council shall require that first priority for funding of capital projects should be given to those projects designed to preserve and maintain existing infrastructure.

2.11.1.1. Council has established the following rank order:

2.11.1.1.1. Legal and statutory requirements and mandates provided *realistic and affordable* sources of funding are available to the City.

2.11.1.1.2. Continuation of multi-year projects provided *realistic and affordable* sources of funding are available to the City.

2.11.1.1.3. Capital funding shall be given to those projects that leverage City funding with grants from the State and/or federal agencies.

2.11.1.1.4. Capital funding shall be given to public-private partnership projects, whereby the City can leverage its contribution with private dollars to enable a more economically diverse project where the primary risk for the long-term financing is transferred to a private partner.

2.12. Use of One-time Revenues:

2.12.1. Council shall require that one-time revenues or revenues significantly above the budgeted revenue target be used for one-time expenses and not be utilized to fund recurring expenses such as salaries and wages or debt service.

2.13. Property Tax and Future Budgets:

2.13.1. Council shall require that in the development of all preliminary annual operating budgets, the Chief Financial Officer should include a 1.0% property tax revenue increase for consideration by Council.

2.13.2. The Chief Financial Officer shall forward to the City Council and City Manager prior to any approval from Council for the 1.0% property tax increase a report that details the estimated revenue that may be generated if the 1.0% increase would be approved by Council. In addition, the report shall also include an analysis of the potential long-term impact on the General Fund if Council decided not to levy the 1.0% increase.

2.14. Use of Banked Property Tax Capacity:

2.14.1. Council shall not consider levying of any “banked” property tax levy capacity unless the following conditions exist:

2.14.1.1. The Council is considering adopting an annual budget that requires a reduction in core services as identified by Council; and

2.14.1.2. Council has voted to authorize the implementation of the 1.0% in property tax collections.

2.15. Utility Excise Tax Rates:

2.15.1. Council shall not consider any increase to the City's utility excise tax rates through at least the end of the 2019 fiscal year.

2.15.2. Prior to any proposal to Council for an increase in a utility excise tax rate, the Chief Financial Officer shall prepare a report for the City Council and the City Manager, noting the amount of the proposed tax increase, an estimate of new or additional annual revenues for the next six (6), years and the need for the additional funding to be derived from the increased utility excise tax rate.

2.16. Setting of Fees and Charges for Building Permits:

2.16.1. Council shall consider that the fees and charges for building permits shall include a total cost recovery of direct and indirect costs.

2.16.2. Council may consider a potential reduction in the fees and charges for a building permit; only if a project creates long-term family wage jobs and/or an identifiable long-term revenue increase in sales tax as a result of the project's construction.

2.16.3. The Chief Financial Officer, together with the Director of Community and Economic Development, shall prepare a report to the City Council and City Manager every three (3) years and prior to consideration of the next annual operating budget that compares the City's building permit fee and charges in comparison to fees and charges from other comparable cities, together with an analysis of the net subsidy required of the General Fund to off-set any shortfall in revenues associated with the total building permit operating costs.

2.17. Setting of Fees and Charges for Parks and Recreation Programs and Services:

2.17.1. Council shall require that fees and charges imposed for parks and recreation shall be based on a cost recovery hierarchy.

2.17.2. The cost recovery hierarchy shall give consideration for potential subsidy from other parks and recreation fees and/or the General Fund for programs based on targeted audiences such as children and youth, special populations or broad-based community programs.

2.18. Utility Rate Design:

2.18.1. Council shall require that utility rates be designed to reflect the underlying nature of the costs for each respective utility.

2.18.2. Council may consider establishing differential utility rates for specified utility classes to achieve specific, identifiable goals such as reduced rates to encourage recycling of used tires or construction materials.

2.19. Economic Development Fund:

2.19.1. Council shall consider creation and/or identification of a long-term, dedicated funding source for the Economic Development Fund (Fund #103) which allows for funding of a reserve fund for the collection of resources that could be used as a grant match and/or source of local government direct project funding.

2.20. Implementation of Utility Rate Increases:

- 2.20.1. Council shall give preference to more frequent, but smaller, incremental increases to rates, fees, and charges rather than less frequent but larger increases.
- 2.20.2. In all cost of service analysis (COSA) efforts, preference shall be given to utilizing a “phased-in” approach for all future rate increases, even if it may be necessary to slow-down or delay planned capital project implementation as part of an overall “ability to pay” analysis within the COSA.

2.21. Annexation and Cost of Service Analysis:

- 2.21.1. Council shall require a Cost of Service Analysis (COSA) prior to any consideration of a potential annexation. Included in the COSA will be an estimation of costs associated with providing the current level of City services to an area under consideration for annexation as well as an estimate of all revenue that may be derived from the area included in the proposed annexation.

2.22. Employee Salaries and Benefits:

- 2.22.1. Council shall require a salary and benefit survey to assess the comparability of salaries, wages, and benefits paid by the City of Port Angeles in comparison to the market place for prospective City employees. Included in that analysis shall be the following:
 - 2.22.1.1. The survey shall be done no more often than every three (3) years nor less often than every five (5) years.
 - 2.22.1.2. The survey shall take into account internal comparability for responsibility and critical importance to the City for short and long-term decision-making.
 - 2.22.1.3. The survey shall take into account external factors including comparable cities, private-sector jobs, and other factors that influence the City’s ability to recruit and retain qualified employees.
 - 2.22.1.4. The Chief Financial Officer shall prepare and deliver a report in writing to the City Council and City Manager prior to any consideration of a change in salary, wages, or benefit levels for unionized and/or non-represented employees that details the estimated costs of any proposals that are under consideration for approval by Council.
 - 2.22.1.5. The Mayor, with approval of the Council, may appoint a special, ad hoc Council Committee to work with the City Manager in the development of any proposals regarding salaries, wages, and benefits for employees of the City.

2.23. Employee Contributions for Health Insurance:

- 2.23.1. Council shall require that all employees contribute to the cost of their health insurance coverage for both the employee as well as any family coverage that may be required.
- 2.23.2. Council recognizes that implementation of this policy statement may require amendments to collective bargaining agreements covering various groups of City employees and will need to be negotiated as part of a collective bargaining process.

2.24. Payments by the City to Vendors and Employees:

- 2.24.1. Council shall require that all payments made by the City be accomplished via electronic funds transfer wherever possible, as a means of reducing costs to the City.

3. **OPERATING POLICIES**

3.1. **Goals**

- 3.1.1. To ensure delivery of an exceptional level of municipal services by assuring reliance on ongoing resources and by maintaining a stable financial base.
- 3.1.2. To ensure that the City is in a position to respond to changes in the economy or new service requirements without an undue amount of financial stress.
- 3.1.3. To maintain an excellent credit rating in the financial community and assure taxpayers that the City is well managed financially and maintained in sound fiscal condition.
- 3.1.4. To adhere to the highest accounting and management policies as set by the Government Finance Officers' Association (GFOA), the Governmental Accounting Standards Board (GASB), and other professional standards for financial reporting and budgeting.
- 3.1.5. To ensure the legal use of financial resources through an effective system of internal controls.

3.2. **Revenue Policies**

- 3.2.1. The City will strive to maintain a diversified mix of revenues in order to maintain needed services during periods of declining economic activity.
- 3.2.2. General Fund revenue estimates should be prepared on a conservative basis in order to minimize fluctuations in service levels during periods of economic downturn.
- 3.2.3. As much as is reasonably possible, City services that provide private benefit shall be supported by fees and charges in order to provide maximum flexibility in the use of general revenues to meet the cost of services of broader public benefit. The City shall establish user charges as follows:
 - 3.2.3.1. **Building Permits:** Fees shall be based on total cost recovery of direct and indirect expenses.
 - 3.2.3.2. **Parks & Recreation:** Fees shall be based on a cost recovery hierarchy whereby adult programs help to subsidize programs for children, youth, and special populations.
 - 3.2.3.3. **Rental of City Facilities:** Fees shall be based on 100% of total direct and indirect costs, plus an amount to be reserved for future major maintenance of assets utilized by the rental if the rental is for private business purposes. As a general requirement, the rental fees shall, at a minimum, cover the direct expenses associated with permitting and facilitating the rental unless the event is sponsored by the City of Port Angeles.
 - 3.2.3.4. In the event that fees and charges do not achieve their targeted cost recovery benchmarks, the City Manager shall recommend a plan for consideration by Council that either reduces programs and services to be offered or provides for a one-time subsidy from the General Fund for the current fiscal year's operation.
 - 3.2.3.5. Consideration of any future subsidy from the General Fund shall be included in discussions by Council prior to the adoption of the next fiscal year's budget.
- 3.2.4. The City shall systematically review user fees and rates and consider adjustments as necessary to take into account the effects of additional service costs and inflation. Rate studies shall take into account direct and indirect costs of operations, administration, plant maintenance, debt service, depreciation of capital assets, and other related costs.

- 3.2.5. Proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes will be accounted for in separate special revenue funds, unless the Chief Financial Officer issues a finding that directs the revenue to be accounted for in a different fund for a specific reason. Budgeted special revenue funds will be included and reviewed in the City's annual budget process.
- 3.2.6. The City will follow an aggressive policy of collecting all monies due, to the extent that the collection efforts are cost effective.
 - 3.2.6.1. The City may elect to not collect minor amounts due the City if the costs of collection equal or exceed the amount of money to be collected. The Chief Financial Officer shall determine on an annual basis what constitutes a minor amount referenced above and shall inform the Council and City Manager as to the determination of what constitutes a minor amount.
- 3.2.7. Economic downturns and anticipated funding shortfalls will be analyzed by the Chief Financial Officer and City Manager for potential solutions. Deficit financing and borrowing to support on-going expenditures is not the policy of the City as a response to long-term revenue shortfalls. Revenue forecasts will be revised and expenditures will be reduced to conform to the revised forecast.
- 3.2.8. All potential grants shall be carefully examined for matching requirements and other City obligations prior to grant acceptance. Some grants may not be accepted if local matching funds cannot be justified. Grants may also be rejected if programs must be continued with local resources after grant funds are exhausted or if they place an unacceptable strain on local resources.
- 3.2.9. Significant preference shall be given to rate and fee increases that are smaller and applied more frequently than intermittent but significantly larger rate increases.

3.3. Expenditure Policies

- 3.3.1. The City will only propose operating expenditures that can be supported from on-going operating revenues. Before the City undertakes any agreements that would create fixed on-going expenses, the cost implications of such agreement will be fully determined for current and future years. Capital expenditures may be funded from one-time revenues, but the operating budget expenditure impacts of capital purchases will be reviewed for compliance with this policy provision.
- 3.3.2. Department directors are responsible for managing their budgets within the total appropriation for their department.
- 3.3.3. The City will assess charges for services provided internally by other funds. The estimated direct and indirect costs of service will be budgeted and charged to the fund receiving the service. Interfund service fees charged to recover these costs will be recognized as revenue to the providing fund. The allocation method will be reviewed annually.
- 3.3.4. Emphasis is placed on improving individual and work group productivity rather than adding to the work force. The City will invest in technology and other efficiency tools to maximize productivity. The City will hire additional staff only after the need of such positions has been demonstrated and documented.
- 3.3.5. All compensation planning and collective bargaining will focus on the total costs of compensation, including direct salary, healthcare benefits, pension contributions, educational and longevity pay, and other non-salary benefits which are a cost to the City.

3.4. Capital Improvement Policies

- 3.4.1. It is the City's policy to ensure that adequate resources are allocated to preserve existing infrastructure and other capital assets before targeting resources toward construction or acquisition of public facilities or major equipment.
- 3.4.2. The City will develop a multi-year Capital Facilities Plan (CFP) to identify and coordinate infrastructure, facility, and equipment needs in a way that maximizes the return to the community. All capital improvements will be made according to the adopted CFP.
- 3.4.3. The Capital Facilities Plan will be formulated using an analysis of long-term, overall resources and will include projected funding sources and ongoing operations and maintenance costs. Future changes in economic or demographic factors identified in the financial forecasting process will be incorporated in the capital budget projections. The plan will be updated annually. Any planned use of debt financing shall include an analysis of debt service costs and funding resources available to pay the associated debt.
- 3.4.4. The first year of the Capital Facilities Plan will constitute the capital budget for the ensuing budget year. The capital budget and the base operating budget will be reviewed at the same time to assure that the City's capital and operating needs are evaluated in a balanced manner.
- 3.4.5. A long-range Transportation Improvement Plan (TIP) will provide the framework for the City's future investment in transportation related infrastructure. This ensures that infrastructure projects incorporated into the Capital Facilities Plan (CFP) will be the embodiment of the officially stated direction of the City's Comprehensive Plan and supporting documents.
- 3.4.6. The City may administer a Local Improvement District (LID) program. For capital projects whose financing depends in part or wholly on an LID, interim financing may be issued to support the LID's portion of the project budget. The amount of the interim financing shall be the current estimate of the final assessment roll as determined by the administering department.
- 3.4.7. The City will determine the most cost effective financing method for all new projects. Whenever possible, the City will use intergovernmental assistance and other outside resources to fund capital projects. Additional funding may come from designated surpluses in the General Fund and certain special revenue funds as outlined in the operating budget policy.
- 3.4.8. An operating cost projection, including all funding sources, will be required for all projects proposed for funding within six (6) years.

3.5. Reserve Fund Policies

- 3.5.1. Part of financial stability is to maintain adequate reserves and fund balances. The definition of Fund Balance is the net worth of a fund, measured by total assets minus total liabilities.
- 3.5.2. In the governmental funds, the City recognizes the following hierarchy of fund balance classifications, which are based primarily on the extent to which the City is bound by constraints placed on resources:
 - 3.5.2.1. **Nonspendable** -- Amounts that cannot be spent due to form (such as inventories and pre-paid amounts), and amounts that must be maintained intact legally or contractually (including the corpus or principal of a permanent fund). In addition, long-term loan and notes receivables, and property held for resale would be reported here unless the proceeds are restricted, committed, or assigned.
 - 3.5.2.2. **Restricted** -- Amounts constrained for a specific purpose by external parties, constitutional provision, or enabling legislation.
 - 3.5.2.3. **Committed** -- Amounts constrained for a specific purpose as authorized by the City Council. Additional action by the Council is required in order to remove or change the constraints placed on the resources. The action to constrain resources must occur prior to year-end; however, the amount can be determined in the subsequent period.
 - 3.5.2.4. **Assigned** -- For all governmental funds other than the general fund, any remaining positive amounts not classified as nonspendable, restricted, or committed. For the general fund, the City Manager has been delegated authority to assign amounts intended to be used for a specific purpose. All assigned fund balance requests from departments must be approved in writing by the City Manager and provided to the Finance Department by year-end in order to be officially considered assigned. Amounts reported as assigned should not result in a deficit in unassigned fund balance.
 - 3.5.2.5. **Unassigned** -- For the general fund, amounts not classified as nonspendable, restricted, committed, or assigned and are available to use for any purpose. The general fund is the only fund that would report a positive amount in unassigned fund balance. For all other governmental funds, unassigned fund balance is the amount expended in excess of resources that are nonspendable, restricted, committed, or assigned. If this results in a deficit in unassigned fund balance, then assigned fund balance shall be reduced.
- 3.5.3. Special Revenue Funds will maintain sufficient fund balances to provide adequate cash flow and to withstand downturns in the economy. These fund balances will be analyzed annually.
- 3.5.4. The General Fund's targeted unassigned fund balance will be a minimum of 25% of expenditures, excluding capital expenditures. This fund balance will be established and maintained to:
 - 3.5.4.1. Offset unanticipated economic downturns;
 - 3.5.4.2. Provide a sufficient cash flow for daily financial needs at all times;
 - 3.5.4.3. Establish an adequate level of reserves to provide for the timely replacement of equipment; and

- 3.5.4.4. Sustain City services in the event of a catastrophic event such as a natural/manmade disaster or a major downturn in the economy.
- 3.5.4.5. If unassigned fund balance falls below the required minimum level, the City Manager shall notify the Council immediately. The Council must adopt a plan to restore this balance to the target level within 60 months.
- 3.5.5. In addition, the general fund will maintain a committed fund balance to be used as a contingency as specified in PAMC 3.04.040. There are no minimum requirements on the level of contingency fund balance.
- 3.5.6. There are no specific requirements on the level of assigned fund balance in the general fund, unless future revenue streams are specified by the donor or source of funding.
- 3.5.7. The City will maintain the following reserves for the proprietary funds identified below:
 - 3.5.7.1. An operating reserve will be established and maintained to provide sufficient cash flow to meet daily financial needs as recommended by the City's financial advisor. The reserve requirements will be reviewed every three years and will be based upon:
 - 3.5.7.2. 60 days operating expenses: Electric, Water, and Wastewater Funds.
 - 3.5.7.3. 90 days operating expenses: Solid Waste and Stormwater Funds.
 - 3.5.7.4. Operating expenses exclude ending fund balances, capital purchases, construction costs, debt service payments, and transfers.
 - 3.5.7.4.1. A rate stabilization reserve will be established and maintained for the Electric Fund to provide a means to mitigate wholesale power purchase cost increases. A rate stabilization reserve will be established and maintained for the Wastewater Fund to provide a means to mitigate retail rate increases based on unforeseen cost increases. These accounts will be analyzed annually to ensure an adequate amount is placed in reserves.
 - 3.5.7.4.2. A post-closure maintenance reserve within the Solid Waste fund will be established and maintained to provide sufficient cash flow to meet the anticipated cost of maintenance in accordance with State law. This reserve requirement will be reviewed annually.
 - 3.5.7.4.3. Bond reserves will be created and maintained as required in utility funds in accordance with the provisions set forth in the bond covenants.
 - 3.5.7.4.4. A contingencies and replacement reserve for the Electric fund will be established and maintained in accordance with bond covenants.
 - 3.5.7.4.5. The City will maintain reserve funds to meet requirements for the guarantee of debt service in compliance with bond indenture agreements.
 - 3.5.7.4.6. The City will maintain the self-insurance funds at a sufficient level to provide health care and workers' compensation benefits and avoid catastrophic loss.
 - 3.5.7.4.7. The City will maintain equipment replacement reserves as specified in the City's Equipment Replacement and Vehicle Use Policy.

- 3.5.7.4.8. The City will maintain adequate reserves in the Information Technology Fund to ensure timely replacement, upgrade, and/or additions to the City's technology infrastructure.
- 3.5.8. The City will maintain a Firemen's Pension Fund. Any amounts placed in this fund will be used solely for the payment of Firemen's Pension Fund liabilities as determined by the agreement between the Firemen's Pension Fund members, and/or spouses and the City. Once the fund has been exhausted the General fund will be responsible for any ongoing liabilities, which will be paid in a timely manner.

4. ACCOUNTING & REPORTING POLICIES

4.1. Accounting Requirements:

4.1.1. The City’s accounting and financial reporting systems will be maintained in conformance with current accepted principles and standards of the Governmental Accounting Standards Board (GASB), Generally Accepted Accounting Principles (GAAP), and the Government Finance Officers Association (GFOA). As a commitment to this policy, the Finance Department will periodically submit its Comprehensive Annual Financial Report (CAFR) for the GFOA Certificate of Achievement for Excellence in Financial Reporting.

4.2. BARS – Budgeting, Accounting and Reporting System:

4.2.1. The State Auditor’s Office provides a standard account classification system through its Budgeting, Accounting and Reporting System (BARS). The City will maintain its records on a basis consistent with BARS and current BARS manuals will be maintained in the Finance Department.

4.3. Requirements of the Finance Department:

4.3.1. The Finance Department will maintain financial systems to monitor expenditures, revenue, and performance of all municipal programs on an ongoing basis. Regular monthly financial reports will present a summary of financial activity for the period and the cumulative data for the budget year.

4.3.2. All applicable standard governmental accounting practices will be used to maintain the City’s financial records, including the appropriate uses of accrual and modified accrual methods of accounting, encumbrance accounting, current financial resources and economic resources focus for statement presentation, and the proper classification of funds.

4.3.3. The Finance Department will maintain fixed asset and depreciation records for all capital assets owned by the City. The threshold for capitalization of non-infrastructure assets is \$7,500.

4.3.4. Under GASB Statement No. 34, infrastructure will be included as capital assets in the financial reports. The City will develop and follow a methodology of maintaining infrastructure records, including appropriate depreciation, under the guidelines of the statement.

4.4. External Auditing Requirement:

4.4.1. The State Auditor’s Office will annually perform a financial and compliance audit and issue an audit report. Results of the annual audit will be provided to the City Council and public.

5. **GRANT COMPLIANCE**

5.1 **Grant Management:**

- 5.1.1 Each department of the City manages their own grants and assigns a Grant Manager (grant official), subject to City Manager, or the City Managers’ designee, approval. The Grant Manager is responsible for performing a financial analysis to review whether the grant is cost effective, with approval by the Department Director to go forward with the request.
- 5.1.2 The Grant Manager forwards the signed grant agreement to the Finance Department for inclusion in the Budget and also the Capital Facilities Plan if the grant is funding a capital project. Finance staff are responsible for setting up a work order with a separate job order for each grant task listed. If the grant is funding a capital project, Finance will provide the project and work order numbers in existence for that capital project. Operating and capital grant work orders are set up in relation to the reporting requirements of the grant, typically listed as tasks.
- 5.1.3 Grant spending is contingent on meeting a fair bidding process, providing full and open competition consistent with the standards of purchasing set forth in this Financial Policy, and State and Federal regulations. As defined by OMB Guidance § 200.318 General procurement standards.
 - 5.1.3.1 The City cannot place unreasonable requirement on firms in order for them to qualify to do business;
 - 5.1.3.2 The City cannot require unnecessary experience or excessive bonding;
 - 5.1.3.3 The City cannot consider noncompetitive pricing practices between firms or affiliated companies;
 - 5.1.3.4 The City cannot consider noncompetitive contracts to consultants that are on retainer contracts;
 - 5.1.3.5 The City cannot specify only “name brand” products, thus eliminating “an equal” product to be offered; or describe the product or performance or other relevant requirements of the procurement such to exclude those products;
 - 5.1.3.6 The City cannot require procurement in a manner that prohibits the use of products or statutorily or administratively imposes a state or local geographical preference in the evaluation of bids, except in the case where the grant or Federal statutes mandate or encourage such an action.
- 5.1.4 The Grant Manager is responsible for maintaining the official, permanent grant file of record, and ensures that all requirements of the grant agreement, State laws, State archives record retention, City policies, and the Federal Super Circular are followed, as applicable. Grant funds used for capital require keeping all records for at least 10 years before transferring to the State archives for appraisal value, with most having a much longer retention period due to the length of the asset life. The City Clerk can assist in determining the record retention requirements.
- 5.1.5 The Grant Manager submits payment requests on a timely basis and sends a copy to the Finance Department. The Finance Department ensures that grant funds are requested and received on a timely basis and are spent on the intended program or project and have proper documentation.
- 5.1.6 The Grant Manager is responsible for meeting bid requirements and checking for debarment on all project vendors prior to signing a contract with those vendors. The

debarment check includes keeping a written record on file of the page researched online, noting the date checked and initialing the information. This written record should remain in the project file for access by the State auditors. If the grant covers multiple years, the debarment checks need to be completed annually. Please refer to Section 9 Purchasing Policies.

- 5.1.7 The Finance Department is responsible for the preparation of the Schedules of Expenditures of Federal and State Awards as part of the annual Financial Statements.
- 5.1.8 Failure of City staff to comply with grant requirements may adversely affect the City and as such disciplinary action may be taken per the City of Port Angeles Personnel Policy & Procedures Manual, and/or the Employee Union Contract.
- 5.1.9 Grant Managers and all employees shall be responsible to maintain arms-length transactions (non-related or not in self-interest) transactions when accepting bids and making payment or using grant related monies.
 - 5.1.9.1 Disciplinary action for non-compliance of this sections shall include up to termination as defined by each employees' Union contract or the City of Port Angeles Personnel Policy & Procedures Manual.
 - 5.1.9.1.1 Employees are any person receiving a check from the City for work completed where the City withholds employment taxes.
 - 5.1.9.2 Conflicts of interest or financial interest by an employee shall fall into this section.
- 5.1.10 Council accepts and authorizes all grants with the exception of those grants assigned to City employees by the City Council , and those grants under \$25,000.

5.2 Federal Funds – Sub-Recipients and Vendors

- 5.2.1 Sub-recipients and Vendors – The City Official in the department responsible for the contract is responsible to ensure that awards and/or payments are not made to any party who is debarred or suspended or otherwise excluded from or ineligible for participation in federal assistance programs. Prior to signing a contract with a sub-recipient or vendor the City Official responsible for administration of the contract is responsible to ensure that sub-recipient or vendors are eligible to receive federal funds.
- 5.2.2 Contract Requirements for sub-recipient – When the City contracts with a sub-recipient who distributes federal funds, the sub-recipient is subject to the Single Audit Act. Contracts with sub-recipient will include the language addressing the following:
 - 5.2.2.1 The secondary recipient of the federal funds should be referred to in the contract as a "sub-recipient" once it is determined that they are a sub-recipient, not a vendor.
 - 5.2.2.2 Single Audit requirements should be defined for sub-recipient as follows:
 - 5.2.2.2.1 The sub-recipient must comply with the Single Audit Act of 1984 as amended.
 - 5.2.2.2.2 The sub-recipient must permit the City and/or independent auditors access to their financial records.
 - 5.2.2.2.3 The sub-recipient maintain accounting records that will enable identification of all federal funds received and expended by catalog of federal domestic assistance number (CFDA#).

- 5.2.2.2.4 If a Single Audit is required, a copy of the audit report is submitted to the City, within the time limit set forth in the Single Audit Act.
- 5.2.2.2.5 If a Single Audit is not required, the City is allowed to perform a fiscal review of the sub-recipient's financial records.
- 5.2.2.2.6 If a sub-recipient is debarred or suspended from participation in federal programs during the contract period, the contract is voided.
- 5.2.2.2.7 The sub-recipient check the "List of Parties Excluded from Federal Procurement and Non-procurement Programs," prior to awarding sub-grants.

6. BUDGET POLICIES

6.1. Primary Budget Responsibility

- 6.1.1. The City Manager is responsible for preparing and submitting to the Council a tentative budget for the fiscal year. The City Manager is also responsible for keeping the Council fully advised of the financial condition of the City and its future needs.
- 6.1.2. The City Council has final responsibility for approving the annual Operating Budget and Capital Budget.
- 6.1.3. Department directors, under the direction of the City Manager, are responsible for proposing programs, recommending funding levels, and formulating budget proposals for implementing service programs in accordance with established goals and directives.
- 6.1.4. The Finance Department is responsible for coordinating the overall preparation and administration of the City's budget in compliance with applicable State of Washington statutes governing local government budgeting practices.
- 6.1.5. The Finance Department provides revenue budget estimates, assists department staff in identifying budget problems and formulating alternative solutions, and prepares and distributes the final budget document.
- 6.1.6. To facilitate and implement the budget process, the Chief Financial Officer will provide the Council with an annual budget calendar in accordance with State law.

6.2. Operating Budget

- 6.2.1. The operating budget will define the City's annual financial plan as developed by the City Council in establishing goals and objectives for the ensuing year.
- 6.2.2. Ongoing revenues should be equal to or greater than ongoing expenditures. Each City fund budget shall identify ongoing resources that at least match expected ongoing annual requirements. One-time cash transfers 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.
- 6.2.3. In accordance with State law, the City Manager is authorized to transfer budgeted amounts within any fund; however, any revisions that alter the total expenditure authority (appropriation) of a fund must be approved by the City Council.
- 6.2.4. Additional staff positions should be recommended only after the need has been fully substantiated. An increase in the number of full-time equivalent position must be approved by the City Council. The City Manager has the authority to approve additions and/or changes to temporary, seasonal, and part-time positions. Nothing in this paragraph is intended to diminish or interfere with the City Manager's right to control the appointment and removal of City employees.
 - 6.2.4.1. Only the City Council can authorize an increase in the authorized City career staffing complement. Such approval is accomplished through the adoption of the annual operating budget or through subsequent budget amendments approved by the City Council.
- 6.2.5. The City will maintain a level of expenditures, which will provide for the public well-being and safety of the residents of the community.
- 6.2.6. The operating budget will provide for appropriate design, construction, maintenance and replacement of the City's capital infrastructure, plant, and equipment.

- 6.2.7. A multi-year vehicle and equipment maintenance and replacement schedule will be developed based on the City's projections of its future replacement and maintenance needs. The projections will be updated and the schedule revised on an annual basis.
- 6.2.8. The budget will provide sufficient levels of maintenance and replacement funding to ensure that all capital facilities and equipment are properly maintained and that such future costs will be minimized.
- 6.2.9. The following criteria must be met to qualify any portion of the year-end General Fund surplus for one-time operations, nonrecurring emergency capital expenditures, or dedicated to the Capital Facilities Plan:
 - 6.2.9.1. There are surplus balances remaining after all reserve requirements and current expenditure obligations are met.
 - 6.2.9.2. An analysis has occurred assuring that the City has an adequate level of short and long-term resources to support the proposed use of surplus balances.
 - 6.2.9.3. The funds are specifically appropriated by the City Council.
- 6.2.10. Year-end surplus in the Street Fund shall be designated for use in the Capital Facilities Plan or be used for one-time capital expenditures for street and parks projects. Use of surplus for these purposes must be approved by the Council.

6.3. Budgetary Control

- 6.3.1. The budget will be developed and administered in compliance with applicable State of Washington budgetary statutes.
- 6.3.2. The Finance Department will maintain a system for monitoring the City's budget performance. The system will include provisions for amending the budget during the year in order to address unanticipated needs or emergencies.
- 6.3.3. Appropriations requested after the original budget is adopted will be approved only after consideration of the availability of current and future revenues. Such appropriations must be approved by City Council.
- 6.3.4. Accounting and reporting practices will be maintained to provide accurate and timely monitoring of the City's budget performance.
- 6.3.5. Monthly budget reports will be issued by the Finance Department to Department Heads regarding the department's actual performance compared to budget estimates. The department also assists in implementing any needed corrective action approved by the City Manager.
- 6.3.6. Current revenues and operating expenditures will be reviewed quarterly by the City Council, and the Chief Financial Officer will prepare a mid-year assessment of the City's financial position for presentation to the Council.

7. DEBT MANAGEMENT POLICIES

7.1. Goals

7.1.1. All borrowing is subject to approval by the City Council. The basic objectives of the City’s debt management policy are:

7.1.1.1. To achieve the lowest possible cost for borrowing.

7.1.1.2. To ensure access to the bond market to adequately provide the capital needed to finance public improvement and other long-term development objectives.

7.1.1.3. To maintain strong and sound credit, demonstrated by its commitment to meet all obligations in a timely fashion.

7.1.1.4. To maintain a level and structure of outstanding indebtedness that does not lead to excessive debt service requirements, thereby avoiding unnecessary strains on the operating budget.

7.1.1.5. To maintain the confidence of lending markets and the taxpayers.

7.2. Short-Term Debt

7.2.1. Short-term debt covers a period of one (1) year or less. With careful monitoring and planning of cash inflow and outflow requirements, it is intended that the City will avoid the use of short-term indebtedness to the maximum extent possible.

7.2.2. The City may use short-term debt to cover temporary cash flow shortages resulting from delay in receipting tax revenues or issuing long-term debt or to finance capital construction.

7.2.3. Interfund loans with a repayment period of three years or less, may be used to meet short-term cash flow needs as an alternative to outside debt instruments. Interfund loans will be permitted only if an analysis of the lending fund indicates excess funds are available and that the use of these funds will not adversely affect current operations.

7.3. Long-Term Debt

7.3.1. Long-term debt is defined as debt that exceeds three years. The City will confine long-term borrowing to capital improvements that cannot be financed from current revenues.

7.3.2. Acceptable uses of bond proceeds will include items that can be capitalized and depreciated. Refunding bond issues designed to restructure current outstanding debt is an acceptable use of bond proceeds, provided an analysis is done that determines the net present value (NPV) of savings is favorable for the City.

7.3.3. Where possible, the City will use special assessment revenue, or other self-supporting bonds, instead of general obligation bonds.

7.3.4. The City will not use long-term debt for current operations.

7.3.5. The City will maintain communications with bond rating agencies regarding its financial condition. The City will follow a policy of full disclosure on financial reports and bond prospectuses including proactive compliance with disclosure to the Electronic Municipal Market Access (EMMA) according to guidelines established by the Municipal Securities Rulemaking Board (MSRB).

7.4. General Obligation Bond Policy

7.4.1. Before general obligation bond propositions are placed before the voters, projects proposed for financing through general obligation debt should be included in the Capital

Facilities Program and be accompanied by an analysis of the future operating and maintenance costs associated with the project.

- 7.4.2. Bonds will not be issued for a longer maturity schedule than a conservative estimate of the useful life of the asset to be financed.
- 7.4.3. Limited Tax General Obligation (LTGO) Bond Policy:
 - 7.4.3.1. As a precondition to the issuance of limited tax general obligation bonds, alternative methods of financing should also be examined.
 - 7.4.3.2. Limited tax general obligation bonds will be issued under certain conditions:
 - 7.4.3.2.1. A project in progress which requires monies not available from alternative sources;
 - 7.4.3.2.2. Matching fund monies are available which may be lost if not applied for in a timely manner; or
 - 7.4.3.2.3. Catastrophic or emergency conditions exist.
 - 7.4.3.2.4. A clearly identified need that helps achieve Council's desired vision for the City and is in line with the priorities approved by the City Council.
- 7.4.4. Unlimited Tax General Obligation (UTGO) Bonds and Legal Debt Limits:
 - 7.4.4.1. Under RCW 39.36.020(2), the public may vote to approve UTGO bond issues for general government purposes in an amount not to exceed 2.5% of assessed valuation. Within the 2.5% limit, the Port Angeles City Council may approve LTGO bond issues and/or lease purchases up to 1.5% of the City's total assessed value (RCW 39.36.020(2) and RCW 35.42.200). In addition, state law provides for an additional 2.5% of assessed valuation for parks and open space purposes with a vote of the people.

8. INVESTMENT POLICIES

8.1. Introduction

- 8.1.1. The Investment Policy defines the parameters within which funds are to be invested by the City of Port Angeles (“City”). Part of the City’s overall Financial Policies and Procedures, this policy formalizes the framework to provide the authority and constraints for effective and judicious management of City funds.
- 8.1.2. These policies are intended to be broad enough to allow the Chief Financial Officer, City Treasurer or designated investment officer, to function properly within the parameters of responsibility and authority, yet specific enough to adequately safeguard the investment assets.

8.2. Governing Authority

- 8.2.1. The investment authority for the City is derived from Chapter 35A.40.050 RCW. Investing activities shall be operated in conformance with Washington Revised Statutes and applicable Federal Law. The policy outlines investments scope, objectives, delegation of authority, reporting requirements, internal control, investment limitations, safeguarding requirements, liquidity, performance expectation, quality, and maturity.
- 8.2.2. The goal of the policy is to invest public funds in a manner which will provide the highest investment return with the maximum security while meeting the daily cash flow demands and conforming to all Washington statutes governing the investment of public funds.

8.3. Scope

- 8.3.1. This policy applies to activities of the City with regard to investing the financial assets of all funds as defined and reported in the City’s Comprehensive Annual Financial Report (CAFR). All funds within the scope of this policy are subject to regulations established by the state of Washington.
- 8.3.2. Except for funds in certain restricted or special funds, the City commingles its funds to maximize investment earnings and to increase efficiencies with regard to investment pricing, safekeeping and administration. Investment income is allocated to the various funds based on average daily cash balances.

8.4. Objective

- 8.4.1. All funds will be invested in a manner that is in conformance with federal, state and other legal requirements. The primary objectives, in priority order, of the City’s investment activities shall be as follows:
 - 8.4.1.1. Safety: Safety of principal is the foremost objective of the City. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. To obtain this objective, investments will be diversified among highly rated securities and with various securities and financial institutions.
 - 8.4.1.2. Liquidity: The City’s investment portfolio shall remain sufficiently liquid to enable the City to meet all cash requirements which might be reasonably anticipated. Therefore, the investments shall be managed to maintain a balance to meet daily obligations.
 - 8.4.1.3. Return on Investment (Yield): Yield should become a consideration only after the basic requirements of safety and liquidity have been met. The City’s investment portfolio shall be managed in a manner to attain a market rate of

return throughout budgetary and economic cycles, taking into account the investment risk constraints of safety and liquidity needs. The core of investments are limited to relatively low risk securities in anticipation of earning a fair return relative to the risk being assumed.

- 8.4.1.4. Legal Considerations: Investments will be placed in accordance with RCW statutes and legal requirements of the City.

8.5. Standards of Care

8.5.1. Delegation of Authority

- 8.5.1.1. **Governing Body:** The ultimate responsibility and authority for the investment of City funds resides with the governing body, or the City Council.
- 8.5.1.2. **Investment Officers:** Authority to manage the investment program is granted to the City Manager, Chief Financial Officer, City Treasurer or designee as designated by the City Council within the Investment Policy.
- 8.5.1.3. Responsibility for the operation of the investment program is hereby delegated to the Chief Financial Officer, City Treasurer, or designee, who shall act in accordance with established written procedures and internal controls for management of the investment program consistent with this Investment Policy. Officers will prepare investment reports to the City Council as may be deemed necessary.
- 8.5.1.4. **Investment Adviser:** The City may engage the services of an external investment manager to assist in the management of the entity's investment portfolio in a manner consistent with the entity's objectives. Such advisors shall provide recommendation and advice regarding the City investment program including but not limited to advice related to the purchase and sale of investments in accordance with this Investment Policy.

8.5.2. Prudence

- 8.5.2.1. The standard of prudence to be used by investment officials shall be the "prudent person" standard, which states *"...investments shall be made with judgement and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived."*
- 8.5.2.2. In determining whether an Investment official has exercised prudence with respect to an investment decision, the determination shall be made taking into consideration the investment of all funds over which the official had responsibility rather than a consideration as to the prudence of a single investment, and, whether the investment decision was consistent with the written investment policy.
- 8.5.2.3. The Investment officer, or designee, acting in accordance with written procedures and exercising due diligence, shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided that deviations from expectations are reported in a timely fashion and appropriate action is taken to control adverse development.

8.5.3. Ethics and Conflicts of Interest

8.5.3.1. Officers and employees involved in the investment process shall refrain from personal business activity that could conflict with proper execution of the investment program, or that could impair their ability to make impartial investment decisions. Employees and investment officials shall disclose any material interests in financial institutions with which they conduct business. Disclosure shall be made to the governing body. They shall further disclose any personal financial/investment positions that could be related to performance of the investment portfolio.

8.6. Authorized Financial Institutions, Depositories, and Broker/Dealers

8.6.1. Broker/Dealers and Financial Institutions

8.6.1.1. The City Treasurer will maintain a list of authorized financial institutions and broker/dealers that are selected by credit worthiness. These may include dealers that qualify under Securities and Exchange Commission Rule 15C3-1 (uniform net capital rule). Additions and deletions to the list will be made at the City's discretion.

8.6.1.2. Authorized broker/dealers and financial institutions will be limited to those that meet one or more of the following:

8.6.1.2.1. Financial institutions approved by the Washington Public Deposit Protection Commission; or

8.6.1.2.2. Primary dealers recognized by the Federal Reserve Bank; or

8.6.1.2.3. Non-primary dealers or institutions qualified under U.S. Securities and Exchange Commission Rule 15c3-1, the Uniform Net Capital Rule, and a certified member of the Financial Industry Regulatory Authority (FINRA).

8.6.2. To maintain approved status for investment transactions with the City, broker/dealers are required to provide a current audited financial statement demonstrating compliance with state and federal capital adequacy guidelines. A periodic review of the financial condition and registration of all qualified broker/dealers will be conducted by the City Treasurer.

8.6.3. The City will only place funds exceeding the current FDIC insurance limits with banks who are currently authorized by the Washington State Public Deposit Protection Commission (PDPC) in accordance with RCW 39.58.240. The City Treasurer or designated investment officer will verify the eligibility of banking institutions utilizing the Washington State Treasurer's websites: <http://www.tre.wa.gov/documents/pdpc/publicDepositoriesBanks-Thrifts.shtml> and <http://www.tre.wa.gov/documents/pdpc/publicDepositoriesCreditUnions.shtml>.

8.6.4. Investment Advisers

8.6.4.1. The City may hire an investment adviser to provide investment management services in a non-discretionary capacity, requiring approval from the City prior to all transactions.

8.6.5. Competitive Transactions

8.6.5.1. The City Treasurer or designated investment officer shall obtain competitive bid information on investment instruments purchased on the secondary market.

8.7. Safekeeping, Custody and Controls

8.7.1. Delivery vs. Payment

8.7.1.1. All trades of marketable securities will be executed (cleared and settled) on a delivery vs. payment (DVP) basis to ensure that securities are deposited in the City's safekeeping institution prior to the release of funds.

8.7.2. Third Party Safekeeping

8.7.2.1. Securities will be held by an independent third-party safekeeping institution selected by the City. The safekeeping institution shall be required to provide confirmation of investing transactions and a monthly investment ledger to the City listing each specific security. The investment ledger should itemize and describe each investment to include: specific security, CUSIP number, par value, purchase date, maturity date and market value.

8.7.2.2. All collateral securities pledged to the City for certificates of deposit shall be held in a segregated account at the issuing financial institution that reports to the state's Public Deposit Protection Commission (PDPC).

8.7.3. Internal Controls

8.7.3.1. The Chief Financial Officer is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the City are protected from loss, theft or misuse. The investment portfolio and related investment transactions shall be reviewed and verified by staff members other than the investment officer originating the transaction.

8.7.3.2. The internal control structure shall be designed to provide reasonable assurance that these objectives are met. The concept of reasonable assurance recognizes that the cost of a control should not exceed the benefits likely to be derived and the valuation of costs and benefits requires estimates and judgments by management. At a minimum, the internal controls shall address the following points:

8.7.3.2.1. Control of collusion

8.7.3.2.2. Separation of transaction authority from accounting and recordkeeping

8.7.3.2.3. Custodial safekeeping

8.7.3.2.4. Avoidance of physical delivery securities

8.7.3.2.5. Clear delegation of authority to subordinate staff members

8.7.3.2.6. Written confirmation of transactions for investments and wire transfers

8.7.3.2.7. Dual authorizations of wire transfers

8.7.3.2.8. Staff training and

8.7.3.2.9. Review, maintenance and monitoring of security procedures both manual and automated.

8.7.3.3. The Washington State Auditor shall provide an annual independent review to assure compliance with state law, policies and procedures.

8.8. Authorized Investments and Investment Parameters

8.8.1. Authorized Investments

8.8.1.1. Any local government in the state of Washington, as outlined in RCW 39.59 may invest in:

- 8.8.1.1.1. Bonds of the state of Washington and any local government in the state of Washington;
- 8.8.1.1.2. General obligation bonds of a state and general obligation bonds of a local government of a state, which bonds have at the time of investment one of the three highest credit ratings of a nationally recognized rating agency;
- 8.8.1.1.3. Subject to compliance with RCW 39.56.030, registered warrants of a local government in the same county as the government making the investment;
- 8.8.1.1.4. Certificates, notes, or bonds of the United States, or other obligations of the United States or its agencies, or of any corporation wholly owned by the government of the United States; or United States dollar denominated bonds, notes, or other obligations that are issued or guaranteed by supranational institutions, provided that, at the time of investment, the institution has the United States government as its largest shareholder;
- 8.8.1.1.5. Federal home loan bank notes and bonds, federal land bank bonds and federal national mortgage association notes, debentures and guaranteed certificates of participation, or the obligations of any other government sponsored corporation whose obligations are or may become eligible as collateral for advances to member banks as determined by the board of governors of the federal reserve system;
- 8.8.1.1.6. Bankers' acceptances purchased on the secondary market;
- 8.8.1.1.7. Commercial paper purchased in the secondary market, provided that any local government of the state of Washington that invests in such commercial paper must adhere to the investment policies and procedures adopted by the state investment board; and
- 8.8.1.1.8. Corporate notes purchased on the secondary market, provided that any local government of the state of Washington that invests in such notes must adhere to the investment policies and procedures adopted by the state investment board.
- 8.8.1.1.9. Certificates of Deposit of financial institutions which are qualified public depositories (RCW 39.58.010)
- 8.8.1.1.10. Local Government Investment Pool managed by the Washington State Treasury (RCW 43.250)

8.8.2. Suitable Investments and Diversification

8.8.2.1. Suitable investments for the City were selected due to the lower level of credit risk exposure and ongoing resources required for oversight of credit risk. To ensure diversification within the investment portfolio, limits have been placed on each class of securities. To eliminate risk of loss resulting from over-concentration of assets in a specific maturity, issuer, or class of securities, assets in all City funds shall be diversified by maturity, issuer, and class of security. Diversification strategies shall be determined and revised periodically by the investment officers.

INVESTMENT TYPE	DEFINITION	MAXIMUM % OF PORTFOLIO
U.S. Treasury Obligation	Direct obligations of the United States Treasury	100%
GSE – Agency Obligations	Government Sponsored Enterprises (GSEs) – Federal Instrumentality Securities include, but are not limited to Federal National Mortgage Association (FNMA), the	100%

	Federal Home Loan Mortgage Corporation (FHLMC), Federal Home Loan Banks (FHLB), and the Federal Farm Credit Bureau (FFCB). Although 100% of the portfolio may be allocated to agencies, no more than 30% of the portfolio should be allocated to any one agency to ensure diversification among agency securities.	
Local Government Investment Pool (LGIP)	Investment Pool managed by the Washington State Treasury office. RCW 43.250	100%
Certificates of Deposit	Non-negotiable Certificates of Deposit of financial institutions which are qualified public depositories as defined by RCW 39.58 and in accordance with restrictions therein.	25%
Municipal Debt Obligations	Bonds of the state of Washington and any local government in the state of Washington; at the time of investment the bonds must have one of the three highest ratings of a national rating agency. Debt of the City is not required to be rated.	25%

8.8.2.2 Due to fluctuations in the aggregate surplus funds balance, maximum percentages for a particular issuer or investment type may be exceeded at a point in time subsequent to the purchase of a particular issuer or investment type. Securities need not be liquidated to realign the portfolio; however, consideration should be given to this matter when future purchases are made to ensure that appropriate diversification is maintained.

8.8.3 Maturities and Mitigating Market Risk in the Portfolio

8.8.3.1 Market risk is the risk that the portfolio value will fluctuate due to changes in the general level of interest rates. The City recognizes that, over time, longer-term/core portfolios have the potential to achieve higher returns with a higher volatility of return. The City shall provide adequate liquidity for short-term cash needs and make longer-term investments only with funds that are not needed for current cash flow purposes. The City adopts the following strategies to provide adequate liquidity and to mitigate its exposure to market risk.

MATURITY CONSTRAINTS	DEFINITION	MINIMUM % OF PORTFOLIO
Under 30 days	Liquidity Funds - Readily Available Funds: Local Government Investment Pool Bank deposits Certificates of deposits	10%
Under 1 year	Cash Flow Requirements for Operating Budget Includes short-term liquid funds and short-term maturities maturing within one year.	25%
Under 5.50 years	Funds in Excess of Liquidity Requirements Those funds not required for immediate use or to meet operating budget requirements may be invested in longer-term maturities. The long-term portion of the portfolio includes higher quality and liquid securities such as treasuries, agencies and municipal	100%

	bonds. Maturities longer than 5.50 years must have approval of the Chief Financial Officer.	
WAM (weighted average maturity)	To ensure liquidity needs are met, the weighted average maturity and effective duration of the overall portfolio shall not exceed three years without the approval of the Chief Financial Officer.	3.0 years
Bond Proceeds for Capital Improvement Projects	Bond proceeds should be placed in the Local Government Investment Pool to be readily available for capital project payments. Exceptions for investment of bond proceeds may be made should a capital improvement project exceed one year construction duration and with prior approval of the Chief Financial Officer.	100% of Bond Proceeds

8.8.4 Continuing Evaluation of Market Risk and Liquidity

8.8.4.1 As a general practice securities will be purchased with the intent to hold to maturity. However, it is acceptable for securities to be sold under the following circumstances:

- 8.8.4.1.1 A security with a declining credit may be sold early to protect the principal value of the portfolio.
- 8.8.4.1.2 The portfolio duration or maturity ladder needs to be adjusted to better reflect the structure of the underlying portfolio benchmark.
- 8.8.4.1.3 A security exchange that would improve the quality, yield and target maturity of the portfolio based on market conditions.
- 8.8.4.1.4 A sell of a security to provide for unforeseen liquidity needs.

8.9 Performance Standards

8.9.1 The market return performance will be considered after compliance with state and local laws, and after safety of principal and cash flow requirements are met. The investment portfolio shall be designed to attain a market-average rate of return throughout economic cycles using the Local Government Investment Pool and the 12-month moving average of the two-year Treasury as benchmarks.

8.10 Reporting Requirements

8.10.1 The City Treasurer is charged with the responsibility of preparing a quarterly report to the City Council and City Manager on investment activity including securities holdings, cash balances, market values in the investment portfolio and distribution by type of investment. The report will be prepared in a manner which will allow the governing body to ascertain whether investment activities during the reporting period have conformed to the investment policy and that the portfolio performance meets the appropriate benchmarks.

8.11 Distribution of Income

8.11.1 Interest income received shall be distributed monthly based on average daily cash balances within each participating fund.

8.12 Investment Policy Adoption

8.12.1 The investment policy shall be reviewed at a minimum every two years to ensure its consistency with current law, financial and economic trends and overall investing objectives. The policy should be adopted by resolution of the City Council.

City Treasury Function Responsibilities	
Function	Employee(s) Responsible
1. Authorization of investment transactions a. Formal investment policy	
- Prepared by	Accounting Staff
- Adopted by	City Council
2. Execution of investment transactions	Chief Financial Officer/Treasurer/Investment designee
3. Timely recording investment transactions a. Recording of investment transactions in Treasurer’s records	Treasurer/Investment designee
4. Verification of investment a. Receipt of broker confirmation b. Receipt of safekeeping confirmation	Accounting Staff
5. Safeguarding of Assets and Records	Treasurer
Reconciliation of Treasurer’s records to accounting records	Accounting Staff
Reconciliation of Treasurer’s records to bank statement and safekeeping records	Accounting Staff
Review of Portfolio a. Financial institution’s financial condition b. Safety, liquidity, and yields of investments	Chief Financial Officer
Maintaining complete and current financial institution and brokerage company files	Accounting Staff
Periodic reviews of authorized public depositories	City Treasurer
6. Management’s periodic review of the investment portfolio in conformance to stated investment policy	
- Monthly	City Treasurer
- Quarterly	Chief Financial Officer/City Manager/City Council
7. Annual review of the Investment Policy and Investment Program	Treasurer/Chief Financial Officer
8. Changes in the Investment Policy	
- Prepared by	Accounting Staff
- Adopted by	City Council

9. PURCHASING POLICIES

9.1. Goal

9.1.1. This document establishes guidelines and clarifies the policies for purchasing supplies and materials, and contracting for services by the City of Port Angeles. The City of Port Angeles dedicates itself to purchasing goods and services seeking maximum operational value thereby assuring the prudent and economical use of public monies. The purpose of this policy is to ensure that authorized personnel approve purchases in advance whenever possible, that expenditures are recorded electronically as soon as possible, to maximize internal controls without sacrificing efficiency, and to provide management with the ability to analyze purchasing patterns and cash flow requirements. It is not the intent of this policy to limit or prohibit contracting procedures or options authorized by State law.

9.2. Interpretation of this Policy

9.2.1. The Chief Financial Officer shall be responsible for interpretation of this Policy.

9.3. Financial Information Provided to Council

9.3.1. Prior to any consideration for approval of a motion, resolution, or ordinance for City Council authorization to purchase or acquire any goods or services, including professional services and construction contracts, for the City of Port Angeles, the Council shall be provided with a Fiscal Note prepared by the Chief Financial Officer or designee that details the source and amount(s) of revenues proposed to pay for the purchase together with a budget for the acquisition.

9.3.1.1. The Fiscal Note is required to be included in the Agenda packet delivered to the Council prior to the meeting as well as the packet posted on the City’s website.

9.3.1.2. No proposed acquisition of goods or services may be considered by the Council without the inclusion of a Fiscal Note designed to allow the City Council to make an informed decision on the particular issue at hand.

9.3.1.3. If the proposed acquisition of goods or services is part of a larger project, the Fiscal Note shall include the total budget for the project, the source of funding and a summary of all expenditures made prior to the proposed acquisition.

9.3.2. On a quarterly basis, the Chief Financial Officer shall provide Council with a written report and analysis of the City’s Operating and Capital budgets. The report shall be provided by the 25th day following the end of the quarter unless the Chief Financial Officer has informed the City Council and City Manager of the need for a delay in the delivery of the report. In the message from the Chief Financial Officer informing the City Council and City Manager of the delay in providing the quarterly report, the Chief Financial Officer shall provide the reason for the delay together with the projected date for the delivery of the quarterly report.

9.3.2.1. The quarterly report shall be posted to the City website following delivery to the City Council.

9.4. Purchasing Policy Definitions

9.4.1. Approval Levels: Set by City Council, these are specific dollar levels of authorization for the approval of purchases and payments made on behalf of the City of Port Angeles as noted below.

<u>Purchase Amount</u>	<u>Authorizing Official/Entity</u>
\$0.01 - \$4,999.99	Department Director
\$5,000.00 - \$14,999.99	Department Director & Chief Financial Officer
\$15,000.00 – 24,999.99	City Manager, Department Director & Chief Financial Officer
\$25,000.00 or greater	City Council + City Manager, Department Director & Chief Financial Officer

9.4.2. Any contract or agreement for the purchase of goods or services shall require authorizing signatures:

Purchases of Less than \$5,000:

<u>Purpose</u>	<u>Authorizing Official/Entity</u>
Approval to purchase	Department Director

Purchases of Greater than \$5,000 but less than \$14,999.99:

<u>Purpose</u>	<u>Authorizing Official/Entity</u>
Approval to Purchase	Department Director
Availability of Funds	Department Director, Chief Financial Officer

Purchases of Greater than \$15,000:

<u>Purpose</u>	<u>Authorizing Official/Entity</u>
Approval to Purchase	City Manager
Department Approval	Department Director
Availability of Funds	Chief Financial Officer
Approval as to Form	City Attorney

9.4.3. **Blanket Purchase Order (BPO):** Otherwise known as an “Open Purchase Order,” a BPO is a purchase order used for purchases with local vendors or frequently utilized vendors. BPOs are created with a set dollar amount and are received and invoiced as purchases are made. BPOs are generally for items that are needed daily, but not always anticipated. BPOs are also used for annual agreements such as copier charges, maintenance agreements, etc.

9.4.4. **Emergency Purchases:** An emergency purchase is created by an urgent need affecting the health and safety of citizens, which requires immediate action, and where the occurrence or condition is “unforeseen.” Lack of anticipation or planning cannot be deemed as a cause for declaring an emergency.

9.4.5. **Field Purchase Order (FPO):** FPOs can be used as a quick way to obtain goods or services. An FPO can also be used to request advance payments for legitimate business expenses such as travel, food, lodging, and conference fees. FPO’s should not be used for purchases over \$1,000 unless as specified in policy.

9.4.6. **Purchase Order (PO):** Computer generated numbered document used to authorize a vendor to ship merchandise or to perform services for a proposed price. POs are generated by a requisition, or documentation that has been approved at all required approval levels.

With regular purchase orders, you must add the line item information describing the merchandise or services when you create them. With blanket purchase orders, you can add the line items when you receive or invoice them.

- 9.4.7. **Requisition:** A request to order goods that must be processed through approval levels before a purchase order can be generated. Funds are then pre-encumbered at this requisition phase of purchasing. Buyers then process items from approved requisitions onto purchase orders to selected vendors.
- 9.4.8. **Sole Source & Single Source:** A sole source can be a manufacturer, software developer or service provider that sells direct and there are no other sources offering an “equal” product or service. A single source could be a distributor/wholesaler/retailer that has a contractual agreement for a specific territory to the exclusion of others.

9.5. Policy Requirements

- 9.5.1. All employees making purchases on behalf of the City of Port Angeles shall maintain effective and professional public, vendor and customer relationships. Opportunity will be provided to all responsible suppliers to do business with the City of Port Angeles unless this purchase is required from a sole source. No official or employee will be interested financially in contracts or purchases entered into by the City of Port Angeles.
- 9.5.2. Most purchases will be processed with one of these options:
 - 9.5.2.1. Requisitioned Purchase Orders (PO)
 - 9.5.2.2. Blanket Purchase Order (BPO)
 - 9.5.2.3. Field Purchase Order (FPO)
- 9.5.3. Finance will administer travel, credit card purchases, utility bills, phone charges, and petty cash in accordance with City policies and statutory requirements.
- 9.5.4. Authorization levels of purchases \$5,000 and under will be determined by the Department Director. Each Department Director shall supply the Chief Financial Officer with departmental policy for individual authorization. Individuals authorized to approve requisitions for purchase orders will only have security set up for their level of approval and with those accounts as authorized.

9.6. Requisitioned Purchase Orders (PO)

- 9.6.1. Purchase Orders are created from an authorized requisition. Purchase Orders are for all purchases other than those authorized by blanket purchase orders and field purchase orders. All purchases for capital items, contracts that are subject to retainage, and inventory items need to be made with a purchase order. The requisition for purchase is processed and approved before the purchase is physically made, however this may not be the case in emergency purchases. With regular purchase orders, the line item must be added describing the merchandise or services from the authorized requisition. An authorized person creates the purchase orders, that includes: purchase order information, such as purchase order date, type, and buyer name; vendor information, such as vendor number, name, and terms; quantities of items ordered; unit cost of each item ordered; and inventory information for each item on the purchase order.

9.7. Blanket Purchase Order (BPO)

- 9.7.1. Approval levels established by policy are required as signatures on the Blanket Purchase Order (BPO) request form to authorize creation of a BPO.

- 9.7.2. BPOs are used for frequently purchased items from a frequently utilized vendor. BPOs are usually created at the beginning of the year with an annual anticipated dollar amount of expected purchases. Some department heads or directors may indicate the maximum dollar amount of a single purchase to be entered on a BPO. When a purchase exceeds the authorized maximum, a requisition/purchase order will need to be created for that purchase. The BPO request form includes a section to be completed authorizing the increase on a BPO when the initial balance requested is expended. On BPOs, line items are added as the items are received.

9.8. Receipt of Goods

- 9.8.1. When items are received from a vendor, the receipt is recorded against an open purchase order. Open purchase orders are purchase orders that are not canceled and still have items that are not fully received, invoiced, or both. All items on a purchase order can be received at once or individual items or quantities of an item received separately. The department that created the original purchase order is responsible to receipt all items on the purchase order.

9.9. FPO (Field Purchase Order)

- 9.9.1. An FPO can be used for smaller purchases that may be under \$1,000, such as subscriptions, registrations, and routine budgeted transactions. All items previously posted to an account other than an expense account will be paid using an FPO. FPOs may also be used for larger transactions, insurance payments, debt redemption, other liabilities previously approved, and to request advance payments for legitimate business expenses. Contracts having retainage need to be processed using purchase orders.

9.10. Invoicing

- 9.10.1. Claims shall be processed for payment by the Finance Department after proper processing and receiving is completed at the department level. Invoices should be sent directly to the Finance Department from the vendor. All invoices should be complete with the following: (1) City purchase order number; (2) complete description of goods or service provided; (3) quantity; (4) unit prices and extensions; (5) discount terms; and (6) invoice number.
- 9.10.2. Adequate documentation will be attached to City payment vouchers to assure that it supports a valid, legally authorized purchase. Payments will be made only on original invoices. Properly prepared and approved requisitions, purchase orders, and receiving reports will be attached when applicable.
- 9.10.3. All City claims approved by the Departments are certifying that the materials have been furnished, the services rendered or the labor performed, and that the claim is a just, due and unpaid obligation against the City, prior to submitting the claim to the Finance Department for payment.
- 9.10.4. The department initiating the claim will be responsible for compliance and documentation for bid requirements, prevailing wages, approved change orders, and any additional statutory consideration related to the transaction.

9.11. Check Signing

- 9.11.1. To be valid, all checks in payment of claims must be signed by both the City Manager and the Chief Financial Officer.

9.12. Approval of Payment Claims

9.12.1. It shall be the duty of the Chief Financial Officer to present at each regularly scheduled meeting of the City Council, a list showing all claims paid and the date of payment to enable the City Council to make inquiry on any item appearing thereon. Upon satisfaction of such inquiry, if any, the City Council shall by motion approve the report of claims paid as a permanent record.

9.13. Contracts

9.13.1. The City Manager or his designee may sign contracts of less than \$25,000.

9.13.2. The City Manager or his designee is authorized to enter into lease or rental agreements, provided the agreement does not obligate the City of Port Angeles in excess of \$25,000 and the agreement is for a period that does not exceed one year.

9.13.3.

9.13.4.

9.14. Authority to Enter into Contracts, Leases or Rental Agreements

9.14.1. The City Manager or his designee is hereby authorized to enter into contracts and leases or rental agreements provided that the following conditions are met:

9.14.1.1. The contract does not obligate the City to expend in excess of \$25,000.

9.14.1.2. The particular expenditure of City funds has been approved in the City Budget as approved by the City Council.

9.14.1.3. The lease or rental agreement is for a period that does not exceed one year and involves a total rental amount or value that does not exceed \$25,000. As deemed appropriate by the City Manager, the City Council's Real Estate Committee may be consulted prior to executing any such lease or rental agreement.

9.14.1.4. The City Manager or his designee shall notify the Council in writing of contracts entered into pursuant to this section.

9.14.2.

9.15. Change orders on construction contracts and amendments to professional service agreements

9.15.1. Upon subsequent approval by the City Council of a single or collective series of change orders requiring Council approval, the approval threshold shall be re-set based on the most recent Council-approved contract amount as the starting point.

9.15.2. When approval occurs by the City Manager or respective department head for change orders or professional services agreement amendments according to the conditions stated above, they shall notify the City Council of the change order or amendment in the next bi-monthly contract status report submitted to City Council.

9.16. Definition of credit card

9.16.1. As used in this chapter, "credit card" means a card or device issued under an arrangement pursuant to which the issuer gives to a cardholder the privilege of obtaining credit from the issuer.

9.17. Issuance, use and control of credit cards

- 9.17.1. The City Council hereby adopts the following system for the issuance, use and control of credit cards by City officials and employees:
- 9.17.1.1. The Finance Department shall implement the following system for the distribution, authorization, control, credit limits and payment of bills related to the use of credit cards by City officials and employees:
- 9.17.1.1.1. Distribution. Credit cards will be distributed to those City officials and employees who have job responsibilities which would be facilitated by the use of a credit card and the credit card use would benefit the City. This shall include the City Council, City Manager, Department Heads, Division Managers, and other officials and employees as determined by the City Manager.
- 9.17.1.1.2. Authorization and control. The Finance Department shall develop the implementation guidelines and accounting controls to ensure the proper usage of credit cards and credit card funds.
- 9.17.1.1.3. Credit limits. The Finance Department shall set credit limits on each credit card issued. The credit limit shall not exceed \$2,500 without written approval of the City Manager.
- 9.17.1.1.4. Payment of bills. The Finance Department shall establish and implement a written procedure for the payment of all credit card bills.
- 9.17.1.1.5. Unauthorized charges. No employee shall use the City-issued credit card for non-City business use. Any employee who violates this policy by using a City-issued credit card for non-City business shall be subject to disciplinary action and shall be billed for all charges on the credit card. The City Manager or his/her designee is authorized and directed to make payroll deductions to recover any unauthorized charges.
- 9.17.1.1.6. Cash advances. Cash advances on credit cards are prohibited.
- 9.17.2. The Finance Department is authorized to adopt any additional procedures or policies necessary to implement the provisions of this section.

10. POST ISSUANCE COMPLIANCE FOR GOVERNMENTAL BONDS

10.1. Scope:

10.1.1. This Post Issuance Compliance Policy addresses the City of Port Angeles, Washington’s (the “City”) compliance with federal tax, federal securities and state law requirements and contractual obligations applicable to the City’s tax-advantaged governmental bond issues. The Post Issuance Compliance Policy applies generally to all of the City’s tax-exempt governmental bonds, and other bonds subject to comparable requirements, such as taxable direct-pay bonds. As used in this Post Issuance Compliance Policy, references to “bonds” include bonds, lines of credit, bond anticipation notes, and equipment and other financing leases.

10.2. Purpose:

10.2.1. This Post Issuance Compliance Policy is intended to improve the City’s ability to:

- 10.2.1.1. Prevent violations in bond requirements from occurring in the first place,
- 10.2.1.2. Timely identify potential violations, and
- 10.2.1.3. Correct identified violations through appropriate remedial steps.

10.3. Schedule of Review:

10.3.1. The Post Issuance Compliance Policy is to be reviewed at least annually and upon each issuance of new bonds, including refunding bonds. In connection with this periodic review, the Chief Financial Officer will consider whether the Post Issuance Compliance Policy should be amended or supplemented:

- 10.3.1.1. To address any particular requirements associated with the new bond issue, or
- 10.3.1.2. To reflect general changes in requirements since the prior bond issue.

10.4. Requirements at Bond Closing:

10.4.1. Numerous federal tax, federal securities, and state law requirements must be met in connection with a bond issue. In some circumstances (e.g., revenue bonds) rate and other covenant requirements will also need to be satisfied. These requirements are addressed in the bond transcript completed at bond closing, and confirmed in certain respects by the legal opinions included in the bond transcript.

10.5. Requirements after Bond Closing:

10.5.1. Other federal tax, federal securities law, and state law requirements and contractual obligations require on-going monitoring after the issuance of the bonds.

10.6. Officials or Employees Responsible for Review:

10.6.1. The following officers and employees of the City are identified as the responsible persons for reviewing compliance with the City’s post-issuance obligations. Each responsible individual is to institute a calendaring system to track compliance with tasks in a timely manner.

- 10.6.1.1. Federal tax requirements, including arbitrage, use of proceeds, use of facilities and IRS filings:
- 10.6.1.2. Arbitrage, IRS Filings: Chief Financial Officer or as designated by Chief Financial Officer

- 10.6.1.3. Use of Proceeds: Chief Financial Officer or as designated by Chief Financial Officer
- 10.6.1.4. Use of Facilities: Department Director as designated by City Manager
- 10.6.2. Continuing disclosure requirements:
 - 10.6.2.1. Annual Filing: Chief Financial Officer or as designated in writing by the Chief Financial Officer
 - 10.6.2.2. Material Event Notices: Chief Financial Officer or as designated by Chief Financial Officer
 - 10.6.2.3. Prior to filing each annual filing or material event notice, the Chief Financial Officer is to circulate the draft filing or notice to bond counsel or to the City Attorney for review.
- 10.6.3. The Chief Financial Officer is responsible for reviewing the other requirements under this policy.
- 10.6.4. The responsible persons identified above may need to confer, from time to time, with the City's bond counsel and/or financial advisor (if any) to confirm the applicability and scope of the requirements outlined in this policy. For reference, the contact information for these advisors is provided below:
 - 10.6.4.1. Pacifica Law Group LLP, as bond counsel
 - 10.6.4.1.1. Deanna Gregory at 206-245-1716 or Deanna.gregory@pacificallawgroup.com, or
 - 10.6.4.1.2. Stacey Crawshaw-Lewis at 206-245-1714 or Stacey.Lewis@pacificallawgroup.com
 - 10.6.4.1.3. Edward McCullough at 206-245-1727 or Edward.mccullough@pacificallawgroup.com
- 10.6.5. Training of the responsible official/employee. The City provides opportunities for training to the responsible individuals, specifically including the following training opportunities:
 - 10.6.5.1. At or after bond closing, a conference call or meeting with bond counsel to review the requirements applicable to a new bond issue.
 - 10.6.5.2. Identify other training activities, if applicable – such as participation in in-house training sessions, CPE seminars, or seminars conducted by professional organizations (e.g., GFOA, WFOA, WMTA)
- 10.6.6. Records to be Maintained. The following documents are maintained in connection with each bond issue. The goal is to retain adequate records to substantiate compliance with federal tax, securities law, state law and other contractual requirements applicable to the City's bonds. Generally, records should be maintained for the term of the bonds (plus any refunding) plus four years. Unless otherwise specified, the following records are to be maintained in the office of the Chief Financial Officer.
 - 10.6.6.1. Complete bond transcript (provided by bond counsel) in CD or hard copy.
 - 10.6.6.2. Records of investment of bond proceeds in a format showing the date and amount of each investment, its interest rate and/or yield, the date any earnings are received and the amount earned, and the date each investment matures and if sold prior to maturity, the sale date and sale price.

- 10.6.6.3. Records of expenditure of bond proceeds in a format showing the amount, timing, and the type of expenditure.
- 10.6.6.4. Records of invoices or requisitions, together with supporting documentation showing payee, payment amount, and type of expenditure, particularly for projects involving multiple sources of funds.
- 10.6.6.5. Records necessary to document the allocation of bond proceeds and other sources of funds to particular projects or portions of projects.
- 10.6.6.6. Records documenting the final allocation of bond proceeds to projects, including any reallocations of bond proceeds, in a format showing the timing and substance of the reallocation, if applicable.
- 10.6.6.7. Records demonstrating compliance with arbitrage and rebate requirements, including arbitrage calculations, documentation of spending exceptions to rebate, rebate reports and IRS filings and payments.
- 10.6.6.8. Copies of contracts relating to the use of the bond-financed facility, including leases, concession agreements, management agreements and other agreements that give usage rights or legal entitlements with respect to the facility to nongovernmental persons (e.g., advertising displays, cell tower leases, and naming rights agreements).
- 10.6.6.9. Copies of contracts relating to ongoing compliance with respect to the bonds.
- 10.6.6.10. Copies of any filings or correspondence with the IRS, the SEC or other regulatory body.

10.7. Investment of Bond Proceeds:

10.7.1. In general, bond proceeds and certain other funds can only be invested at a rate that exceeds the yield on the bonds under limited circumstances. Furthermore, amounts earned by investing above the bond yield must be rebated to the IRS, unless the City qualifies as a small issuer or a spending exception is met. The arbitrage and rebate requirements for each bond issue are detailed in the federal tax certificate. The Chief Financial Officer (or the City Treasurer if assigned the responsibility in writing by the Chief Financial Officer) will monitor the investment and expenditure of the funds and accounts listed below. The Chief Financial Officer (or the City Treasurer if assigned the responsibility in writing by the Chief Financial Officer) determines whether the bond issue meets the requirement for one of the expenditure exceptions to arbitrage rebate. The Chief Financial Officer (or the City Treasurer if assigned the responsibility in writing by the Chief Financial Officer) in consultation with bond counsel will determine whether a rebate calculation is necessary and, if so, will perform the calculation or engage a rebate consultant. The Chief Financial Officer (or the City Treasurer if assigned the responsibility in writing by the Chief Financial Officer) will arrange for the payment of any required rebate to the IRS together with the appropriate IRS form on the dates described below.

10.7.1.1. Funds to Monitor.

- 10.7.1.1.1. Bond or debt service funds/accounts
- 10.7.1.1.2. Project or construction funds/accounts
- 10.7.1.1.3. Debt service reserve funds/accounts
- 10.7.1.1.4. Other accounts with bond proceeds or amounts pledged to pay bonds

- 10.7.1.2. Arbitrage Reports; Rebate May Be Due.
 - 10.7.1.2.1. During construction, monitor expenditures to confirm satisfaction of expected exception to rebate (such as six month exception, 18 month exception, 24 month exception)
 - 10.7.1.2.2. The first rebate payment is due five years after date of issue plus 60 days
 - 10.7.1.2.3. Rebate is due every succeeding five years if there are unspent gross proceeds of the bonds
 - 10.7.1.2.4. Final rebate payment is due 60 days after early redemption or retirement of the bonds
- 10.7.1.3. Limitations on Type of Investments. Bond proceeds must be invested as permitted under state law. In addition, the bond ordinance or any bond insurance agreement may further limit the permitted investments. To monitor compliance with these investment restrictions, the City invests bond proceeds in the State Local Government Investment Pool as well as other investments authorized by the City's Investment Policy and Washington State law.
- 10.7.1.4. Use of Bond Proceeds During the Construction Period.
 - 10.7.1.4.1. Monitoring the expenditure of bond proceeds is necessary to assure that the required amount of bond proceeds are expended for capital expenditures and that not more than 10% of the bond proceeds are expended for projects that will be used for in a private trade or business (including by the federal government and nonprofit entities).
- 10.7.1.5. The Chief Financial Officer is responsible for reviewing the transcript for the bonds, and in particular, the authorizing documents and the federal tax certificate, as well as invoices and other expenditure records to monitor that the bond proceeds are spent on authorized project costs.
- 10.7.1.6. If, at the completion of the project, there are unspent bond proceeds, the Chief Financial Officer, conferring with bond counsel, will direct application of the excess proceeds for permitted uses under federal tax law, state law, and bond authorization documents.
- 10.7.1.7. If the project involves bond proceeds and other sources of funds and included both governmental and nongovernmental use of the financed facilities, the Chief Financial Officer will undertake a final reconciliation of bond proceeds expenditures with project costs no later than 18 months after the later of the date of expenditure or the date that the project is placed in service (but in no event more than five years after the date of issue).

10.8. Use of Bond-Financed Facilities:

10.8.1. Monitoring (and limiting) any private use of the bond-financed facility is important to maintaining the federal tax treatment of governmental bonds. In general, no more than 10% of the bond-financed facility can be used in a private trade or business (including by the federal government and nonprofit entities). Private use can arise through any of the following arrangements, either directly or indirectly.

10.8.2. Types of Private Use

10.8.2.1. Selling all or a portion of the facility

10.8.2.2. Leasing all or a portion of the facility

10.8.2.3. Entering into a management contract for the facility (except for qualified management contracts under IRS Rev. Proc. 97-13)

10.8.2.4. Use of all or a portion of the facility for research purposes under a research contract (except for qualified research contracts under IRS Rev. Proc. 97-14)

10.8.2.5. Entering into contracts giving “special legal entitlement” to the facility (for example, selling advertising space or naming rights)

10.8.3. Procedures for monitoring private use; procedures reasonably expected to timely identify noncompliance.

10.8.3.1. All leases and other contracts involving bond-financed property will be sent prior to execution to the Chief Financial Officer for review.

10.8.4. Procedures ensuring that the City will take steps to timely correct noncompliance.

10.8.4.1. If the City takes official action to sell, lease or otherwise change the use of bond-financed facilities to private use, action should be taken under Treas. Reg. § 1.141-12 within 90 days to apply net proceeds of the sale or lease of the facility to other qualifying capital expenditures or to redeem or defease bonds. Upon a determination that there has been or could be a change in use of a bond-financed facility under the monitoring procedures described above, the Chief Financial Officer shall consult with bond counsel and apply net proceeds of the change in use as required.

10.9. Continuing Disclosure:

10.9.1. The City is required to make annual filings with the Municipal Securities Rulemaking Board (“MSRB”) as described in the continuing disclosure undertaking for each bond issue (which may include tax-exempt or taxable bonds), and to file notice of certain material events.

10.9.1.1. Submissions will be made in electronic form through the MSRB’s web-based system known as Electronic Municipal Market Access (“EMMA”), currently available at <http://www.emma.msrb.org>. Submissions will be made in word-searchable PDF.

10.9.1.2. Annual filings to be made:

10.9.1.2.1. Financial information and operating data about the City included in the Official Statement for the bonds

10.9.1.2.2. Change in fiscal year; other information described in the continuing disclosure undertaking

10.9.1.2.3. Audited financial statements

- 10.9.1.2.4. These reports must be filed no later than nine months (e.g. September 30) for the majority of the City's bonds, and seven months (e.g. July 31) with respect to one issue, after the end of the City's fiscal year (the City's fiscal year currently ends December 31)

10.10. Material event notices:

- 10.10.1. The City is required to provide or cause to be provided to the MSRB, in a timely manner, notice of certain events with respect to the bonds. Amendments to SEC Rule 15c2-12 (the "Rule") in 2010 expanded the list of events requiring disclosure and added a 10-day compliance period for undertakings effective after December 1, 2010.
- 10.10.2. Generally, if any of the following events occur, the City shall provide, or cause to be provided, to the MSRB, in a timely manner not in excess of ten business days after the occurrence of the event, notice of the occurrence of the any of the following events with respect to the bonds:
 - 10.10.2.1. Principal and interest payment delinquencies
 - 10.10.2.2. Non-payment related defaults, if material
 - 10.10.2.3. Unscheduled draws on debt service reserves reflecting financial difficulties
 - 10.10.2.4. Unscheduled draws on credit enhancements reflecting financial difficulties
 - 10.10.2.5. Substitution of credit or liquidity providers, or their failure to perform
 - 10.10.2.6. Adverse tax opinions, the issuance by the IRS of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the bonds, or other material events affecting the tax status of the bonds
 - 10.10.2.7. Modifications to the rights of bondholders, if material
 - 10.10.2.8. Bond calls, if material, and tender offers
 - 10.10.2.9. Defeasances
 - 10.10.2.10. Release, substitution, or sale of property securing repayment of the Bonds, if material
 - 10.10.2.11. Rating changes (both upgrades and downgrades)
 - 10.10.2.12. Bankruptcy, insolvency, receivership or similar event of the City
 - 10.10.2.13. The consummation of a merger, consolidation, or acquisition involving the City or the sale of all or substantially all of the assets of the City, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material
 - 10.10.2.14. Appointment of a successor or additional trustee or the change of name of a trustee, if material
- 10.10.3. Procedure for ensuring that notice of the above events is provided to the responsible individual(s) identified above: Chief Financial Officer (or the City Treasurer if assigned the responsibility in writing by the Chief Financial Officer)

10.10.4. Periodic check of information regarding bonds on EMMA. Periodically and at least prior to each new bond issue, the City will search EMMA for its continuing disclosure filings to confirm proper filings have been made.

10.11. Compliance with Bond Covenants:

10.11.1. Particularly for revenue bond issues, the City has made rate and other covenants for the benefit of bond owners. The City monitors compliance with these bond covenants on an annual basis, as part of its annual audit process. These covenants are summarized below:

Covenant	Requirement	Document; Section	Timing
Rates			
Insurance			
Sale or disposition of property			
Debt Service Reserve Fund Balance			

10.11.2. Other Reports. Under the terms of bond insurance policies, letter of credit reimbursement agreements, debt service reserve surety agreements, financing agreements, loan agreements, and remarketing agreements, the City may be required to send copies of budget, disclosure and other documents as well as notice of the issuance of additional bonds, events of default, redemptions or defeasances, or amendments to the bond documents. The following entities are required to receive copies of the following documents or notices.

Entity Type	Name/Contact	Document; Section	Requirement	Timing
Bond Insurer				
Letter of Credit Bank				
Underwriter/Remarketing Agent				
Bank				