EF&R BOARD OF DIRECTORS
ADMINISTRATIVE POLICY

SUBJECT: Budget Management and Reserve Policies

Policy Number: **0002**	Approved By: EF&R Board of Directors
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Attachments: 0	

1. **Purpose**

1.1 To provide guidance and clarification on how the budget will be structured and developed, define the budget control system, how to amend the budget and specific revenue and expenditure principles to ensure ongoing financial sustainability and operating practices.

1.2 This policy ensures the Agency remains a financially stable organization by maintaining appropriate reserves which position EF&R to effectively plan for cash funded needs, as well as unplanned needs caused by significant economic downturns, manage the consequences of outside agency actions that may result in revenue reductions, and address unexpected emergencies, such as natural disasters, catastrophic events caused by human activity, or excessive liabilities or legal judgments against the organization.

2. Reference

2.1 EF&R ILA

2.2 EF&R Operating Budget

2.3 EF&R Capital Facility Maintenance Fund

2.4 EF&R Equipment Replacement Fund

3. Responsibility

3.1 Eastside Fire & Rescue Board of Directors (Board) and the Fire Chief (Chief)

4. Policy

4.1 General

4.1.1 Scope and Length of Budget Period: The budget shall be based on a fiscal year beginning January 1 through December 31, and revenue and expenditures for all funds shall be adopted annually.

4.1.2 Beginning January 1, 2019, EF&R shall begin a two-year budget cycle.

4.1.3 Budget Process: The Chief shall annually prepare a balanced budget showing all planned expenses and identifying all revenues to fund the planned expenses.

4.1.4 Budget Adoption: The annual budget shall be adopted, via agenda bill, by the Agency's Board on or before December 31 of each year.

Due to participation requirements with NORCOM (dispatch services), EF&R's budget as it pertains to NORCOM's funding needs, must be approved prior to December 1.

4.1.5 Level of Control: Budgetary control shall be at the Chief level. The Agency cannot spend more than the budget appropriated; however, the Chief has the authority to move funds between line items as long as the overall annual appropriation is not exceeded.

5. Definitions

5.1 Operating Fund: The Operating Fund budget is adopted at the Fund level, meaning the Chief has authority to move funds between line items and shall have a minimum reserve of 10% of budgeted expenses to maintain operations (ILA Exhibit A).

5.2 Facility Maintenance and Repair Fund: The Facility Maintenance and Repair Fund budget is adopted at the Fund level and provides a pooling of dollars for maintenance and repair for fire stations and headquarters. The Chief has authority to move funds between projects and Administration manages the maintenance and repair schedule (ILA Exhibit C).

5.3 Equipment Replacement Fund: The Equipment Replacement Fund budget is adopted at the Equipment level, meaning equipment funded has its own budget authorization that cannot be exceeded without prior approval of the Board. Equipment Replacement Fund (ILA Exhibit B) provides a pooling of funds to replace existing equipment. The scheduled replacement of existing equipment is approved by the Board annually. The agency will maintain a rolling 15-year forecast of revenue versus expenses to ensure a positive fund balance is maintained.

5.4 Capital Assets: A capital asset is a tangible or intangible asset having an expected life of more than one year and costing more than $10,000. The Agency will establish and maintain a capital asset system and conduct or oversee an annual inventory of machinery, equipment, and software. The Chief has the authority to dispose of/surplus non-titled capital assets. Titled assets (e.g. fire engine) declared surplus will be reported, and approved, by the partner listed on the title. Replacement assets will be titled in the name of the appropriate partner. All capital assets will be tagged with a uniquely numbered Agency asset tag identifying the asset as belonging to EF&R.

5.5 Liability Reserve Fund: It shall be the policy of the Board that a segregated fund, referred to as the "Liability Reserve Fund" be established. The Fund shall maintain a minimum annual balance of 20% of long-term liabilities (cash value of vacation liability banks (100%), sick leave banks (25%), and retirement eligible employee replacement cost).

5.6 Balanced Budget: The total of proposed expenditures shall not exceed the total of estimated income and fund balances available. Each fund in the budget must also be in balance; total anticipated revenues plus the necessary portion of fund balance (all resources) must equal total expenditure appropriations for the upcoming fiscal year. Appropriation shall be for a specific fund and balanced based on specific funding sources, therefore savings in one fund shall not be used to cover over-expenditure in another fund.

5.7 Basis of Budgeting: The accounting system is maintained on the same basis as the Adopted Budget. This enables budgets to be easily monitored via accounting system reports on a monthly basis. The budget is prepared on the cash basis, where revenues are recorded when received and expenses are recorded when paid. The Agency will maintain its accounting records in accordance with state and federal laws and regulations. Budgetary reporting will be in accordance with Washington State budget laws and regulations. The Agency will annually report its financial condition and results of operations in accordance with state regulations and on the cash basis as prescribed by the State Auditor's Office by the last day of May of each year.

The Finance Division will prepare such management reports and other internal reports as determined by the Chief. The Finance Division will also prepare regular budget to actual status reports to keep the Board informed throughout the year.

5.8 Long-Term Financial Forecasts: A rolling five-year forecast of revenues and expenses which provide a mid-range indication of the Agency's financial trends and provides context for the preparation of the annual budget shall be maintained. The five-year forecast should assume continuation of current service levels, including known changes that will occur during the forecast period.

5.9 Performance Measurement: The Agency will establish goals and objectives and create and track performance measurements to assure the goals and objectives are achieved in an efficient and effective manner.

5.10 Budget Links to Strategic Financial Plans: The annual budget will be developed in accordance with the policies and priorities set forth in the Board approved Strategic Plan, the needs of the community, and local, federal and state laws.

5.11 Examination of Spending Patterns: The Agency will seek to maximize the value the public receives through its spending by critically examining existing spending patterns to ensure they continue to provide value, and if not, reallocate to services that do.

5.12 Prioritizing Services: The Agency will prioritize services based on the Board's long-term desired results. Additions to the Agency budget outside the annual budget process are discouraged and only approved by the Chief's office in unique circumstances or by the Board when required. All decision package requests will be considered based on available Agency resources and within projected fiscal constraints. All requests must be fully justified to show that they will maintain or enhance service delivery or support new programs.

5.13 Emergency Spending Authority (Financial & Operational): In the event of an operational emergency (e.g. natural disaster, local wildland interface), The Chief shall have emergency spending authority to utilize monies from all available funds and reserves to ensure the continuation of emergency service delivery. The Chief will notify the Board Chair of the expenditures made during the course of the emergency as soon as possible. Each partner will ensure that funds are pre-designated and immediately available to EF&R in the event of an operational emergency. Following an Emergency Declaration from the Chief each partner shall make immediately available their "designated" fire emergency reserve funds. Emergencies that elevate to a King County and/or State Declaration of Emergency will be documented in a manner consistent with FEMA reimbursement policies.

5.13.1 In the event of a financial emergency (e.g. large number of unplanned retirements), the Chief shall notify the Board Chair of the impact to the Agency and service delivery concerns. Once the Chief recognizes that a financial emergency is going to exceed internal budget and contingencies he/she will notify each partner in writing. Upon receipt of the notification of the financial emergency the partner will place an agenda item on their next governing board agenda for approval to fund their proportional share (as described in the ILA) of the financial emergency.

5.13.2 Partners that receive reimbursement directly related to a declared disaster shall reimburse EF&R the allotted portion of costs associated with EF&R services (i.e. FEMA reimbursement/State Mobilization).

5.14 Funding Liabilities: The current portion of long-term liabilities (i.e. capital infrastructure, annual costs of maintaining and replacing capital assets, contributions to employee pensions and negotiated benefits), at a minimum, should be funded in the annual budget.

5.15 Contract Impacts: While negotiating and evaluating contracts the Chief shall consider the total budgetary impact of each contract. Once approved by the Chief, or Board when required, all impacts of the contract will be included in the base budget of the agency (i.e. Salary increases contained within a CBA will result in a line item increase in appropriate overtime lines; Standard fee increases for Information Technology service contracts will be included in base budget for the appropriate year).

5.16 Budget Process: The budget will be developed following a detailed calendar to ensure timely preparation and execution, provide opportunities for citizen participation, follow State law, the EF&R ILA, and be summarized within a budget document to clearly communicate policy decisions.

5.17 Audit: The Agency's financial statements will be audited regularly by the Washington State Auditor's Office on a schedule determined by that office as is required by State law. The results of such audits will be communicated to the Chief and to the Board.

6. Budget Control System

6.1 Modified Expenditure Control Budgeting (MECB): MECB will be utilized in order to encourage cost effectiveness while providing quality services to Eastside citizens. MECB assumes existing service levels will be maintained and new or enhanced programs require an ongoing source of funding before initiation. The use of MECB supports the following basic philosophies:

a. The Chief is expected to manage wisely and to look for effective and efficient ways to deliver quality services while meeting the goals of the Board; and

b. The Chief can find ways to do things more efficiently if given the freedom to innovate and control Agency resources.

6.2 Base Budget Method: The base budget method will be utilized for ongoing Operations and Maintenance (O&M) appropriation. The Agency shall be allocated the prior year's base budget plus contractually obligated increases and impacts to support all ongoing operations but may request supplemental funding through a decision package process. Requests approved in the Adopted Budget shall be incorporated into the Agency’s base budget. The Chief is responsible for developing expenditure line item budgets. Designated Funds can only be spent for the specified purpose (Equipment Replacement, Capital Facility Maintenance Fund and Liability Reserve Fund, etc.).

6.2.1 Under the MECB philosophy, the Chief may request to carryforward savings achieved in Base Budget operating accounts to the next year, with justification to the Board.

6.2.2 The Agency will use an Encumbrance Accounting System whereby budgeted funds are committed and no longer available for spending when a purchase order is approved in the financial system.

6.3 Personnel Services Budgeting: Total costs of compensation (full funding) for all personnel must be funded. If revenues are available during the budget process, positions may be added to maintain or enhance service levels following a recommendation from the Chief and Board approval. Professional service additions outside of the budget process are discouraged and only approved by the Chief’s Office in unique circumstances or by the Board when required.

6.4 Budget Resolution Authority: The Adopted Budget Resolution for each fiscal year gives authority to the Chief to allocate, appropriate and expend the budget as approved within the parameters described in this policy.

6.5 Budget Expenditure Limitation: EF&R adopts its expenditure limitation along with the annual budget. The maximum expenditure limit is the total of all identified appropriations in the final budget adopted by the Board.

6.6 Budget Amendments: Total expenditures may not exceed the final appropriation once the budget is adopted. The Board can amend the total appropriation for an individual fund; however, if one fund’s total appropriation is increased, another fund must be decreased by an equal amount or new revenue must be identified by the Chief and approved by the Board. Amendments moving budget appropriation between Funds may be processed at any time during the fiscal year upon written request by the Chief to the Board for approval.

6.7 Revenue and Expenditure Principles: One-time expenses will be funded from one-time balances/revenues and ongoing expenses will be funded by ongoing revenues, except as is provided for by the budget stabilization reserve. Fund balances are non-recurring revenue and will be appropriately used for one-time expenditures or budgeted as contingency fund appropriations.

6.8 Revenues: Revenue projections will be based on historical trends by developing base lines for ongoing types of revenues versus one-time. Projections used to balance revenues to expenditures will be prepared for a five period and updated annually to ensure financial sustainability. Conservative but realistic revenue projections will be prepared to assess the limits of budget appropriation using trend analysis and current data to minimize estimating too high, which could result in mid-fiscal year budget issues.

6.9 Expenditures: The Agency will commit to a level of expenditures sufficient to ensure the ongoing health, safety, and welfare of citizens. The Chief is encouraged to periodically review operations for efficiencies and reallocate existing expenditure appropriation before requesting new funding. Personnel expenditures, the largest operating cost, will be appropriated based on full funding of all approved positions.

6.9.1 Employee benefits expenditures (i.e. pensions, health, and worker's compensation) will be appropriated at levels to ensure adequate funding to remain current and maintain appropriate reserves. Compensation packages will be reviewed periodically to ensure they are sufficient to attract and retain quality employees.

7. RESERVES

7.1 This policy documents the Agency's approach to establishing and maintaining adequate reserves (target levels) based on consideration of risks to operations. The budgetary fund balance represents the one-time amount accumulated from prior years, which is different than the fund balance under Generally Accepted Accounting Principles (GAAP) but includes the same constraints on spending.

7.2 Governmental Accounting Standards Board (GASB) Statement No. 54 defines five reserve classifications of fund balance based on the level of restrictions placed on the specific purposes for which amounts can be spent: non-spendable fund balance, restricted fund balance, committed fund balance, assigned fund balance, and unassigned fund balance. The last three classifications are termed *Unrestricted Fund Balance* since the constraint on spending is imposed by the government itself, therefore subject to this reserve policy. Additionally, contingencies and reserves can be appropriated and unappropriated, depending if the Agency would like the reserve to be available for spending in the current budget year or not.

7.3 Operating Fund Reserve Policy: The Operating Fund is the main fund that pays for general services provided by the Agency. The Operating Fund accounts for all general revenues of the Agency and for expenditures related to the rendering of the Agency's core services. The Operating Fund is considered to have a high level of risk to operations due to its dependence on revenue streams that are susceptible to economic downturns and revenue reduction impacts from outside agency actions. In addition, the Operating Fund is the main funding source when responding to unexpected events or emergencies.

7.3.1 Consideration of potential risk and other drivers influence the targeted minimum level of total Unrestricted Fund Balance that should be maintained. The Government Finance Officers Association (GFOA) recommends no less than two months of Operating Fund Unrestricted Budgetary Fund Balance. The Agency desires to maintain a prudent level of reserves based on the revenue impacts described above. This reserve policy sets the targeted minimum level at 10% of budgeted Operating Fund revenues.

7.4 Operating Fund Contingency / Appropriated / Unassigned: This Contingency will be maintained equal to 10% of Operating Fund revenues. Acceptable contingency reserve uses are emergency situations, unexpected one-time opportunities, and appropriation transfers to allow spending in other funds. Use of this reserve requires Board approval unless delegated in the annual Budget Resolution. The 10% Operating Fund Contingency reserve must be replenished annually.

The agency will grow the contingency to 10% utilizing end fund balance (After funding 20% of Liability Reserve Fund). Once the 10% is attained, through the use of end fund balance, it will be maintained at 10% annually.

7.5 Budget Stabilization Reserve / Not Appropriated / Assigned: This reserve may be created to offset operating deficits that result from economic downturns and revenue reduction impacts from outside agency actions that can create adverse service impacts, allowing time to reduce spending and/or find other ongoing revenue opportunities. The Board of Director's may add to the reserve from time to time but not draw from it for more than three consecutive fiscal years.

7.6 Capital Reserves / Appropriated and/or Not Appropriated / Assigned: These reserves may be created to fund planned new and redevelopment capital projects and capital maintenance projects to sustain existing Agency infrastructure.

7.7 Personnel and Operating Reserves / Appropriated and/or Not Appropriated / Assigned: These reserves may be created to fund specific operating expenditure areas that are susceptible to economic fluctuations and to fund personnel costs that can be reasonably estimated and are short-term in nature.

7.7.1 Liability Reserve Fund:
It shall be the policy of the Board that a segregated fund, referred to as the "Liability Reserve Fund" be created and shall be used for the following purposes;

a. Vacation Leave Balance
b. Sick Leave Balance
c. Employee Retirement / Vacancy Replacement costs

7.7.2 The Chief shall be authorized to utilize "Liability" Funds for the purposes identified in Section 7.7.1.

7.7.3 The Chief shall report to the Board, on a monthly basis, the use of any Liability Reserve Fund dollars.

7.7.4 The fund shall be funded annually to meet at least 20% of employee leave bank liabilities based on annual assessment. The primary sources of revenue shall be as follows;

a. Snoqualmie Tribe contract revenues
b. End Fund Balance
c. Partner Contributions (if needed)

7.8 Other Fund Reserve Policies: In the future other funds can be identified as needing reserves. To establish future reserve funds the Chief must recommend and receive Board approval.

8. FUNDING FORMULA RATIO RECALCULATIONS

8.1 In accordance with the EF&R ILA Exhibit A Section 14, the Funding formula ratio is periodically recalculated. The intent of the recalculation is to update the funding formula ratios with NORCOM dispatch incidents and King County assessed valuation data. The funding formula ratio shall be updated in 2019, 2022 and every second year thereafter.

8.2 Funding formula ratio recalculations may cause a substantial impact to an individual partner's contribution, the following smoothing policy shall be utilized to meet the intent of the ILA:

8.2.1 A partner's actual dollar contribution year over year increase shall be capped at 1.5% over the actual EF&R partner contribution annual budgetary increase across all funds.

Example: EF&R has a 4% overall budget increase in the year a funding formula ratio recalculation is conducted, the maximum percentage to any partner shall be capped at 5.5% (1.5% over the 4% EF&R wide increase).

8.2.2 Any dollar amount that remains after the smoothing cap of 1.5% is attained shall be spread among the other partners based on their funding formula ratio.

8.2.3 The smoothing policy shall remain in effect for subsequent years until the partner's contribution falls under the 1.5% annual cap.