There are five elements of the budget process that are considered essential to the successful adoption and implementation of the city’s budget:

1. **Establish Budget Priorities** – the underlying budget policies provide a sense of direction. A proposed budget calendar is attached (Attachment A). The existing budget polices (Attachment B) and proposed budget policies (Attachment C) are attached hereto for your review.

2. **Determine Capital Needs (Capital Facilities Plan)** – annual updates to the city’s capital facilities plan (CFP) provides both short term and long term budgeting strategies that are an essential element in the annual budget adoption process. The Council already approved the transportation component (TIP) of the CFP.

3. **Sound Revenue forecasting** – revenue forecasting based upon both qualitative and quantitative forecasting methods that use common sense tests, local resources and documentation as a basis for your forecast. The adoption of a cost allocation plan will be critical in the forecasting of general fund revenues. (See separate memo on the Cost Allocation Plan.)

4. **Budget Proposals matched with Level of Service Objectives** – a preliminary budget proposal that clearly reflects the priorities, goals and visions of the city are instrumental in demonstrating to both council and the public that their needs and concerns are being met.

5. **Timely and Open Presentation of Plans and Financial Data** - Careful adherence to the budget calendar and transmittal of financial data throughout the year to council. All aspects of the budget process shall be discussed in open public session with opportunities for public input.
<table>
<thead>
<tr>
<th>BUDGET STEPS</th>
<th>STATE LAW TIME LIMITATIONS</th>
<th>PROPOSED START DATES</th>
</tr>
</thead>
<tbody>
<tr>
<td>Council meets to review and set the goals, policies and/or mission statement of the City to provide direction</td>
<td>Not applicable</td>
<td>August – 2nd meeting</td>
</tr>
<tr>
<td>Council to hold public hearings on the Capital Facilities Plan Update- prior to budget process</td>
<td>Not applicable</td>
<td>August – 2nd meeting</td>
</tr>
<tr>
<td>Mayor to meet with Department heads to review the Council goals and priorities for ensuing year</td>
<td>Not applicable</td>
<td>August</td>
</tr>
<tr>
<td>Request by Director of Finance/City Clerk to all department heads to prepare estimates of revenues and expenditures for the next fiscal year</td>
<td>On or before the second Monday in September</td>
<td>August</td>
</tr>
<tr>
<td>Estimates from Department Heads are to be submitted to Director of Finance/City Clerk for compilation</td>
<td>On or before the fourth Monday in September</td>
<td>Mid September (as estimates are submitted begin to develop prelim)</td>
</tr>
<tr>
<td>Estimates are presented to the Mayor for review and potential revision. August – 2nd meeting must submit to the Mayor the proposed preliminary budget showing the complete financial program for the city. It should reflect the expenditures requested by the departments and the sources of revenue to support each program proposed.</td>
<td>On or before the first business day in the third month prior to beginning of the fiscal year.</td>
<td>October 1st</td>
</tr>
<tr>
<td>Mayor provides the Council with Director of Finance/City Clerk’s proposed preliminary budget reflecting the complete financial program for the city, showing expenditures and sources of revenues to support each program proposed.</td>
<td>No later than the first Monday in October</td>
<td>October 1st – 7th depending upon the year</td>
</tr>
<tr>
<td>Council must hold a public hearing on property tax revenues for the coming year’s budget, including possible increases.</td>
<td>Hearing must be held prior to Council voting on Ordinance</td>
<td>First half of October</td>
</tr>
<tr>
<td>Mayor prepares preliminary budget and budget message</td>
<td>At least 60 days before the ensuing fiscal year</td>
<td>November 1st</td>
</tr>
<tr>
<td>Director of Finance/City Clerk publishes notice of public hearing on preliminary budget</td>
<td>No later than the first two weeks in November</td>
<td>November 1st–15th</td>
</tr>
<tr>
<td>Adopt Property Tax ordinance &amp; resolutions</td>
<td>Nov. 15th for cities Nov. 30th for towns</td>
<td>First Council meeting in November</td>
</tr>
<tr>
<td>Council must schedule hearings on the budget</td>
<td>Prior to final hearing</td>
<td>Month of November</td>
</tr>
<tr>
<td>Copies of proposed budget available for the Public</td>
<td>No later than 6 weeks prior to Jan. 1</td>
<td>Mid-November</td>
</tr>
<tr>
<td>Final Public hearing on proposed budget</td>
<td>On or before the 1st Monday of December</td>
<td>Recommend the end of November – or first Council meeting in December</td>
</tr>
<tr>
<td>Adoption of Budget Ordinance</td>
<td>Following the budget hearing and prior to beginning of the next fiscal year</td>
<td>May be adopted at the same Council meeting as the final public hearing</td>
</tr>
</tbody>
</table>
ATTACHMENT B – EXISTING BUDGET POLICIES

City of Langley Budget

Mission Statement

The City of Langley’s government is committed to administering public funds in a manner which protects the city’s long-term financial stability and provides for future growth, while preserving our natural resources and enhancing those qualities that make Langley a unique and desirable place to live.

GOAL 1

To maintain a financial base sufficient to sustain an acceptable level of municipal services that maintain the social well being and physical condition of the city.

POLICIES

a) The City will budget adequate funds to maintain all its assets at a level which protects the city’s capital investment and minimizes future repair and replacement costs.

b) The City will project its equipment and vehicle replacement needs for the next five years and will update this projection each year. From this projection, a replacement schedule will be developed and followed.

c) The Police Department, Sewer, Water, Storm-water and Street departments will budget contributions to Capital Reserves, based on their estimated future share of costs for the replacement of vehicles and equipment.

d) Utility fees will be set at a level that fully supports the total direct and indirect costs of providing service. Indirect costs include the cost of annual depreciation of capital assets. Rates will be reviewed annually and adjusted as necessary.

e) The City will adopt salaries in order to provide essential services and other services as budgeted.

f) The Salary and Wage schedule will be approved annually by Council Resolution.

g) The General fund and proprietary funds will contribute annually to Capital Reserves for future maintenance and improvements to the City owned facilities and buildings not directly connected with other funds.

h) Inter-fund loans will be subject to Council approval by resolution, will bear interest based on prevailing rates and contain a plan for payback.

i) The issuance of bonds shall be financed for a period not to exceed a conservative estimate of the asset’s useful life.

j) Long-term borrowing will only be used for capital improvements that cannot be financed from current revenues.

k) City Council approval is required prior to the issuance of any debt.
l) One half of Real Estate Excise tax receipts will be placed in the General fund for payment of the City Hall/Library debt service; the other one-half will be placed in Capital Reserves for municipal capital improvement purposes.

m) Fee-in-lieu parking fees will be placed in Capital Reserves for parking improvement projects.

n) All departments will contribute to Capital Reserves to maintain an adequate reserve of funds to cover cash-out of accumulated employee sick leave and vacation benefits.

o) The Capital Facilities Plan will be reviewed annually; capital needs not identified in the CFP will not be considered in the budget process.

**GOAL 2**

*To be able to withstand local and regional economic trauma or downturns.*

**POLICIES**

a) Sufficient cash shall be maintained to provide adequate funds for current operating expenditures; all idle cash will be invested on a continuous basis in legal, safe, investments with adequate liquidity and yield.

b) All department heads will actively pursue all state, federal and private grant sources available before committing regular budget resources for major equipment or other extraordinary needs.

c) Revenue estimates, especially in the General Fund, are sensitive to economic activity therefore revenue estimates adopted in the budget will be conservative.

**GOAL 3**

*To adjust to changes in the service requirements of the community and respond to other changes as they affect the city residents.*

**POLICIES**

a) All user fees and charges will be set at a level related to the cost of providing the service, adjusted for inflation, and reviewed annually.

b) Water and Sewer hook-up fees will be placed in Reserves for capital improvements to those systems.

**GOAL 4**

*To maintain adequate fund balances to support cash flow throughout the budget year.*

**POLICIES**

a) The City will maintain a high standard of accounting practices which at all times conform to the State of Washington Budgeting and Accounting Reporting System (BARS).
b) The City will work to accumulate a reserved cash balance of 10% of each operating fund to provide for adequate cash flow throughout the year and cover any unbudgeted contingencies.

c) Capital projects and purchases that are listed in the current budget are presumed approved and can be carried over and expended in the new year as long as there are sufficient funds. The Director of Finance will advise the Council of projects that will be carried over by memo at a Council session. In no case, can the total project amount be increased without Council approval. If the bottom fund balance needs to be increased as a result, an amendment will be made as soon as practical.

d) The City may issue inter-fund loans rather than debt financing to meet short-term cash flow needs or to meet the immediate financing needs of a project for which long-term financing has been secured but not yet received.
ATTACHMENT C – PROPOSED CITY OF LANGLEY BUDGET POLICIES

Policy Context of the Budget

The City budget process is part of an overall policy framework that guides the services and functions of the City. The budget serves a key role in that policy framework by allocating financial resources to the programs, which implement the City’s overall policies. The budget also establishes financial policies to influence the availability of future resources to carry out the City’s policies.

The budget is a balanced budget with legal budgetary control at the fund level; i.e., expenditures and other financing uses may not exceed budgeted appropriations at the fund level.

The City’s basic policy document is its Comprehensive Plan. This plan sets the basic vision for the development of the City and establishes policies and programs intended to achieve that vision. The plan is further articulated by a series of planning elements, which include capital improvement elements (such as utility plans), policy elements (such as housing plans, economic development programs, etc.) and regulatory measures.

A. General Financial Goals
   1. To provide a financial base sufficient to sustain municipal services to maintain the social well being and physical conditions of the City.
   2. To be able to withstand local and regional economic downturns, to adjust to changes in the service requirements, and to respond to other changes as they affect the community.
   3. To maintain an excellent credit and bond rating in the financial community and assure taxpayers that Langley city government is maintained in sound fiscal condition.

B. Operating Policies
   1. The City defines a balanced budget as current revenues (including fund balances) equal to or greater than current annual budgeted expenditures.
   2. The City will attempt to utilize one-time revenues only for onetime/ non-recurring expenditures.
   3. Operating budgets should provide for design, construction, maintenance and replacement of the City’s capital plant and equipment consistent with the 6 –year Capital Improvement Plan including the related cost for operating such new facilities.
   4. The City will maintain all its assets at a level such that it protects the City's capital investment and minimizes future maintenance and replacement costs.
   5. Indirect administrative costs associated with the operation of funds should be identified and charged against the operation of those funds.
   6. The City will project its equipment and vehicle replacement needs for the next six years and will update this projection each year. From this projection, a replacement schedule will be developed and followed subject to fund availability.
   7. All supplemental appropriations for programs (appropriations requested after the original budget is adopted) will be considered as a result of the availability of new revenues (such as unanticipated grants).
   8. The City should accept ongoing service obligations in new areas of programming only when adequate funding is available.
   9. The City’s role in social service funding shall continue to be supplemental (addressing special or unique local needs) to the basic responsibilities of regional agencies.
10. The City shall continue to advocate that the responsibility for funding basic social service needs rests with regional (or broader) agencies that have access to a broader basis of funding and can more appropriately address needs on a regional basis.

C. Budgeting, Accounting, and Financial Reporting Policies
1. The financial structure of the City shall be divided into tax-supported governmental funds (including a General Fund to support the governmental services of the City) and self-supporting proprietary funds. Proprietary funds shall include a series of enterprise funds and fiduciary funds, which shall be managed as business enterprises, completely supported by revenues derived by that enterprise.
2. The accounts of the City and its operating budget shall be maintained in accordance with the State Budgeting, Accounting, and Reporting System (BARS) code and shall provide current financial data on request.
3. The State Auditor will biannually perform a financial and compliance audit of the City’s financial statements. Their opinions will be contained in the State Auditor’s Report.
4. Enterprise funds shall be budgeted on a flexible basis, which allows activities to expand and contract in accordance with increased or decreased revenue earning activity.
5. The City should adjust utility and other enterprise fund rates in increments adequate to offset inflation and to maintain adequate working capital balance and equities.

D. Reserve Policies
1. The City will maintain a cash balance to provide counter-cyclical balance, to protect the City from unforeseen contingencies and to allow an accumulation of resources to finance foreseeable general governmental capital projects.
2. The City will work to accumulate a reserved cash balance of ___% of each operating fund to provide for adequate cash flow throughout the year and cover any unbudgeted contingencies.
3. Each enterprise fund and the General Fund should maintain adequate fund balances or working capital to meet unexpected contingencies. Each utility will maintain a minimum balance equal to 10 – 15% of system fixed assets for fund emergency repairs and unanticipated capital expenditures. The General Fund balance is to be maintained at a level sufficient to meet the cash flow needs of the fund without borrowing. A 10 – 15% minimum working capital balance will be maintained in each utility fund.
4. Each utility fund shall strive to ensure ongoing system integrity through reinvestment in the system.

E. Revenue Policies
1. The City will strive to maintain as diversified and stable a revenue system as permitted by state law to shelter it from short-run fluctuations in any one revenue source. The revenue mix should combine elastic and inelastic revenue sources to minimize the effect of an economic downturn.
2. Because revenues, especially those of the General Fund, are sensitive to both local and regional economic activities, revenue estimates provided to the City Council shall be conservative.
3. The City will establish all user charges at a level related to the cost of providing the service and within policy parameters established by the City Council.
4. In each odd numbered year, the City will review user fees to adjust for the effects of inflation and other factors as appropriate. The City will set fees for user activities at a level to support the direct and indirect costs of the activity in accordance with cost recovery policies adopted by Council.
5. The City will set fees and user charges for each enterprise fund, such as Water/Wastewater and Stormwater, at a level that fully supports the total direct and indirect cost of the activity. Additionally, for analysis and rate modeling purposes, the proposed rates shall also take into account debt service coverage commitments made by the City.

F. Expenditure Policies
1. The City budget will provide for a sustainable level of service.
2. The City’s operating budget will not use one-time revenues to support ongoing expenditures.
3. The City will structure service levels in the context of financial sustainability.
4. A cost allocation plan will be developed and incorporated into the City budget. The cost allocation plan will be the basis for distribution of general government costs to other funds or capital projects (also known as indirect costs).

G. Capital Budget Policies
1. The burden for financing capital facilities should be borne by the primary beneficiaries of the facility.
2. Long-term borrowing for capital facilities should be considered an appropriate method of financing large facilities that benefit more than one generation of users.
3. The issuance of bonds shall be financed for a period not to exceed a conservative estimate of the asset’s useful life.
4. The City will develop a 6-year plan for capital improvements as required by the Growth Management Act of Washington State. The Capital Improvement Plan will be updated annually and be financially constrained for the appropriated budget period.
5. The City will maintain its physical assets at a level adequate to protect the City’s capital investment and minimize future maintenance and replacement costs. The budget will provide for the adequate maintenance and orderly replacement of capital and equipment from current revenues where possible.
6. Enterprise fund working capital in excess of that needed for operations may be used for capital needs in order to conserve the debt capacity of those funds for major facility expansions to meet future needs.

H. Capital Investment Budget Policies
1. The City will develop a six-year plan for capital improvements including operations and maintenance costs and update it every year. Capital expenditures will be forecasted taking into account changes in population, changes in real estate development, or changes in relevant economic condition of the City and the region.
2. The City will make capital improvements in accordance with an adopted 6-year capital improvement program.
3. The Capital Improvement Program and the base operating budget will be reviewed at the same time to ensure that the City’s capital and operating needs are balanced with each other and that the Capital Improvement Program is aligned with the City’s other long-range plans.
4. The City will identify the estimated costs and potential funding sources for each capital project proposal before it is submitted to Council for approval. The City will use intergovernmental assistance and other outside resources whenever possible.
5. The City will determine the least costly financing method for all new projects.

I. Short-Term Debt Policies
1. Short-term debt is defined as a period of three years or less.
2. The City may use short-term debt to cover temporary cash flow shortages, which may be caused by a delay in receipting tax revenues or issuing long-term debt. The City will not use short-term debt for current operations.

3. The City may issue interfund loans rather than outside debt instruments to meet short-term cash flow needs. Interfund loans will be permitted only if an analysis of the affected fund indicates excess funds are available and the use of these funds will not impact the fund’s current operations. All interfund short-term borrowing will be subject to Council approval by ordinance or resolution and will bear interest based upon prevailing rates.

J. Long-Term Debt Policies
1. Long Term debt is that debt which exceeds three years.
2. The City will utilize long-term borrowing for capital improvements that cannot reasonably be financed on a pay-as-you-go basis from anticipated cash flows.
3. The City will determine whether self supporting bonds (such as special assessment improvement district bonds) are in the City’s best interest when planning to incur debt to finance capital improvements.
4. The City will not use long-term debt for current operations.
5. The City will maintain good communications with bond rating agencies about its financial condition. The City will follow a policy of full disclosure on every financial report and bond prospectus including proactive compliance with disclosure to the secondary market.
6. General Obligation Bond Policy
   a. Every project proposed for financing through general obligation debt shall be accompanied by a analysis of the future operating and maintenance costs associated with the project.
   b. Bonds cannot be issued for a longer maturity schedule than a conservative estimate of the useful life of the asset to be financed.
7. Limited Tax General Obligation Bond Policies
   a. As a precondition to the issuance of limited tax general obligation bonds, alternative methods of financing should also be examined.
   b. Before general obligation bond propositions are placed before the voters, the capital project under consideration should have been included in the Capital Improvement Program. The source of funds should describe the intended use of bond financing.
   c. Limited tax general obligation bonds should only be issued under certain conditions:
      i. A project requires monies not available from alternative sources;
      ii. Matching fund monies are available which may be lost if not applied for in a timely manner; or
      iii. Catastrophic conditions.
8. Financing of Lease Purchases
   a. Under Washington State law, the public may vote to approve bond issues for general government purposes in an amount not to exceed 2.5% of assessed valuation. Within the 2.5% limit, the Langley City Council may approve bond issues and/or lease purchases up to 1.5% of the City's total assessed value. In addition, state law provides for an additional 2.5% of assessed valuation for parks and open space purposes with a vote of the public.
   b. Lease purchase financing may be used when the cost of borrowing or other factors make it in the City’s best interest.
K. Accounting, Auditing, and Financial Reporting Policies

1. The City will establish and maintain a high standard of internal controls and accounting practices. The City accounts for revenues and expenditures on a single entry cash basis.

2. The accounting system will maintain records on a basis consistent with accepted standards for local government accounting and the State of Washington Budgeting, Accounting, and Reporting Systems.

3. Regular monthly and annual financial reports will present a summary of financial activity by major types of funds. Such reports will be available via the City’s website.

4. A fixed asset system will be maintained to identify all City assets, their location, and their condition.

5. The City will ensure that City records are audited biannually and which will result in the issuance of a financial opinion. The results of such audit are to be available to the public via the City’s website.

L. Budget Calendar

1. In order to facilitate and implement the budget process, the Mayor will propose a budget calendar at the first regular Council meeting in August.