



# Washington State Auditor's Office

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## Local Government Performance Center

# Becoming fiscally fit –The City of Lakewood makes a bold commitment

### Background

In August 2014, the State Auditor's Office released *Progress Report: Local Government Financial Health*. This report highlighted signs of declining financial condition identified by audits since an initial report in November 2012. During this reporting period, we found 57 local government organizations showed indicators of declining financial condition. In light of this, there is a strong need for effective leadership in financial management. Sound financial management practices are grounded in sensible financial policies. Professional staff or experts should develop policies addressing these key areas, which can then be formally adopted by the jurisdiction's governing board.

### City of Lakewood adopts 'best practice' financial policies

As noted in our Progress Report, the City of Lakewood showed several indicators of declining financial condition:

- Expenditures exceeding revenues (2012)
- Declining/negative fund balance (2011, 2012)
- Reliance on interfund loans (2011)

In September 2014, the City Council demonstrated a strong commitment to prudent fiscal management by adopting a set of comprehensive financial policies that provides an essential foundation and framework for the City's recovery to a more sustainable financial future. The City adopted policies in the following areas:



**The Government Finance Officers Association recommends three policy areas for urgent attention:**

- Financial planning
- Revenue
- Expenditure

Policy area	Objective
Operating budget	Ensure the appropriate levels of City services at reasonable costs
Fund balance	Provide adequate working capital for cash flow and contingency purposes
Revenue	Ensure funding is derived from equitable, defensible, sustainable and adequate resource base, while minimizing tax burdens
Expenditures	Prioritize services, establish appropriate levels of service, and administer the resources to ensure fiscal stability and services are delivered in an effective and efficient manner
Interfund loans	Provide guidelines regarding the establishment, management and repayment of interfund loans
Debt management	Articulate the guiding principles for issuing and managing City debt before consideration of specific actions.
Capital improvement	Forecast and match projected revenues and capital needs
Cash management and investments	Balance the day-to-day need for revenues while achieving the highest rate of interest that is reasonable and within the City's acceptable level of investment risk
Financial reporting	Provide accurate, timely financial reports to drive better decision making and transparency

## Benefits of adopting financial policies

As the City Manager notes, in a memo to the Mayor and Council dated September 14, 2014, there are many benefits to adopting financial policies. Sound policies:

- Help the City Council, City Manager and leadership manage the city's finances
- Save time and add clarity when discussing financial matters
- Increase public confidence and credibility with investors and bond rating agencies
- Provide continuity as civic leadership changes over time
- Provide a means for dealing with fiscal emergencies

These financial policies will help the City of Lakewood manage its money responsibly and deliver projects and programs that will enhance the lives of city residents.

### The City and its council made a commitment to adhere to a set of rigorous financial policies. Examples include:

**Long range forecast** – With each budget, the City will update spending and revenue projections for the next six years. Projections will include estimated operating costs for capital improvements that are in the capital budget. Data will come to the City Council in a form that can facilitate budget decisions, based on a multi-year perspective.

**Excess cash balances** – Cash balances in excess of the amount required to maintain General and Street Operations & Maintenance Fund reserves may be used to fund one-time or non-recurring costs.

**Quarterly financial reports** – The budget will be produced so that it can be directly compared to the actual results of the fiscal year and presented in a timely quarterly report. All budget amendments, both revenues and expenditures, will be noted in the quarterly financial report.

**Enterprise fund balance** – The City will maintain a minimum cash balance in its enterprise funds equal to two months operating expenses, to ensure adequate maintenance reserves and cash flow. Higher balances may be used for capital projects.

**Use of one-time/unpredictable revenues** – The City will not use one-time revenues such as proceeds from the sale of land or surplus equipment, legal settlements, or revenue windfalls for recurring operating expenditures.

**Interfund loans** – The city will not use interfund loans to solve ongoing structural budget problems.

The City will review these policies annually, and reaffirm them as part of the Council's biennial budget process.

### **The Local Government Performance Center helps local governments get FIT**

The Local Government Performance Center within the State Auditor's Office is assembling new resources that can help local governments identify and respond to financial problems without waiting for an audit to detect them. Once such resource is the Financial Intelligence Tool, or FIT:

- Provides standard, transparent, understandable and easily accessible financial information
- Guides financial decision-makers of any experience level
- Helps local government officials tell their government's financial story



To learn more about FIT, go to: [www.sao.wa.gov/local/Pages/LGPC.aspx](http://www.sao.wa.gov/local/Pages/LGPC.aspx)

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