

RESOLUTION NO. 2024-03

A RESOLUTION of the City of Bainbridge Island, Washington, revising a consolidated set of financial and budget policies, updating policies last adopted by the City Council during 2022.

WHEREAS, the City Council (“Council”) is responsible for setting financial and budget policies for the City of Bainbridge Island (“City”); and

WHEREAS, state law, including Chapter 35A.33 RCW, provides guidance for budgets in code cities; and

WHEREAS, Chapter 35A.34 RCW authorizes cities to establish biennial budgets under which authorization, and the authorization of the Bainbridge Island Municipal Code (“BIMC”), including Chapter 2.82 BIMC, the City prepares a biennial budget with a mid-biennial review; and

WHEREAS, in the past, the Council has approved policies and passed resolutions related to financial and budget policies that continue to guide City financial practices including, but not limited to: Resolution No. 1993-52, as adopted and as amended through the passage of Resolution No. 2021-19, which establishes investment policies; Resolution No. 2008-01, which establishes an Emergency Rainy Day Reserve Fund and a Contingency Reserve within the General Fund; Resolution No. 2008-14, which establishes debt management policies; Resolution No. 2010-35, which set targets for General Fund reserves; Resolution No. 2013-13, which provides that funds from the City’s utilities shall not be expended for general governmental services; Resolution No. 2014-17, which sets a minimum fund balance policy for the General Fund; Resolution No. 2016-20 adopting a Municipal Securities Disclosure Policy, which establishes public disclosure rules for City-issued municipal securities; Resolution No. 2016-18, which establishes procedures for the surplus and sale of City real property; Resolution No. 2016-19, updating the consolidated Financial Policies; Resolution No. 2018-07 and Resolution No. 2020-08, establishing the consolidated Financial Policies; Resolution No. 2020-09, updating the City Debt Policy; and Resolution No. 2020-11, establishing the Equipment Rental and Revolving Fund; and Resolution No. 2028, replenishing financial reserves; and

WHEREAS, the City Administration (“Administration”) requested, as part of the 2025-2026 biennial budget process, that the Council update the Financial and Budget Policies that were adopted by the Council previously; and

WHEREAS, the Council last updated the Financial and Budget Policies through Resolution No. 2022-28; and

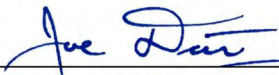
WHEREAS, the Council and the Administration wish to establish an ongoing consolidated set of financial and budget policies to be administered by the Administration and to guide Council action on an ongoing bases.

NOW, THEREFORE, THE CITY COUNCIL OF THE CITY OF BAINBRIDGE ISLAND DO RESOLVE AS FOLLOWS:

Section 1. The updates to the Financial and Budget Policies that are shown in **Exhibit A**, **Exhibit B**, and **Exhibit C**, which are attached hereto and incorporated herein by this reference, are hereby adopted.

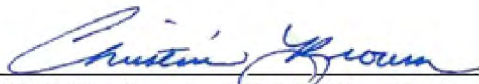
PASSED by the City Council this 14th day of May 2024.

APPROVED by the Mayor this 14th day of May 2024.



Joe Deets, Mayor

ATTEST/AUTHENTICATE:



Christine Brown, MMC, City Clerk

FILED WITH THE CITY CLERK: April 5, 2024
PASSED BY THE CITY COUNCIL: May 14, 2024
RESOLUTION NO.: 2024-03

Attachment: Exhibit A, Financial and Budget Policies
Exhibit B, Facilities, Maintenance, Replacement and Reconstruction Policy
Exhibit C, Cost Allocation Manual

Exhibit A to Resolution No. 2024-03

FINANCIAL AND BUDGET POLICIES

Section 1. PURPOSE

The primary purpose of financial and budget policies is to provide guidelines for the City Council and staff to use in making financial decisions that ensure core services are maintained and the Council's vision for the community is achieved.

The financial and budget policies guide the City to be able to withstand local and regional economic variations, to adjust to changes in service requirements, and to respond to other changes as they affect the community.

It is the policy of the City to maintain an excellent credit rating and assure taxpayers that the City of Bainbridge Island is maintained in sound financial condition.

SECTION 2. OPERATING BUDGET POLICIES

The biennial budget is the City's comprehensive two-year financial plan, which supports the City's approved programs and services.

Biennial budgets should provide for design, construction, maintenance and replacement of the City's capital assets and equipment consistent with the Capital Facilities Plan including the related cost for operating new assets.

The City will maintain all its assets such that it protects the City's capital investment, preserves public safety, and minimizes future maintenance and replacement costs.

All general government current operating expenditures will be paid from current revenues and cash carried over from prior years.

The City shall adopt a balanced budget. The City defines a balanced budget as one in which current biennium budgeted revenues in addition to fund balances are equal to or greater than current biennium budgeted expenditures. In addition, the City's budget shall maintain recurring expenditures for each fund at a level less than recurring revenues for that fund.

Reports on revenues and expenditures shall be prepared monthly and provided to the Council. Mid-year and annual reports will also be prepared and provided. These reports will also be posted to the City's website or reporting portal.

The City shall consider its financial capacity when making budget decisions. Staff shall deliver to Council a ten-year financial capacity analysis as part of the biennial budget process. For each financial capacity analysis, the financial assumptions shall be reasonable and shall take into account an appropriately chosen set of inflation factors and an appropriate set of economic projections. The Administration's chosen assumptions for revenues, expenditure inflation factors and economic measures shall be disclosed to the Council.

SECTION 3. REVENUES

The City will strive to maintain a diverse and stable revenue stream to protect against short-run volatility of any single revenue source.

Because revenues, especially those of the General Fund and other tax-supported funds, are sensitive to economic changes, the City will use a conservative approach to revenue forecasting.

Departmental revenues of the tax-supported funds shall be considered unrestricted revenue of the City – subject to any applicable legal restriction, and subject to any applicable provision of the financial Policies, that may apply to a particular revenue source.

Revenues from the Commercial Parking Tax shall be treated as revenues of the Street Fund.

Real Estate Excise Tax revenue shall be first applied to current capital debt service and then, to the extent available to other eligible expenses.

The City shall maintain a structure for all fees and charges where the beneficiary of the service pays the cost of that service except to the extent that the Council has determined that provision of the specific service in question provides a general public benefit.

No less than once every three years, Building and Development Services (B&DS) rates shall be reviewed, with a goal of full cost recovery for the B&DS Fund.

The City will maintain water, sewer and storm water utility rates adequate to ensure that each of these three utility funds is fully self-supporting. Additionally, for analysis and rate modeling purposes, the proposed rates shall take into account debt service coverage commitments, if applicable. The capacity to support identified utility reserves will also be taken into account.

SECTION 4. EXPENDITURES

The City budget will provide for a sustainable level of service to meet the City's identified results.

The City will maintain expenditure categories according to state statute and administrative regulation. Capital expenditures shall meet the requirements of generally accepted accounting principles (GAAP).

The City shall use major one-time revenue to fund capital improvements, debt reductions, or reserves. The use of one-time revenues to fund operating expenditures is strongly discouraged.

The Council shall review the Administration's recommended plan for the allocation of City costs to various funds as part of the biennial budget process.

As a general rule, when an expenditure is incurred for which both restricted and unrestricted fund balance is available, the City will consider the more restricted amounts to have been spent first.

On a periodic basis, the Administration shall compare the cash compensation and the value of benefits for City employee positions to the compensation and benefit levels to a set of comparable employers, to provide data for potential compensation and benefit policies which may be adopted by the Council.

SECTION 5. CAPITAL

The Capital Facilities Goals and Policies that are stated in the City's Comprehensive Plan, as amended from time to time, are hereby included in full in the Financial Policies.

The Capital Improvement Plan and the City operating budget will be reviewed at the same time to ensure that capital and operating needs are balanced with each other and support overall City goals.

The City shall develop a six-year plan for capital improvements and update it at least biennially.

The City will identify the estimated costs and proposed funding sources for each capital project proposal before it is submitted to Council for approval. The City will use intergovernmental assistance and outside resources whenever possible. In the event that a grant, or other type of intergovernmental assistance, is identified as a funding source for a project and the outside funding is not secured, the City will reconsider the financial viability of that project at that time.

Each individual project included in the capital improvement plan (CIP) shall have a budget with identified contributions by fund. Each fund amount shall be distinct and cannot be transferred without amending the CIP. Reporting will be presented at the project and fund level.

When a capital project is complete and has been capitalized in accordance with Generally Accepted Accounting Principles, any remaining project budget appropriation authority shall lapse, and all remaining funds shall return to their original source.

SECTION 6. RESERVES

Reserve funds enable the City to deal with unforeseen emergencies and changes in economic conditions.

General Fund Reserves

Emergency Reserve: The City shall maintain an Emergency Reserve with a budgetary target amount of \$1.0 million. These funds shall be used only to pay for emergencies that cannot reasonably be accommodated by current budget appropriations. These funds may be appropriated only by a vote of not less than five (5) members of the City Council or the unanimous vote of a legal quorum. It is the Council's policy that if funds are spent from the Emergency Reserve, it should be replenished as resources become available.

General Fund Minimum Fund Balance. The City shall maintain a minimum fund balance of 25% of ongoing actual operating revenues in the General Fund. The General Fund minimum fund balance shall mean the dollar amount of unencumbered fund balance, excluding any amounts held in reserves or otherwise committed funds. This fund balance is intended to provide stability in the event of unexpected changes to revenues or expenses.

Replenishment of Reserves. If the General Fund balance falls below policy reserves as defined above, the City Manager shall prepare and present to the City Council a recommended plan to replenish the reserves. The City Council shall review and adopt a replenishment plan within 12 months after the policy reserve levels first fall below the minimum levels. Once adopted, the replenishment plan's progress will be reviewed periodically with the City Council but no less than every calendar year until such time as the reserves are replenished to or above the target levels described above.

Utility Fund Reserves

Capital Contingency Reserve. Each utility fund shall maintain a separate capital contingency reserve. Each reserve shall have a targeted level of at least one percent (1%) of the utility system's capital assets at net book value. The primary purpose of the reserve is to provide a ready source of cash in case of an emergency, should a major piece of equipment or a portion of the utility's infrastructure fail unexpectedly.

Operating Reserve – Water and Sewer Funds. These reserves shall have a targeted level as of each year-end of at least sixty (60) days' ongoing actual operating expenses. The primary purpose of the reserve is to provide cash for operations in case of seasonal variations in revenue or expenses, or to support operations in a year in which revenues are abnormally low.

Operating Reserve – Storm and Surface Water Management Fund. This reserve shall have a targeted level as of June 30 and December 31 of at least 90 days' ongoing actual operating expenses. The primary purpose of the year-end reserve is to provide cash for operations during the period between the payment of the fees, which occurs in two large payments in April and October.

Restricted Debt Reserve. To the extent that the City issues a form of debt (e.g. Revenue Bonds) that requires the City to maintain a restricted cash reserve during the term of the debt repayment period, the utility shall maintain a restricted reserve for such purpose. This reserve is to safeguard the purchasers of the utility's debt and may be used to fund the final installment or last year's debt service.

SECTION 7. ACCOUNTING, AUDITING AND FINANCIAL REPORTING

The City will establish and maintain a high standard of internal controls and accounting practices. The City accounts and budgets for revenue and expenditures on a modified accrual basis for general government and enterprise activities. Year-end financial statements for enterprise activities shall use full accrual accounting.

The accounting system will maintain records on a basis consistent with accepted national standards for local government accounting and the Washington State Auditor's Budgeting, Accounting and Reporting System.

The annual financial statements shall conform to Generally Accepted Accounting Principles (GAAP) and be in the form of an Annual Comprehensive Financial Report as recommended by the Government Finance Officers Association.

A capital asset system will be maintained to identify all City assets and their location.

The City will ensure that City records are audited annually, resulting in a financial opinion. The results of the audit will be available to the public through the City's website.

SECTION 8. DEBT

The City's Debt Policy, as it may be amended from time to time, is hereby included in the Financial and Budget Policies.

SECTION 9. INVESTMENT

The City's Investment Policy, as it may be amended from time to time, is hereby included in the Financial and Budget Policies.

SECTION 10. BANKING AND MONEY MANAGEMENT

Safety

The City shall engage in relationships, and conduct its business, with one or more banks, repositories of public pooled funds, and financial institutions in a manner that avoids concentrating City balances in a way that may expose the City to material losses in the event of an adverse development affecting any bank or financial institution in which City assets are held.

Money Management

The City Administration shall seek to form relationships with banking and financial institutions that offer the City efficient and effective tools and technologies to manage and track transactions and balances.

SECTION 11. MUNICIPAL SECURITIES DISCLOSURE

The City's Municipal Securities Disclosure Policy, as it may be amended from time to time, is hereby included in the Financial and Budget Policies.

SECTION 12. SURPLUS REAL PROPERTY

The City's Surplus Real Property Policy, as it may be amended from time to time, is hereby included in the Financial and Budget Policies.

SECTION 13. PROCUREMENT POLICY

The City's Procurement Policy, as it may be amended from time to time, is hereby included in the Financial and Budget Policies.

SECTION 14. EQUIPMENT RENTAL AND REVOLVING FUND

The Equipment Rental and Revolving (ER&R) Fund policy, as it may be amended from time to time, is hereby included in the Financial and Budget Policies.

SECTION 15. GRANTS

City Council approval is required to submit an application for grants over \$50,000, unless pre-authorized for acceptance by the City Council through ordinance or resolution. The \$50,000 threshold must include as part of the estimate any City “in-kind” labor used as matching funds, and City staff will describe to the Council the amount that is provided through the grant and the amount that is provided through in-kind matching funds.

For grants that are over \$50,000, or otherwise require Council approval, but for which there is an application deadline that does not allow City staff to obtain prior Council approval to apply for the grant, the Department Director shall obtain the approval of the City Manager or their designee prior to submitting the application and subsequently bring the grant to the Council for approval and ratification. Applications for grants in the amount of \$50,000 or less can be submitted without City Council approval unless such approval is required by the granting agency.

The City Manager, or designee, is authorized to execute all required agreements and documents with a grant-issuing agency to effectuate any grant approved or accepted by the City Council.

To the extent that this section conflicts with any other policy or resolution adopted by the City Council, this section controls.



**City Municipal Facilities Maintenance, Replacement and
Reconstruction Policy
Department of Finance and Administrative Services**

Prepared by Finance Director DeWayne Pitts
Initial Development: 4/12/2022, Revised 4/9/2024

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Policy Statement

The City owns and operates a variety of municipal facility assets including City Hall, the Police and Court facility, the Senior Center Commons building and various storage, park, farm, and other investments that must be properly maintained and eventually replaced or reconstructed to ensure they remain safe, that financial and service level investments are maintained, and that they provide a welcoming and usable space to serve their intended purposes.

Purpose

This policy supports the City in asset management and budgeting efforts and is established to fund the planned replacement, reconstruction, and major maintenance costs of existing City-owned facilities. A separate fund will be created and established by the City Council to account for projects contemplated by this policy. Adequate budget appropriations will be calculated and included in budgets to provide resources for planned projects.

Scope

This policy applies to the City's existing general government municipal facility assets. It includes all facility structures such as City Hall, the Police and Court Facility, the Senior Center Commons building, and various storage, park, farm, and other investments that have an estimated useful life of at least 25 years. It does not include the City's utility owned assets or new planned purchases, land or leased assets. It includes funding for facility replacement or reconstruction and major maintenance as defined under the City's capital asset policy.

Goals

Effective asset management is comprised of several components including:

- Assets need to be regularly assessed so there is up-to-date information on condition and status.
- Assessment information is used to determine maintenance, upgrades, replacement, reconstruction, and mitigation issues.
- Facility asset management includes a plan to address asset lifecycle needs, including replacement, reconstruction, inspections, and maintenance
- A system in place to prioritize asset care and the allocation of limited resources.

It is the intention of this policy to adequately fund major maintenance projects of City-owned facilities to include an additional reserve amount for unforeseen or catastrophic events, plus an additional amount to set aside for eventual replacement or reconstruction of City-owned facilities.

Funding

The municipal facilities renewal and replacement policy may incorporate several available funding sources to pay for major maintenance. These sources vary in legal, grant and other restrictions. This policy will also incorporate and follow an existing financial policy that states when an expenditure is incurred, the City will first consider and target the more restricted funding sources where possible. The following sources, at a minimum, may be considered for allocation to the City Facilities Capital and Maintenance fund:

Exhibit B to Resolution No. 2024-03

- Real Estate Excise Tax
- Grants
- General fund reserve transfers
- One-time revenue transfers
- Other sources as appropriate and allowed by policy or legal authority

Authoritative Guidance

Government Finance Officers Association (GFOA)

The Government Finance Officers Association represents public finance officials throughout the United States and Canada. GFOA's mission is to advance excellence in public finance and includes best practices in governmental finance. The following link provides best practices for establishing capital asset renewal and replacement. [Strategies for Establishing Capital Asset Renewal and Replacement Reserve Policies \(gfoa.org\)](https://www.gfoa.org/strategies-for-establishing-capital-asset-renewal-and-replacement-reserve-policies)

City of Bainbridge Island – Capital Asset Policy

The capital asset policy provides guidance on acquisition, inventories, maintenance and the disposal of capital assets.

City of Bainbridge Island – 2018 Facility Condition Assessment

A facility condition assessment was performed in 2018 that will serve as a minimum target consideration to meet funding obligation for major maintenance projects. An updated condition assessment will need to be completed periodically as outlined below under “Procedures” but no less than once every five years.

Roles and Responsibilities

Facility asset management is a shared function between the Public Works Department and the Finance and Administrative Services Department. Public Works is responsible for the asset life cycle process including acquisition, condition assessment, maintenance, cost estimates and the disposal of assets. Finance is responsible for the budgeting, recording, depreciation, physical inventory, and update of a physical asset list.

Finance will also oversee the administration of the municipal facilities fund and calculate an annual budget appropriation. The final appropriation of funds is the responsibility of the City Council.

Procedures

Condition Assessment of Existing Municipal Facilities

The City will conduct a systematic condition review of all facility assets no more than every five years. The assessment will include scoring criteria, asset useful lives used for assessments, project justification and estimated cost to replace or repair. Major repairs may be capitalized following the City's Capital asset policy. Operating project costs that are not capitalized will follow the procedures of this policy for determining appropriation into the fund as outlined in “Budget appropriation funding” below. Cost estimates from the assessment will be used to determine an estimate for adequate funding for needed asset improvements.

Exhibit B to Resolution No. 2024-03

Budget appropriation funding

The budget appropriation for funding the Municipal Facilities Maintenance, Replacement, and Reconstruction fund each year shall be calculated using the following components:

- Six year planned Facilities Operating projects planned in the City operating budget plus;
- An amount to be calculated for existing building replacement or reconstruction such as current depreciation or some other reasonable method of calculation that will support projects such as facility replacement or reconstruction over the estimated useful life.

*Note that any 6-year Facilities Capital Improvement Plan projects that meet City capitalization thresholds will be tracked funded separately in the Capital Construction Fund and identified in the 6-year Capital Improvement plan ~~and will not directly affect this fund~~. If there is a purchase of a new City facility, it will be factored into future consideration once it has been placed into service. Resources from the Facilities Maintenance and Capital Replacement Fund may be utilized to fund these projects via an interfund transfer.

Major Facility Replacement or Reconstruction

The future replacement or reconstruction of major facilities may be initially funded using an amount equal to the annual depreciation expense or some other reasonable method of calculation of major facility buildings over their expected useful lives. Utilizing depreciation to fund major facility replacement or reconstruction should be considered a starting point and will not typically generate enough funds for capital replacement needs because the cost of replacing or reconstructing facility assets generally increases over time and may exceed the original cost. Periodic review and the facility condition assessment will be used to determine if additional replacement funds are needed and if funds accumulated are reasonable in amount. If replacement revenue received over the life of an asset is insufficient to cover the facility replacement or reconstruction, the funding decision for the incremental difference may be made on a case-by-case basis depending on the nature and extent of the difference and the short- and long-term impact on the fund balance, operating budget, and future asset replacement schedules. Conversely, if funds accumulated in the fund are determined to be excessive, an adjustment to future rates may be considered.



Cost Allocation Manual

Goals, background, and methodology of the City of Bainbridge Island's Cost Allocation Plan.

Effective Date: ~~1/1/2025~~ 1/1/2023

City of Bainbridge Island Cost Allocation Manual

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Definitions

As used in the City of Bainbridge Island Cost Allocation Manual–

1. “Accounting unit” refers to any segment of the coding used to track financial activity (fund, object, organization, department, etc.).
2. “B&DS Fund” refers to the Building and Development Services Fund (MUNIS Fund number 407).
3. “Central service cost allocation plan” as defined in CFR-2012-title2-part225 means the documentation identifying, accumulating, and allocating or developing billing rates based on the allowable costs of services provided by a governmental unit on a centralized basis to its departments and agencies. The costs of these services may be allocated or billed to users.” Examples of such services include, but are not limited to accounting, personnel administration, purchasing, etc.
4. “COBI” refers to the City of Bainbridge Island. In this document, the term “the City” is also used to refer to COBI.
5. The term “Direct costs” as used in this document is defined by CFR-2012-title2-part225 as “those [costs] that can be identified specifically with a particular final cost objective.” An example of a direct cost would be a professional service cost for design of a building.
6. “Enterprise Funds” are a type of Proprietary Fund, specifically used to report activities for which a fee is charged to external users for goods or services.
7. The term “GAAP Guide” refers to the 2020 edition of the *“Governmental GAAP Guide For State and Local Governments”*.
8. “Governmental Funds” are non-proprietary funds.
9. The term “Indirect costs” as used in this document is defined by CFR-2012-title2-part225 as costs “incurred for a common or joint purpose benefiting more than one cost objective, and not readily assignable to the cost objectives specifically benefitted, without effort disproportionate to the results achieved.”
10. “Proprietary Funds” are defined by the GAAP Guide as, “used to account for a state or local government’s activities that may be performed by a commercial enterprise... Generally, the purpose of a proprietary fund is to provide a service or product to the public or other governmental entities at a reasonable cost.” Proprietary Funds are either Enterprise Funds or Internal Service Funds (for services or activities provided to other funds or departments within the governmental agency). COBI’s Proprietary Funds include Enterprise Funds, and consist of the Water, Sewer, SSWM, B&DS Funds, and one Internal Service Fund (Equipment Rental and Revolving Fund).
11. Per the GAAP Guide, “Special Revenue Funds” refer to funds that account for proceeds of specific revenue sources that are legally restricted to expenditures of a specific purpose.
12. “SSWM” refers to Storm and Surface Water Management.
13. “Utility Funds” refers to the city-operated Water, Sewer, and SSWM services Funds (MUNIS Fund numbers 401, 402, and 403, respectively). The term “utilities” refers to the functions served by these funds.

Goal

The City of Bainbridge Island (hereinafter also referred to as “COBI” or “the City”) has eight guiding principles, including one of supporting the other principles through “the City’s organizational and operating budget decisions.”¹ In order to sufficiently measure and compare in line with this goal, it is necessary to ensure that all COBI functions share indirect costs on the basis of relative benefits received.

The City’s financial policies include the concept of full cost recovery. The City shall maintain a structure for all fees and charges where the beneficiary of the service pays the cost of that service except to the extent that the City Council has determined that provision of the specific service in question provides a general public benefit.

To receive full cost recovery, the City must be able to measure the full cost of services provided, including indirect costs such as administration and other support services.

The cost recovery method described herein complies with applicable guidance from State and Federal agencies.

Background

Some City costs are appropriately shared by one or more City funds. Like all organizations, the City provides certain services that benefit the entire entity. Examples include services received by the City as a whole, such as insurance, City office space, and overhead labor. These services are generally of a support nature and centralized within a single department such as Executive or Finance and Administrative Services. These indirect costs are then allocated out to the City’s Funds using a variety of methods depending on the type of service provided. A basis is determined to distribute the costs founded on the relative benefit each fund receives from the function or service. The amount a fund is charged is not intended to represent a per unit cost of a transaction, such as processing a voucher for payment or processing a request for bid, but rather an appropriate allocation of all of the costs related to providing the support service.²

The first part of the analysis is to confirm that all Funds share in the indirect labor costs appropriately. This is completed in the COBI Methodology, Section One: Personnel section below. In the department classification analysis that follows, major tasks and functions of department staff are discussed. Then an allocation determination is made based on the cost drivers of those tasks.

Applicable Guidance

Governmental Accounting Standards Board (GASB)

GASB is the independent organization that establishes and improves standards of accounting and financial reporting for U.S. state and local governments. While the GASB is not a governmental agency and does not have enforcement authority, compliance with GASB is enforced through the Washington State Auditor’s audit of COBI.

¹ [COBI Comprehensive Plan](#)

² The majority of this paragraph borrowed from City of Tacoma 2009-2010 Assessments Overview; statement is applicable to COBI

GASB has not issued any specific guidance describing the method of cost allocation to be applied by government agencies. The overarching principle applied by COBI is found in the GASB Summary of Concept Statement No. 1, "Financial reports are used primarily to compare actual financial results with the legally adopted budget; to assess financial condition and results of operations; to assist in determining compliance with finance-related laws, rules, and regulations; and to assist in evaluating efficiency and effectiveness."³

CFR-2013-2012-title2-vol1-part225

CFR-2013-2012-title2-vol1-part225⁴ establishes cost principles for State, Local, and Indian Tribal Governments for determining costs for Federal awards. The objective states that, "The principles are for determining allowable costs only." In defining allowable costs, the CFR provides a definition of allocable costs at Appendix A, paragraph C.3.a, "A cost is allocable to a particular cost objective if the goods or services involved are chargeable or assignable to such cost objective in accordance with relative benefits received." This definition can reasonably be applied to both Federal allowable costs and non-Federal allocation goals.

Washington State Auditor

The Washington State Auditor's office prescribes the accounting and reporting of local governments in the State of Washington under RCW 43.09.210.⁵ This RCW states in part, "All service rendered by...from, one department...to another, shall be paid for at its true and full value by the department...receiving the same, and no department...shall benefit in any financial manner whatever by an appropriation or fund made for the support of another." Therefore, a well-developed plan should include relevant, up-to-date information about overhead and how to distribute it. Also, the factors used should equitably allocate overhead.

In 2009 the State Auditor's Office audited COBI's cost allocation plan. The conclusion was COBI was following many of the cost allocation leading practices, but not all. The noted leading practices we needed to improve upon were as follows: "be up-to-date and detail the basis for overhead charges and use allocation factors that equitably allocate overhead to each fund and department." The methodology set forth in this manual outlines how we meet all leading practices.

COBI Methodology

Section One: Personnel

Classification of Departments

In classifying costs as allocable, COBI analyzed departments and individual objects to determine whether the costs should be allocated, as well as the appropriate basis for allocation. COBI uses its cost allocation methodology for salaries and benefits only. Step one in building the plan was to analyze the organization by department and determine whether costs were allocable. COBI departments are as follows: city council, municipal court, executive, finance, public safety, planning

³ GASB Concepts Statement No. 1 Summary, published by the Governmental Standards Board

⁴ Published by the Federal Office of Management and Budget

⁶ "Budgeting, Accounting, and Reporting System (BARS)" Manual, published by the Washington State Auditor's office and available online at www.sao.wa.gov. "RCW" refers to the Revised Code of Washington.

and community development, and public works. Below is a brief narrative of the organization's initial department analysis, followed by an in-depth look at each department.

Appendix B of CFR-~~2013~~ 2012-title2-part225 provides principles to be applied in establishing whether certain costs are allowed for Federal reimbursement. It states general costs of government are not allowable. These general government costs include city council, municipal court, and police costs.⁶ Therefore, COBI directs charges all costs associated with those departments to the general fund.

Next, we identify our central service departments as executive and finance. Costs from central service departments are indirect costs, which are incurred for a common or joint purpose benefiting more than one task, activity, or fund. Indirect costs are allocable with proper identification and documentation. Furthermore, as noted in RCW 43.09.210, allocations must be fair and equitable where one fund does not benefit from another.

The final two departments Planning and Community Development and Public Works, core work is centered around specific work tasks or programs. Employees in these departments have a combination of direct charged time, as well as an allocation for some hours.

Determination of Allocation Factors

Below is a brief description of each department that has any allocations, accompanied by a summary of allocation factors used for that department. Attachment A outlines the below information by department in greater detail as required by CFR-~~2013~~ 2012-title2-part225 Appendix C.

Executive

Discussion:

The Executive Department provides "direction, and functions as a coordination and communication hub ~~direction, coordination, and oversight~~"⁷ for the City as a whole, including Proprietary Fund activities. The department provides services in ten ~~eight~~ main areas: city management, legal, city clerk, public records, human resources, emergency preparedness, climate action, diversity/equity/inclusion, information technology, and communications.

Allocation Determination:

The allocation basis is determined by the tasks and duties for each specific position. The allocation basis used for the various positions in the Executive Department are as follows: FTE by fund, council agenda items, operating expenses, contracts by fund, risk management, public record requests, community support and litigation dollars by fund.

Finance and Administrative Services

Discussion:

The Finance department provides support to all City departments and all funds, including Proprietary Funds. In addition to financial reporting, budgeting, accounts payable, payroll and affordable housing management, the Finance department manages all utility, general and LID billings, and payments.

⁶ <https://www.govinfo.gov/content/pkg/CFR-2012-title2-vol1/pdf/CFR-2012-title2-vol1-part225.pdf>

⁷ COBI ~~2023-2024~~ 2021-2022 Adopted Budget

Allocation Determination:

The allocation basis is determined by the tasks and duties for each specific position. The allocation basis used for the various positions in the Finance Department include, but are not limited to, the following: FTE by fund, council agenda items, operating expenses, capital projects, cash receipts, AP vouchers, LID and utility accounts, long-term debt by fund, and special projects.

Planning and Community Development

Discussion:

The Planning & Community Development department works with land use and construction activities on the Island; administers building, shoreline, environmental, and subdivision regulations; reviews development proposals; performs code enforcement; administers land use applications; prepares and updates long-range plans. A significant portion of PCD effort is related to the B&DS Fund, and the Department is also involved in the development of utility projects.

Allocation Determination:

The allocation basis is determined by the tasks and duties for each specific position. The allocation basis used for the various positions in the Planning Department include, but are not limited to, the following: Land Use Code updates, code enforcement case load, NPDES permit requirements, building and planning permits, shoreline monitoring project, Comprehensive Plan implementation, inspection and observance of on-site construction issues, and related ordinances.

Public Works

Discussion:

The Public Works department is responsible for acquiring, constructing, operating and maintaining public infrastructure. This includes City-owned utilities. The Administrative division supports the Engineering and Operation and Maintenance (O&M) divisions by providing services such as reporting, grant and contract management, and records management. The Engineering division is primarily responsible for the pre-design, design, and construction of all public improvements and implementation of the capital improvement plan (CIP) adopted by City Council. This includes Proprietary Fund CIP projects. The Engineering Division also directs Development Engineering and the City's Water Resources planning and protection activities. The O&M Division operates and maintains the City's infrastructure, to include streets, storm drain, water and sewer infrastructure facilities, vehicles, parks, and open space.

Allocation Determination:

The Public Works O&M Division uses the work order system and therefore direct charges their hours. The Engineering Division direct charges most of their hours to operating or capital projects. In addition, tasks that are general in nature are allocated based on work order or project history, and forward-looking work plans. Public Works Administrative personnel are allocated based on support of capital and operating projects, contracts, right of way expenses, customer support, and development and management support.

Allocating Costs / Surcharge and Rebate

Throughout the year, employees are either direct charging their time to specific projects, tasks or work orders, or their hours are allocated to a department/organization and fund based on that position's allocation factors. At month end, an analysis that compares all direct charged time to that

of allocated time by position. If, for a particular position, the direct-charged time differs by more than 3% on a percentage basis by fund from the allocated time, a surcharge or rebate adjusts the totals.

Section Two: Central cost

Insurance

CFR-~~2013~~ ~~2012~~-title2-vol1-part225 Appendix B identifies insurance as an allowable and allocable cost. Allocating insurance expense follows the rule of “beneficiary pays” as long as the allocated costs follow the cost drivers. In a leading practice study, presented by Washington State Auditor’s Office Performance Audit, Report No. 1006136, the following factors should be used to allocate insurance expense: number of staff (FTE), claims or loss history, square footage, property values insured, and risk factor.

- City of Bainbridge Island’s (COBI) insurance invoice is separated into five “Coverage/Program” areas; Auto Physical Damage, Boiler and Machinery, Crime/Fidelity, Liability, and Property.
- To allocate the costs under each “Coverage/Program,” COBI uses three cost drivers. They are as follows: asset value, FTE, and loss history.
 - Asset value – is used to distribute Auto Physical Damage, Boiler and Machinery, and Property Coverage/Program expenses. The asset value by fund is taken from the financial statements from the most current year-end close.
 - FTE – is used to distribute Crime/Fidelity and a portion of the Liability expenses.
 - Loss history – is used to allocate the other portion of Liability expenses. The data is a 5-year history report provided to the City by WCIA.

Interfund Rent

CFR-~~2013~~ ~~2012~~-title2-vol1-part225 Appendix B requires that "less-than-arms-length" rental transactions, such as those between divisions of a governmental unit, are allowable in the same amount as they would be "had title to the property vested in the governmental unit." The CFR specifically states that depreciation is an allowable component of such cost, and it is commonly interpreted as additionally allowing for the interest component of debt service.

COBI uses the following methodology to allocate Interfund Rent:

- For an individual facility (for example, City Hall), the total square footage is identified, and the square footage occupied by each department is identified.
- The square footage for each department is then allocated by FTE in a proportion equal to the ratio of each fund’s FTE as a share of that department’s total FTE.
- Total square footage by fund is summed across all departments in the facility and expressed as a share of the facility’s total square footage. This percentage is then applied to eligible interfund rent expenses
- COBI allocates three types of interfund rent expenses:
 - Interest expense of the bonds associated with the purchase and building of City Hall and the PW Yard.
 - Debt service for the purchase of City Hall and the PW Yard was paid in full in 2019.
 - Depreciation expense of assets purchased with General Fund monies used by all personnel, which therefore benefits all funds.

- A land component is also allocated. The cost of the land is divided by 40, to match the 40-year depreciation schedule of the buildings.

Process Overview Summary



COBI's process to complete the cost allocation plan was:

1. Determine funds, departments and object codes that are allocable.
2. Discuss tasks/job duties with each staff member to determine approximately how much time is devoted to completing listed tasks.
3. Based on discussion and job description, determine logical allocation basis.
4. Calculate cost allocation for each position based on answers and data documented from steps 1 through 3.
5. At month end, run actual data for Public Works allocation base.
6. Apply any necessary rebate and surcharge costs accordingly.

Section Three: Roads and Stormwater Facilities Construction and Maintenance Costs

The City Council completed a review of the Storm and Surface Water Utility (SSWM) in 2015 and confirmed the policies for charging various operating costs related to the SSWM facilities, roads, and other City properties. These policies are:

Street Sweeping and Road Maintenance Spoils

City charging practices for roads-related maintenance and spoils disposal has evolved and changed over the years. The following table shows the standing work order charging practice for Public Works O&M labor:

		Spoils Related Work Order Charges			
WO#	WO Type	WO Description	Split	Org	Org Description
14916	Standing	Spoils Hauling	100	73431835	SSWM Maintenance
14917	Standing	Street Sweeping	80/20	73637945	Allocation SSWM/Streets
14963	Standing	Ditching	100	73431835	SSWM Maintenance
14823	Standing	Shoulder Maintenance	100	73111427	Streets Roadside
14964	Standing	Bikelane Sweeping	100	73111423	Streets Roadway

The data in the table indicate that the SSWM utility pays for 100% of City labor for spoils hauling and ditching, as well as 80% for street sweeping. The Streets Fund pays for the labor for shoulder maintenance and bike lane sweeping, as well as 20% for street sweeping. The justification for the charging practice is that street sweeping aids in the maintenance of the stormwater collection system so can appropriately be charged to the SSWM utility.

Water Quality and Flow Monitoring Program

The Water Quality and Flow Monitoring Program (WQFMP) helps the City implement National Pollutant Discharge Elimination System (NPDES) permit monitoring requirements and directs and informs pollutant source identification efforts outlined in the Illicit Discharge Detection and Elimination (IDDE) program. The primary goal of the WQFMP is to develop and implement a long-term comprehensive monitoring program that will identify water quality and water flow problems in freshwater and marine nearshore environments. The WQFMP also defines thresholds for initiation of management responses in support of the City’s efforts to protect and restore beneficial uses associated with water quality on Bainbridge Island.

At the July 12th 2016, Council Meeting, Council approved the WQFMP costs to be funded by 50% General Fund, 40% Stormwater Fund, and 10% Water Fund.

Groundwater Management Program

Groundwater is the sole source of drinking water on Bainbridge Island. Therefore, it is essential to have a thorough understanding of the island’s complex aquifer system through scientific study and long-term monitoring. At present, the city collects monthly water level data and annual chloride measurements from approximately 30 wells on the Island at various locations. Water level data is used to help assess the quantity of water in different aquifers, and the chloride data is an indicator of seawater intrusion.

City Policy is that the Groundwater Program be entirely funded by the General Fund.

Kitsap Conservation District Farm Assistance

Bainbridge Island currently has over 1,300 acres of agricultural lands. Many of these farms are required to establish and implement farm plans in accordance with provisions in the City’s Municipal Code. The City and the Kitsap Conservation District (KCD) share a common goal to promote Best Management Practices to protect water quality, provide education to landowners regarding agricultural impacts and support the use of Low Impact Development practices. Well-designed conservation practices increase farm productivity while protecting water quality and reducing soil erosion. KCD has the expertise and experience to provide Farm Plans to meet the

requirements of Bainbridge Island Municipal Code Section 18.09.030 and provide assistance on land management activities and their impacts on natural resources. In providing these services, KCD assists with compliance of the City's NDPES permit, including assistance with the IDDE Program and education/outreach.

The value of the annual contract with the KCD has been approximately \$40,000, and an annual analysis of program tasks by city staff has determined that approximately 50% of the activities under the program tasks support water quality benefits. Therefore, the SSWM utility will pay 50% of the KCD billing under this agreement, and the General Fund will pay 50%.

Roads and SSWM Capital Improvement Projects

City Ordinance 2012-06 exempted City-owned rights-of-way from payment of SSWM fees. The justification for this charging methodology under Section 2.A. of the ordinance was that City streets were responsible for contributing at least \$27 million in stormwater infrastructure over and above what would be needed for just street runoff.

In order to continue this exemption from stormwater fees for City streets, all future stormwater infrastructure required in the construction or improvements of City streets, or non-motorized facilities as part of or separate from City streets, will be paid by an appropriate tax supported revenue source. This includes the construction of collection and piping systems that replace existing drainage ditch systems.

Costs for repair and replacement of existing stormwater systems that were constructed as part of the City streets, including culverts, will be paid by SSWM utility funds.

Allocation Information by Department

The following pages allocation factors for each position in departments in which cost allocation applies to personnel costs.

Departments shown

Executive

Finance & Administration

Planning and Community Development

Public Works

Departments not shown because their costs are entirely supported by the General Fund

City Council

Municipal Court

Public Safety

COBI Cost Allocation Plan

Numerical Allocations Used		
Basis	Data	Description
Community Support	100% General Fund	Community Support
FTE by Fund	Average of Hours Worked <u>2021-2023</u> 2019-2021	Personnel Mgmt
General Mgmt	Average of operating costs <u>2021-2023</u> 2019-2021	General Mgmt
Council Agenda Items	Average of agenda Items evaluated and assigned by Fund <u>2021-2023</u> 2019-2021	Council Agenda Items
Public Records Request	Average of requests evaluated and assigned by Fund <u>2021-2023</u> 2019-2021	Public Records Request
Litigation Expense	Average of Legal Costs <u>2021-2023</u> 2019-2021 by Fund	Litigation Expense
Risk Mgmt	Average of Costs Incurred <u>2021-2023</u> 2019-2021	Risk Mgmt
Exec Contract Mgmt	Average Contract Amounts for Executive <u>2021-2023</u> 2019-2021	Exec Contract Mgmt (100% General Fund)
Contract Mgmt	Average Contract Amounts <u>2021-2023</u> 2019-2021	Contract Mgmt
AP Invoices	Average of invoice count <u>2021-2023</u> 2019-2021	AP Vouchers
Receipts	Average of receipt count <u>2021-2023</u> 2019-2021	Receipts
Avg of Direct Reports	Average of direct reports to a Manager	Avg of Direct Reports
UB Customers	Average of Number of accounts <u>2021-2023</u> 2019- 2021	Utility Billing
Operating Projects	Average of Operating Project Costs <u>2021-2023</u> 2019-2021	Operating Projects
Capital Projects	Average of Capital Project Costs <u>2021-2023</u> 2019-2021	Capital Projects
Long Term Debt	Average of Debt Service	Long Term Debt
General Customer Service	100% General Fund	Business Management
Utility Tax	100% General Fund	Utility Tax