

TUMWATER BUDGET AND FINANCE COMMITTEE
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CONVENE: 3:03 p.m.

PRESENT: Mayor Pete Kmet and Councilmembers Joan Cathey, Nicole Hill, and Tom Oliva.

Staff: City Administrator John Doan, Assistant City Administrator Heidi Behrends Cerniwey, Finance Director Ursula Euler, and Recording Secretary Valerie Gow.

COMPREHENSIVE WRITTEN FINANCIAL POLICIES: City Administrator Doan reported that although the City has followed sound financial policies as guided by the City's budget process, no formal financial policies have been adopted for the City. Staff is presenting a set of draft policies for consideration. The policies were developed by Director Euler with support and input by the management team.

Councilmember Cathey remarked that as a member of the committee since 2008, this is the first time the budget has been identified as the guiding policy for the City's expenditures to achieve its goals. She supported the statement describing the intent because it sets the tone and is important as it speaks to the budget being part of the City's philosophy, sense of justice and fairness, and how the City expends resources:

"The intent here is to establish written policy and not procedures. Policy is a philosophy or thought process and provides a framework for decision making..."

Councilmember Cathey asked whether regular updates or reviews are planned for the policies. Director Euler responded that the policies should represent a living document over a long term. Previously, policies were confined to each biennial budget. Financial policies should reflect a longer term but could also be flexible and include periodic reviews based on changes in strategies, viewpoints, and the economy, etc.

One of the first choices to consider is whether the philosophy of the policies should be rigid or afford some flexibility. The draft is based on best practices. Additionally, the Council should determine whether the policies should be written as "must" or "shall" or reflect "may" or "should" to create an opportunity for interpretation. The draft was developed as flexible guidelines.

Councilmember Hill added that she supports the tone of the document because it affords flexibility and adjustments.

Director Euler explained that written policies are important with

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respect to being prepared during good and bad times. It is a lesson the City learned in 2008 when there was too much optimism and revenue continued to expand with corresponding plans expanding as well. In hindsight, it is important for the City to establish some reserves during good times because of the unknowns in the future. Having the reserves available during a downturn in the economy is important for the City and is one of the new elements in the document. The City learned that during the recession when infrastructure and contractors cost less. The City would have benefitted if the City had been able to take advantage of those lower costs. Those examples are the smart decisions or the long-term decisions the financial policies help establish and serve as a foundation for that philosophy.

Director Euler referred to Section 3, Reserve and Contingency Policies. The section addresses reserves and reflects some changes. The City has different types of reserves. The City has always maintained a cash flow reserve of a one-year horizon. Other reserves include a contingency reserve for unexpected expenses spanning a time horizon of one to five years, as well as an emergency reserve for catastrophe events, such as an earthquake or ice storm with a time horizon of the present to 25 years in the future. The types of reserves and the purpose of each can be different.

Councilmember Hill noted the Council often refers to the contingency reserve as the emergency fund and has often used the terms interchangeably.

Councilmember Cathey asked whether the General Fund Cash Flow Reserve and the Facility Reserve are interchangeable. Director Euler replied that the Facility Reserve is a long-term savings account spanning one to five years for facility needs, such as a major repair or an acquisition. The reserve serves somewhat as a down payment to avoid assuming too much debt.

Mayor Kmet added that the General Fund Cash Flow Reserve was established to cover the City's monthly expenses as property tax revenues are only received twice annually. Prior to establishing the reserve, the City often had to borrow funds to pay employees and other City expenses. Former Mayor Ralph Osgood established the reserve to cover expenses to avoid short-term borrowing.

Councilmember Cathey asked whether a Council action could move funds from one reserve to another reserve. City Administrator Doan acknowledged the Council has the option of changing the policies. Some of the accounts are dictated by state law, but most of the reserves are overseen by Council decisions.

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Mayor Kmet noted reserves are one-time sources of funds and once expended, not automatically replenished. At the state level, many of the reserves in various accounts have been stripped by the Legislature to pay for education. That theoretically could happen at the City, which is one of the perils associated with reserve accounts. However, it also speaks to the importance of establishing a philosophy for reserve accounts, as future councils might not be as tempted to use reserve funds for unintended purposes.

Director Euler reported the City includes a “cumulative reserve fund” in the Tumwater Municipal Code (TMC). Some of the provisions in the draft are from the TMC. However, the code does not establish a dollar amount. The draft includes an arbitrary amount of \$2 million. Accumulating the funds could occur over time or the dollar amount could be changed. However, staff believes it would be useful to identify the dollar amount or the source of funding. Today, the reserve is depleted.

Councilmember Hill commented that the only reserve the Council has funded is the contingency reserve. Some of the Utility Funds have reserves that are accumulating in anticipation of future projects. She asked whether the City’s ER&R account is fully funded. Director Euler replied that based on projections, the account is funded but could use some additional funds because of identified future needs. Funds for the account are collected on an annual basis for future replacement of City equipment, computers, and other assets. However, the current balance reflects sufficient funds to replace current assets. The fund doesn’t anticipate emergency needs.

Mayor Kmet suggested renaming the “contingency fund” as the “Emergency Fund” to clarify the intent of the reserve funds. Councilmember Hill said a contingency fund provides more flexibility versus an emergency fund. The City has successfully utilized the funds when necessary.

Director Euler said the contingency fund was established based on the RCW, which defines the types of emergencies funded from the contingency reserve. It is possible to change the titles within the City code to align the terminology correctly with the use.

Director Euler reported the City currently allocates an 8% reserve in the general fund for cash flow. A new policy adds the same amount of reserve for Utility Funds as a cash flow reserve. Another new item is a revenue statement in the Water Utility Fund as water revenues partially depend on water usage with the fee structure tied to consumption subject to fluctuation each year. For the Water Utility, the draft includes language increasing the cash flow reserve to 20% rather than

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8% because of weather factors creating higher risks. The proposal is a way to manage risk when revenues fall below annual expectations and consumption. The \$2 million designated in the Facilities Reserve is new in the draft policies as well.

Discussion ensued on potential differences between a “Contingency Fund” and an “Emergency Fund.” Councilmember Oliva noted the comments in the margin of the page indicate the “Contingency Fund” is established to be known as the “Emergency Fund.”

Mayor Kmet said the Council adopted a contingency reserve fund, which was for facility repairs. However, other language for that specific fund speaks to “and/or for revenue stabilization for future general government operations.” He asked about the philosophy the Council was attempting to achieve by adding that language, as it obviously is not related to facility repair. City Administrator Doan said the adoption of the fund predates his arrival to the City. When he first arrived, the fund included monies for City Hall and tended to function as an emergency fund because at that time, the City had no emergency fund. The fund served multiple purposes. He recommended deleting the language if the fund is designated only for facilities, which would require an amendment to the TMC in addition to the policy.

Director Euler responded to comments about defining the different funds. She described each fund and explained how each fund is based on a level of uncertainty, the magnitude it could have, and the period each fund covers.

Director Euler reviewed Section 4, Revenues and Other Resources. The section emphasizes how setting fees uses a full lifecycle cost approach to ensure the fees account for future needs. When assuming debt service for major projects, the City must also consider the debt service payments as an obligation. It is important to set fees to pay for debt service and other future needs.

Councilmember Hill inquired about the definition of “fund balance” at the end of the year and whether fund balance pays for ongoing expenses, such as personnel in the next budget. Director Euler advised that “Fund Balance” is the money remaining after the end of the year when all expenses have been paid. The “Fund Balance” is tracked separately and becomes the Beginning Fund Balance” the next year.

City Administrator Doan said the treatment of “Fund Balance” is difficult to explain because staff identifies why the City has additional funds at the end of the year and then determines the proper use of the funds. Councilmember Hill said her question was whether “Fund Balance” should be included in the definition of one time revenue

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because it is dependent on how the funds are allocated.

Director Euler conceded that labeling “Fund Balance” as revenue might not be appropriate other than it is one-time resource. The funds are carried forward to the new year.

Councilmember Cathey asked whether the City’s pursuance of sponsorships is a philosophy the Council wants to encourage as a way to remain economically competitive as a quality community for residents and businesses. Director Euler said the section addresses the solicitation of sponsorships and pursuing fundraising and donation activities. It was important for the policies to enable that activity. Director Denney reviewed the provisions and offered some changes to the language. The only caveat is ensuring the activity does not favor any person or organization, such as an organization receiving an unfair advantage. The language was adjusted to reflect that sponsorships are fairly applied.

Councilmember Cathey supported inclusion of the language.

City Administrator Doan added that the Parks and Recreation Department has a detailed policy on sponsorships. Councilmember Cathey recommended a review of the sponsorship policy to ensure cohesiveness with the Financial Policies.

Councilmember Cathey asked about the identity of City staff that may consider non-payment of utility bills because of hardship under special circumstances or arrange for payments over time for up to twelve months. Director Euler advised that staff has had several conversations surrounding delinquent utility customer. She advised staff to assist customers who are honest and avoid those customers who take advantage of the City. For those customers facing a hardship, the City forgives penalties on a regular basis and staff works with a threshold amount to waive fees under a specific dollar amount. The intent is to incentivize the customer to assist them in paying their bill. Some customers have been afforded a delayed payment plan up to three months. The provision for payments up to 12 months is a recommended change. If the amount exceeds the threshold, the next step is approval by the Finance Manager. If that threshold is exceeded, the Finance Director reviews the request.

Councilmember Cathey noted that she had some concerns and wanted to address the issue because of incidents she encountered while at City Hall when some customers were not treated properly.

Councilmember Hill asked about revising the procedure if the Council adopts the recommendations in the Financial Policies to provide some

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different thresholds and more flexibility.

Councilmember Cathey inquired about an emergency fund to assist customers who are experiencing problems paying their utility bill. After she encountered one of the situations, she offered to pay the customer bill but was informed that she could not pay the bill. She is unsure as to why she couldn't pay the customer's bill.

Mayor Kmet said the provision also speaks to the opposite situation of ensuring the City does not afford favors to people. He recommended documenting all decisions. Implementation of a control system could include the committee periodically reviewing a summary of decisions. He noted the Council previously established an emergency utility fund, which is unfunded.

Director Euler acknowledged the adoption of a resolution to create a fund to assist customers who need financial assistance to pay their utility bills. Implementing the resolution is pending at this time. Mayor Kmet suggested including some language identifying the resolution and the fund.

Mayor Kmet referred to the conversation surrounding "Fund Balance" and whether those funds are considered one-time revenue. Since, the funds are carried over, the revenue should be considered one-time revenue. Councilmember Hill pointed out that the policies dictate that one-time revenue is not used for ongoing operations; however, the City has carried the funds forward and used it for ongoing operations. She offered an option of labeling "Fund Balance" differently in terms of its use.

Director Euler conveyed that she believes the City uses "Fund Balance" as a one-time resource. During the budget process, the "Fund Balance" is considered when developing the draft budget by ensuring ongoing revenues pay for ongoing expenditures and one-time expenses are paid from one-time revenue sources.

Mayor Kmet suggested eliminating "extraordinary" from the language as "Fund Balance" essentially is more revenue than anticipated in the budget. Councilmember Oliva suggested referring to the revenue as "Carry Forward" to identify the revenue as one-time. Labeling it as "Fund Balance" could have different connotations. Mayor Kmet recommended retaining the language because it is an accepted term, as well as adding language in the section on how one-time monies are expended.

Director Euler reviewed Section 6, Budget Preparation. The section, although not new, formalizes the budget process and the methods of

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appropriation after adoption of the budget.

Councilmember Hill questioned the accountability when a department overspends its budget but the overall City budget is below forecast because other departments are under budget.

Director Euler addressed the consequences of managing department budgets. Each director is responsible for their respective budget. The Council receives quarterly reports on the status of expenditures compared against the budget.

City Administrator Doan commented on the responsibilities of department directors in the oversight, management, and accountability of their department's budget.

The committee and staff discussed the process for funding special items or projects. City Administrator Doan described the difficulty of funding items because some funds are restricted in terms of the type of expense and other items might be ongoing operational expenses requiring an ongoing source of revenue. The committee was encouraged to offer recommendations on funding a particular project as early in the budget process as possible.

Director Euler reviewed Section 7, Stewardship Over What the City Owns. The City owns a variety of assets of properties, supplies, cash, infrastructure, and buildings, etc. The City has good internal controls to ensure appropriate activities and periodic inventorying of all assets. Stewardship of assets also includes the appropriate disposal or retiring of assets that have become obsolete, unsafe, or are no longer operational. The City lacked sufficient procedures for the disposal of assets. She conducted some research because of the importance of establishing policies to afford staff with the ability to surplus or dispose of assets quickly, efficiently, and in a way that is appropriate. The section includes new language on surplus items, as well as disposal of items that have outlived their usefulness.

Councilmember Cathey asked about the City's rules and regulations for gifting to charities. Director Euler said charity gifting is allowed. Typically, City furniture is surplus through the state. Mayor Kmet said the Police Department has provided bicycles to bike organizations.

Councilmember Cathey recommended surplus items to agencies that assist the homeless.

Staff described how the Equipment Rental and Reserve Fund (ER&R) not only funds equipment replacements but funds employees who repair and maintain items and systems.

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Director Euler reviewed Section 8, Long-term Capital Facilities Financial Planning, and Section 9, Long-term Operational Financial Planning. The only decision point for the sections is whether to extend the planning forecast beyond six years. Both the Capital Facilities Plan (CFP) and the General Fund have a six-year forecast. Extending the forecast has both positives and negatives; however, forecasting beyond six years essentially is a formula and may not add value.

Councilmember Hill suggested that a six-year horizon for expenditures is preferable assuming department directors are planning beyond six years.

City Administrator Doan noted that planning beyond a six-year forecast is also reflected in the Capital Facilities Plan for the different funding plans.

Councilmember Cathey supported maintaining a six-year forecast.

Director Euler described terminology of “idle cash” in Section 10, Investments, as earnings from interest, unspent bond funds, and reserve funds.

Councilmember Cathey asked about the flexibility the City has in terms of how funds are invested.

Councilmember Oliva asked whether the City has an existing investment policy. Director Euler reported the draft serves as the City’s investment policy. The City relies on the Washington Investment Board investment policy, which is very restrictive. The first priority of the investment is safety followed by liquidity and market rate return.

Councilmember Cathey asked about the City’s ability to designate City investments to socially responsible entities. Director Euler described the difficulty of identifying investment sources through the state’s investment fund. City Administrator Doan added that the City’s investment is also minimal in comparison to other investments because it lacks a pension fund to invest. Cities such as Tacoma and Seattle have large pension funds and have advisory committees that help to direct investments. The City is also restricted by state law. When the City invests in the state investment pool, the City has access to the funds. The City does not have the ability to designate the investment source.

Director Euler said staff would follow up with the state investment board regarding investment flexibility.

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Director Euler referred to table on different forms of debt in Section 11, Debt. The table reflects a City policy that is more restrictive than the RCW; however, the amount could be changed as the figures represent a choice and were derived from an example from the City of Bellevue.

Mayor Kmet remarked that the policy choice to consider is how much debt the City should carry. His approach has been to borrow less to the extent possible and pay upfront.

City Administrator Doan added that it would be difficult for any jurisdiction to assume debt at limits established in the RCW. For example, the City of Tumwater's RCW limit of 2.50% would equate to bond debt of \$2.2 million.

Director Euler noted the last several sections fulfill requirements and best practices.

The committee supported incorporating the changes as discussed and reviewing the revised draft with the committee.

**ANNUAL SALARY
ADJUSTMENTS:**

City Administrator Doan reviewed a list of proposed salary adjustments. Each year, the City adjusts salaries to respond to reorganizations, external comparables, market conditions, and internal equity. The City's Salary Schedule has 84 grades and steps within each grade. Of the City's 200 employees, 87 employees are non-represented employees. The Salary Schedule also bands two different classifications of department directors with the exception of the City Attorney and the City Administrator positions.

The City recently promoted the Police Commander to Police Chief creating a vacancy for the Police Commander position. Recruitment of the position as an internal promotion is difficult as lieutenants applying for the promotional opportunity are still members of the bargaining unit and receive a variety of specialty pay, overtime pay, and educational incentives. A promotion from Lieutenant to Police Commander creates more than a \$5,000 pay reduction under the current grade system. The proposal rectifies that situation by increasing the Police Commander grade from 74 to 78 and increasing the Police Chief grade, currently at 78, to grade 82. Although the changes might appear to be innocuous, the increase in the two positions has an impact on the upper Salary Schedule by paying one department director more than those within the same band. Staff recommends retaining the existing band during 2018 and consider an adjustment in the next biennial budget for other department directors. Next year, should the Council elect to retain the same banding system and the

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separation between positions, the Council could address the gap and consider either increasing the other ranges or retaining them.

Councilmember Oliva asked whether that action would incur some rationale to increase the top two salaries as well. Mayor Kmet responded that it likely would.

City Administrator Doan added that should the Council retain the current system, which has a separation between the upper directors and the City Attorney and City Administrator, then an adjustment would be warranted; however, the Council could also elect not to change the schedule. For example, the City of Olympia pays its police chief more than the city manager. The proposal for consideration by the committee is to adjust the Police Commander and Police Chief salaries.

Councilmember Hill commented on the potential long-term ramifications and the potential of the Police Chief earning more than the City Administrator.

Mayor Kmet suggested the issue of the bands would be a biennial budget discussion rather than a mid-year adjustment.

City Administrator Doan added that comparable salaries of the Police Commander and Police Chief positions were reviewed. The proposal is comparable to what other communities pay commanders and police chiefs.

Councilmember Hill asked whether it is typical for cities to compensate police more than department directors. Assistant City Administrator Behrends Cerniwey replied that although not typical, it is also not uncommon, as there is often a differential in the command structure from sergeants to lieutenants and a differential between lieutenants and commanders and police chiefs. Sometimes salaries for police are separate from a city's salary schedule.

Councilmember Hill commented she values equity between directors. She asked whether it is common practice to compensate police more than a finance director, public works director, city attorney, or a fire chief. Assistant City Administrator Behrends Cerniwey replied that she could only speak to the issue anecdotally, but it is not uncommon because police are often paid more.

Councilmember Hill commented that she values equity for management levels and that the decision is long term and does not apply only to the police chief and commander positions.

City Administrator Doan pointed out that the issue pertains to

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compression whereas police officer salaries are established through collective bargaining and increases in pay generally exceed the rate of inflation. Police salaries typically increase each year while non-represented employee salaries typically do not increase at the same level each year. In most cities, 80% of the top paid employees are either police officers or firefighters.

Councilmember Cathey commented that the higher percentage speaks to why some cities are nearly bankrupt and why some services are not offered or maintained. This discussion is repetitive each time the Council reviews salaries. She asked about the comparables the City considers.

City Administrator Doan replied that when comparing salaries, staff calibrates positions by position and title with population as another indicator. However, cities with a comparable population also differ in terms of location and the economy. Staff attempts to adjust for those differences as some cities generate more revenue than others of comparable size. The City of Tukwila is a good example of a similar-sized population but with a significantly different tax base. Salary schedule adjustments involve some science and art, as well as a tremendous amount of time to compare comparables.

Councilmember Cathey remarked that she also considers the specific job as another city of 23,000 people may have a different population mix and the presence of more gangs. In Tumwater, police officers work in a fairly calm environment compared to other communities with a population of 23,000 people. She expressed frustration, as the discussion never considers the job and the actual work while the City continues to compensate much or more than another city of comparable size or population.

Councilmember Hill expressed some uneasiness with the situation as she views each position as important.

City Administrator Doan reviewed the other proposed adjustments. The proposal for the Assistant City Administrator position changes the grade as only one person assumes the position of both the Assistant City Administrator and the vacant Administrative Services Director. The proposal increases the position grade from 72 to 76.

The Communications Manager position is an upgrade of the current position. The incumbent has assumed some significant fundraising work for the Old Brewhouse. The increase is both internally and externally compatible.

The increase in grade for the Water Resources Program Manager is a

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result of the increase in priority and the amount of staffing and resources dedicated to the program.

Other proposed changes involve a recent reorganization of the Police Department caused in part by the recent passing of the Evidence Technician. The proposal creates an opportunity for a promotion of an employee in a clerical position. The existing Evidence Technician and Secretary position would be converted to a Police Specialist I (non-commissioned). The Code Enforcement Officer and the Service and Transportation Officer positions would convert to Police Specialist II (limited commission) to afford some flexibility in the Police Department. Without adding any additional positions, the proposal also creates a Police Administrative Manager to enable a non-commissioned employee to handle scheduling, purchasing, and budgeting while affording commissioned officers with the ability to carry out police duties.

Another proposed change is an adjustment to account for market conditions and the job responsibilities of the Payroll Officer.

The position of a Utility Billing Lead was previously approved but never filled because of transitions in the Finance Department. The position is included in the Salary Schedule and represents a one-step increase. The last proposal increases the grade for the Recreation Program Assistant. The position requires a college education and the incumbent has completed college and manages the after school program and the Tumwater Youth Program.

The proposed COLA increase for non-represented employees is 2% and a 1% increase in contribution to the 401 plan.

Councilmember Hill left the meeting.

Committee members and staff reviewed the proposed action. City Administrator Doan acknowledged Councilmember Hill's concerns while emphasizing that the adjustment in bands or salaries for directors would not be necessary until next year as the current issue resides in the police command structure. Although internal promotions are important for providing leadership positions to employees, it is possible to recruit for the Police Commander position externally while acknowledging some structural issues currently exist.

Councilmember Oliva inquired about the possibility of moving the Police Chief position from a grade 78 to an 80 rather than 82. Assistant City Administrator Behrends Cerniwey advised that the proposal from 78 to 84 maintains the grade differential between the Commander and the Police Chief.

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Councilmember Oliva acknowledged the need to increase the grade of the Police Commander and the Police Chief but preferred to increase the Police Chief grade to 82 because it would assist in the future adjustments of other department directors. The salary difference between grade 78 and grade 82 is \$12,000 a year.

Councilmember Cathey was not supportive of being a City that pays its Police Chief higher than other employees in the organization. Mayor Kmet noted the proposal would not reflect that outcome as the Police Chief pay would be less than the City Attorney.

Councilmember Oliva recommended approving the proposed amendments except adjusting the Police Chief grade to reflect an increase to Grade 80 and reviewing the Salary Schedule during the Council's budget preparation next year.

MOTION: Councilmember Oliva moved, seconded by Mayor Kmet, to recommend the amendments to the City Council of the Salary Schedule with an adjustment in the increase of the Police Chief position from grade 78 to grade 80. Motion carried unanimously.

MOTION: Councilmember Oliva moved, seconded by Mayor Kmet, to recommend the City Council approve the proposed non-represented employee COLA. Motion carried unanimously.

ADJOURNMENT: With there being no further business, Mayor Kmet adjourned the meeting at 5:19 p.m.