

**BEFORE THE BOARD OF COUNTY COMMISSIONERS  
FOR MULTNOMAH COUNTY, OREGON**

**RESOLUTION NO. 02-084**

Adopting Financial and Budget Policies for Multnomah County, Oregon

**The Multnomah County Board of Commissioners Finds:**

- a. The Board is the fiscal authority for Multnomah County government.
- b. The Department of Business and Community Services is responsible under MCC 7.001 for the budget and fiscal operations of the County.
- c. The Director of Business and Community Services is responsible for the preparation and management of the budget and for the management of the financial operations of the County.
- d. A financial and budget policy will provide for prudent financial practices.

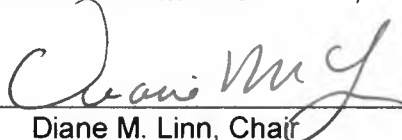
**The Multnomah County Board of Commissioners Resolves:**

1. The Financial and Budget Policies set forth in Exhibit A are the policies of Multnomah County.
2. The Director of Business and Community Services is directed to administer these Financial and Budget Policies.
3. The Director of Business and Community Services is directed to review and update these policies as needed but not less than annually.
4. The Director of Business and Community Services is directed to inform the Board on the status of these policies annually.
5. This Resolution replaces Resolution No. 01-142.

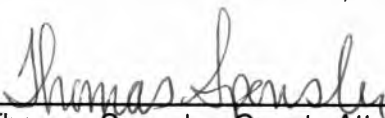
ADOPTED this day 13th day of June, 2002.



BOARD OF COUNTY COMMISSIONERS  
FOR MULTNOMAH COUNTY, OREGON

  
\_\_\_\_\_  
Diane M. Linn, Chair

THOMAS SPONSLER, COUNTY ATTORNEY  
FOR MULTNOMAH COUNTY, OREGON

By   
\_\_\_\_\_  
Thomas Sponsler, County Attorney

## **EXHIBIT A**



**MULTNOMAH COUNTY OREGON**

### **FINANCIAL AND BUDGET POLICY**

**FISCAL YEAR 2002-2003**

Prepared by: Department of Business and Community Services

# FINANCIAL AND BUDGET POLICY

---

## TABLE OF CONTENTS

Goals .....	1
Finacial Forecasts For the General Fund .....	3
Tax Revenues .....	4
Short Term Local Revenues .....	7
Transportation Financing .....	8
Federal/State Grant and Foundation Revenues .....	9
Indirect Cost Allocation .....	10
Use of One Time Only Resources .....	11
User Fees, Sales and Intergovernmental Revenues .....	12
Entrepreneurial Activities .....	13
Reserves .....	14
General Fund Emergency Contingency .....	16
Compensation .....	17
Capital Asset Management .....	17
Long Term Liabilities .....	22
Accounting and Audits .....	23
Fund Accounting Structure .....	24
Internal Service Funds .....	26
Liquidity and and Accounts Payable .....	28
Banking, Cash Management and Investments .....	29
Short-Term and Long-Term Debt Financings .....	30

## **FINANCIAL AND BUDGET POLICY**

---

### **GOALS**

The goals of this financial policy are:

1. To preserve capital through prudent budgeting and financial management.
2. To achieve the most productive use of County funds that meets the goals of the Board of County Commissioners.
3. To ensure that all finance-related activities meet generally accepted accounting principles.
4. To achieve a stable balance between the County's ongoing financial commitments and the continuing revenues available to the County.
5. Leverage the maximum amount of local dollars with federal and state funding/grants.
6. To provide an accountable form of Government to the citizens of Multnomah County.

# **FINANCIAL AND BUDGET POLICY**

---

## **FINANCIAL FORECASTS FOR THE GENERAL FUND**

### **BACKGROUND:**

Governments at all levels should forecast major revenues and expenditures. The forecast should extend at least three to five years beyond the budget period and should be regularly monitored and periodically updated. The forecast, along with its underlying assumptions and methodology, should be clearly stated and made available to participants in the budget process. It also should be referenced in the final budget document. To improve future forecasting, the variances between previous forecast and actual amounts should be analyzed. The variance analysis should identify the factors that influence revenue collections, expenditure levels, and forecast assumptions.

### **FINANCIAL FORECASTS FOR THE GENERAL FUND POLICY STATEMENT:**

The Board of County Commissioners recognizes the importance of combining the forecasting of revenues and the forecasting of expenditures into a single financial forecast. Budget and Service Improvement will prepare a five year financial forecast for the General Fund that assesses long-term financial implications of current and proposed policies, programs, and assumptions that develop appropriate strategies to achieve its goals. The General Fund revenue and expenditure forecasting will include the following:

1. Provides an understanding of available funding.
2. Evaluates financial risk.
3. Assesses the likelihood that services can be sustained.
4. Assesses the level at which capital investment can be made.
5. Identifies future commitments and resource demands.
6. Identifies the key variables that cause change in the level of revenue.
7. Identifies one time only resources and recommends appropriate uses

### **STATUS:**

In compliance

# FINANCIAL AND BUDGET POLICY

---

## TAX REVENUES

### BACKGROUND:

During the past decade Multnomah County has faced major decisions about the level and kind of taxation it should or could impose.

The 1990 passage of Measure 5 presented all local governments with a different kind of taxation problem: an increase in property tax levies by any government had the potential of reducing the property tax receipts of all other local governments-better known as compression.

To avoid this possibility, Multnomah County and the cities of Portland, Troutdale, Fairview and Wood Village agreed not to propose levies that would change their relative 1992-93 shares of the \$10 constitutional cap.

In 1991, following passage of the Measure 5, the Board considered, but did not pass, a Business Income Tax rate to offset some of the lost property tax revenue.

In response to a proposal of the Library Board (which had been tasked with recommending a long-term dedicated revenue source to replace property tax support of the Library system) the Board passed a utility excise tax in 1992, then rescinded the tax in 1993 before it took effect.

In November 1996, the voters of the State of Oregon approved a constitutional amendment, Ballot Measure 47, further limiting property taxes. In May 1997, the voters approved Ballot Measure 50 and repealed Measure 47. For Fiscal Year 1998, Measure 50 reduced the amount of property taxes imposed statewide by 17% from authorized levels (except taxes to pay exempt bonded indebtedness or Local Option levies approved by voters). Measure 50 limited the growth in taxable property value to 3% per year, with the exception on new construction. It also required that general obligation bonds and local option taxes must be approved by a majority of the voters at general election in even numbered years or at any other election in which not less than 50% of eligible registered voters cast a ballot-the double majority.

In November 1997, Multnomah County voters approved a five year Library Local Option Levy. The levy costs property owners 59 cents per thousand of assessed value per year.

In March 1998, Multnomah County voters imposed a temporary 0.5% Business Income Tax surcharge for tax year 1998 – one year only. The revenue generated from this surcharge was dedicated to supplement the various school districts within Multnomah County. This temporary increase generated approximately \$10.4 million.

In 1999 the County was approached with a proposal to increase the rates of both the Transient Lodging Tax and Motor vehicle Rental Tax and dedicate the proceeds to Metro and City of Portland for funding an expanded Convention Center, renovating Civic Stadium and renovating Portland Center for Performing Arts. The Board approved these increases in February 2000.

All of these tax decisions were made in an atmosphere of intense public and internal debate. Those debates consistently referred to these common factors: the progressivity of the tax, its administrative costs, its impact on the economy of the region, its effect on other local governments, and the degree to which the tax might be acceptable to the public.

## **FINANCIAL AND BUDGET POLICY**

---

### **TAX REVENUE POLICY STATEMENT:**

The Board recognizes that taxation is necessary to provide public services to the citizens of the county. When considering changes to the County's tax structure, the Board will consider the following:

1. The ability of taxpayers to pay the taxes.
2. The impact of the taxes imposed by the County on other local governments.
3. The affect of taxes on the economy in the county.
4. Administration and collection costs of the taxes.
5. The ease of understanding the taxes by the taxpayers.

### **STATUS:**

The County has several sources of tax revenue. These sources include property taxes, which are paid based on an established assessed value of real, personal and utility property. Except for general obligation bond levies and local option taxes, County property taxes increase with the growth in assessed value. That assessed value growth is limited to 3% per year plus changes as a result of annexation, rezoning, and new construction. The County collects property taxes in three ways.

- a "permanent tax rate," the reduced combination of the County's "tax base" and two serial levies in effect when Measure 50 was approved.
- property taxes for the retirement of voter approved general obligation bonds.
- a local option levy for Library services.

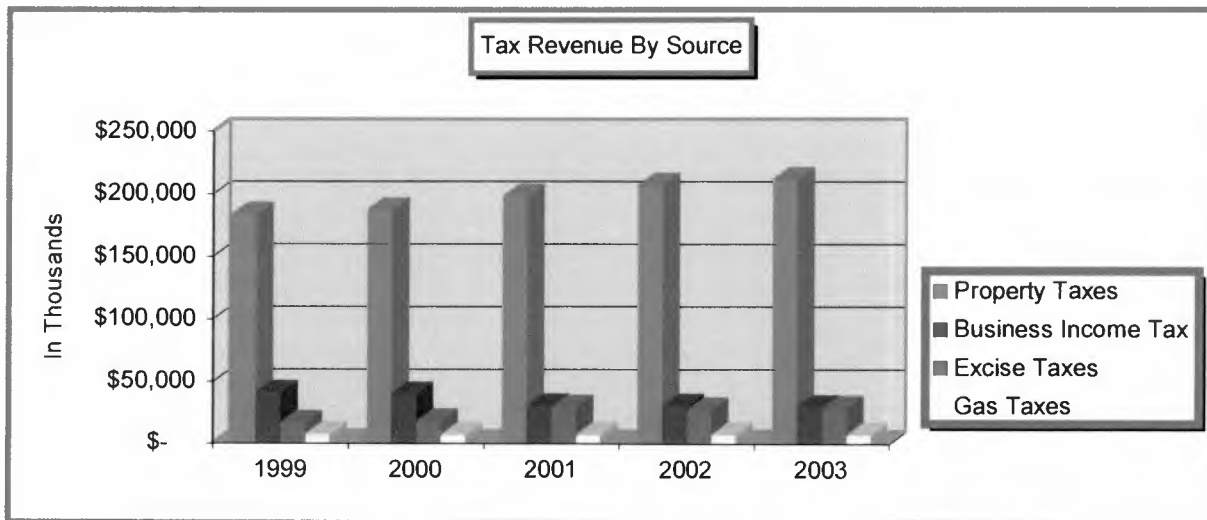
Business entities doing business in Multnomah County pay business income taxes (BIT) based on their net income.

The County has two excise taxes, a Motor Vehicle Rental Tax and a Transient Lodging Tax. Motor vehicle rental taxes are assessed on the gross income generated from short-term vehicle rentals. Transient lodging taxes are imposed on room rental rates at hotels/motels. The Transient Lodging Taxes collected are (with minor exceptions) passed through to Metro for Convention Center operations, funding of the operations of the Performing Arts Center and Regional Art and Culture Council, funding bonds issued by the City of Portland to expand the Oregon Convention Center, renovate Civic Stadium and renovate the Performing Arts Center and to provide monies for a Visitors Development Fund. A portion of the Motor Vehicle Rental Taxes also support these programs.

The County also imposes a gasoline tax that is dedicated to roads.

## FINANCIAL AND BUDGET POLICY

The County's tax revenues represent about 40% of the total Governmental Fund Type revenues (General and Special Revenue Funds). The following graph depicts the actual tax revenue by source since FY 1999. (FYs 2002 & 2003 are budget figures).



	1999	2000	2001	2002	2003
Property Taxes	\$ 183,155	\$ 187,256	\$ 198,188	\$ 207,036	\$ 211,775
Business Income Tax	40,904	39,934	30,377	30,176	29,635
Excise Taxes	16,974	18,101	29,821	27,284	28,712
Gas Taxes	7,470	7,221	7,372	7,278	7,375

# FINANCIAL AND BUDGET POLICY

## SHORT TERM LOCAL REVENUES

### BACKGROUND:

Short-term revenues are sources of limited duration. The main source of these revenues has been serial levies for jail and library services and since the passage of Measure 50, a five-year local option levy for Library services. Continued use of short-term revenues for ongoing programs places these programs or other programs at risk if the voters fail to approve subsequent limited term levies.

In Fiscal Year 1998, the dollar amounts of existing library and public safety serial levies were combined with the County's general fund tax base amount to establish the permanent property tax rate per \$1,000 of assessed value. The expired serial levies, which were merged with the tax base into a permanent tax rate, are no longer dedicated revenues.

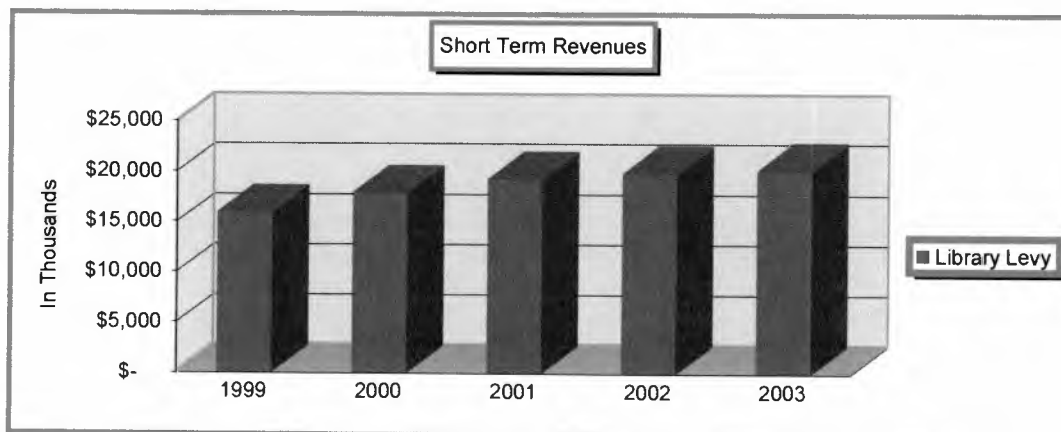
Measure 50 requires that any property tax measure needs both a majority vote and a 50% voter turnout unless it is voted on at a general election. Because of this requirement, it will be more difficult to obtain voter approval for short-term property tax revenues. Perhaps more important, the Constitution makes no provision for a government to change its permanent tax rate.

### SHORT TERM LOCAL REVENUE POLICY STATEMENT:

It is the intent of the Board to use short term revenue sources to fund priority service programs only after all other sources of revenue have been analyzed and have been determined not to be feasible for funding the service.

### STATUS:

On November 4, 1997, the voters approved a five year local option levy for library services. This levy costs property owners 59 cents per thousand of assessed value per year. In May 2002 the voters approved a library local option levy but there was not a 50% voter turnout. The Board will consider placing this measure on the November 2002 ballot. The following graph reflects the use of actual short term revenues since FY 1999 (FYs 2002 and 2003 reflect budgeted figures).



# **FINANCIAL AND BUDGET POLICY**

---

## **TRANSPORTATION FINANCING**

### **BACKGROUND:**

Transportation infrastructure, roads and bridges, has not been funded adequately for either ongoing maintenance or capital improvements. In the Portland metropolitan area, growth is placing additional demands on the transportation system. Ongoing maintenance and improvements to this system are needed to continue economic growth, to alleviate existing transportation problems and to maintain the livability of the region.

Multnomah County's Capital Improvement Plan (CIP) has identified about \$13 million in transportation projects for the road system in Fiscal Year 2003 to fiscal year 2007. The county funds currently leverage another \$22 million for a total of \$35 million in projects over the 5 year period

Multnomah County also maintains and operates the Willamette River Bridges. These bridges are a critical link in a highly integrated transportation system. Regional growth makes it increasingly essential to keep all bridges in good working order with a minimum of downtime. The Fiscal Year 2003 budget includes approximately \$3 million of County funding to match \$19.3 million in federal funding. The CIP identified a need for construction and maintenance for Bridge Capital need over a 20 year period exceeds \$280 million. Anticipated revenue is approximately \$47 million leaving a \$235 million shortfall.

### **TRANSPORTATION FINANCING POLICY STATEMENT:**

It is the policy of the Board to support statewide and regional funding for transportation related needs. However, if statewide and regional funding packages fail the County will work with jurisdictions within the County boundaries to address the transportation funding needs of local governments located in Multnomah County.

### **STATUS:**

The 2001 Legislature passed House Bill (HB) 2142 to raise car title fees from \$17 to \$30 and truck title fees from \$30 to \$90. This increase would raise about \$39.5 million per biennium. The legislature also passed HB 2139 to increase DMV fees. The total increases would amount to about \$81 million. The State would be required to issue \$400 million in transportation bonds. Revenues generated in excess of the amount needed to repay the bonds would be allocated, 50% to the State, 30% to Counties and 20% to cities.

# **FINANCIAL AND BUDGET POLICY**

---

## **FEDERAL/STATE GRANT AND FOUNDATION REVENUES**

### **BACKGROUND:**

Federal and State grant funds have increased significantly over the last ten years. Most of these revenues are restricted to a specific purpose such as mental health or community correction programs. Grants and Foundation funds are used for an array of County services and may offer an opportunity to assist the County in leveraging other funds. This policy statement is not intended to apply to Federal and State shared revenues, entitlements or fees for services.

### **FEDERAL/STATE GRANT AND FOUNDATION REVENUE POLICY STATEMENT:**

The Board understands that grants from other governments and private sources represent both opportunities and risks. Grants allow the County to provide basic or enhanced levels of service and to cover gaps in the array of services the County otherwise offers. Grants may also commit the County to serve larger or different groups of clients and put pressure on County-generated revenues if the dedicated revenue source is withdrawn. When applying for a grant, the Board will consider:

1. The opportunities for leveraging other funds for continuing the grant/foundation related program.
2. How much locally generated revenue will be required to supplement the grant/foundation revenue source.
3. Whether the grant/foundation source will cover the full cost of the proposed program, or whether the County is expected to provide support and overhead functions to the program. It is the intent of the County to recover all overhead costs associated with the grant/foundation.
4. The degree of stability of the funding source.
5. Whether decline or withdrawal of the grant/foundation revenue source creates a budgetary expectation that the County will continue the program.
6. Maximizing revenue support for County programs from state or federal sources.
7. If the grant/foundation funds used for pilot or model programs will result in a more efficient and or effective way of doing business.
8. If the grant/foundation is aligned with the County's mission and goals.

### **STATUS:**

The fiscal Year 2003 Federal State Budget has grant revenue sources of about \$239,035,000.

## **FINANCIAL AND BUDGET POLICY**

---

### **INDIRECT COST ALLOCATION**

#### **BACKGROUND:**

The Federal and State Governments recognize that the cost of providing services includes the overhead cost of support services. Generally, federal and state grantors allow programs to recover overhead charges based on an indirect cost allocation plan. The County prepares an indirect cost allocation plan in accordance with federal guidelines. This plan determines the indirect cost rate charged to all operations funded with dedicated revenues. The central services in the Cost Allocation Plan include, but are not limited to: the County Auditor, County Counsel, Employee Services, Equipment Use, Finance, Insurance, Labor Relations, Budget & Service Improvement, Purchasing, Radio, and Records. In Fiscal Year 2003, the County is allocating departmental overhead costs directly to all programs in all departments except for the Sheriff and Library. Therefore the rates included in the cost allocation for the departments is for central services only. The Library's rate is 2.86% and the Sheriff's rate is 8.78%.

#### **INDIRECT COST ALLOCATION POLICY STATEMENT:**

Generally it is the policy of the Board to recover from dedicated revenue sources the full cost of programs supported by those sources. The full cost includes the appropriate proportionate share of the cost of County overhead functions that is attributable to programs funded with dedicated revenues.

The exception to the above policy is when the grantor agency does not allow the grantee to charge indirect costs or only allows a set indirect cost rate. The Board will have the final authority to accept a grant that does not allow the recovery of all or part of the indirect charge. In that event, the General Fund will pay the indirect cost allocated to the program.

The Finance Program Area is responsible for preparing an Indirect Cost Allocation Plan that meets the requirements of the Office of Management and Budget (Federal Government Agency) Circular A-87. Central service and departmental administrative support provided to non- General Fund programs, activities, and or functions that are not recovered by internal service charges or billed directly to dedicated revenues will be recovered through an indirect cost based on the approved Indirect Cost Allocation Plan. The plan will be updated annually.

#### **STATUS:**

The County is in compliance with this policy. The overhead rates for Fiscal Year 2003 is 2.2%

# **FINANCIAL AND BUDGET POLICY**

---

## **USE OF ONE-TIME-ONLY RESOURCES**

### **BACKGROUND:**

Unrestricted one-time-only resources present organizations with temptations that are hard to resist. In the short run it appears more beneficial to allocate such resources to the highest priority public service that would otherwise be unfunded than to restrict their spending to cover costs that will not recur in following years. However, the result of this practice is to expand operational levels and public expectations beyond the capacity of the organization to generate continuing funding. This inevitably produces shortfalls and crisis.

Sustaining an ongoing program level by deferring necessary expenditures or by incurring future obligations also inevitably produces shortfalls and crisis.

### **RECURRING COSTS AND ONE-TIME-ONLY REVENUE POLICY STATEMENT:**

It is the policy of the Board that the County will fund ongoing programs with ongoing revenues.

When the County budgets unrestricted one-time-only resources, the Board will consider setting these funds aside for reserves or allocating them to projects or programs that will not require future financial commitments. The Board will use the following criteria when allocating these one-time-only resources:

1. The level of reserves set aside as established by Board policy.
2. The County's capital needs set out in the five year Capital Improvement Plan or Information Systems Development Plan.
3. One-time only spending proposals for projects or pilot programs, particularly investments that may result in innovative ideas or technology or long-term efficiencies or savings that do not require ongoing support.
4. Bridge or gap financing for existing programs for a finite period of time.

### **STATUS:**

During budget deliberations the Budget & Service Improvement Manager is responsible for providing a list of sources and uses of one-time only funds and informing the Chair and the Board on the recommended use of the funds received.

# **FINANCIAL AND BUDGET POLICY**

---

## **USER FEES, SALES and INTERGOVERNMENTAL REVENUES**

### **BACKGROUND:**

User fees are generally intended to cover all the costs or an agreed upon portion of the costs for providing services. Inflation or increased service delivery can erode the established user fees if the cost of service increases faster than revenue from the fee increases.

### **USER FEES, SALES and INTERGOVERNMENTAL REVENUE POLICY STATEMENT:**

It is the general policy of the Board that user fees and service charges will be established at a level to recover the costs to provide services. Exceptions to this policy will be made depending on the benefit to the user of the service, ability of the user to pay for the service, benefit to County citizens, and the type of service provided.

As part of budget deliberations and during negotiations of Intergovernmental Agreements, Departments will be responsible for informing the Chair of a fully loaded cost analysis presenting the fee structure necessary to recover 100% of the cost of providing the service. Departments will also recommend whether fees or charges in each area should be set to recover 100% of the costs or be set at a lower rate such as sliding scale fees. The recommendation to the Chair will consider the benefits to an individual or agency, benefits to the citizens of the County, and the financial capacity of the users to pay for the service. The Budget & Service Improvement Division is responsible for ensuring that departments are including all the costs associated with providing the service.

User fees and service charges collected by County agencies will be periodically reviewed. All fees and service charges will be reviewed each four years with approximately 25% of the fees and charges reviewed each fiscal year. Based on this review, the Chair will make recommendations to the Board regarding proposed changes, additions or deletions to current fee or service charge schedules.

Revenues generated from sales and commissions on sales of goods and services sold in County owned or leased facilities are to be credited to the County's General Fund unless the revenues are:

1. Generated for inmate welfare commissary operations.
2. Generated in Library facilities used for Library operations.
3. The Board grants an exception.

### **STATUS:**

Departments are generally responsible for reviewing the fees and charges associated with their operations on an annual basis. There are four County departments which generate the majority of fee revenue – Business and Community Services, County Human Services, Health, Sheriff's Office and Community Justice. A complete review of the fees charged for services provided by the Health Department was conducted during Fiscal Year 1999. Planning fees were reviewed and increased during Fiscal Year 2000.

# **FINANCIAL AND BUDGET POLICY**

---

## **ENTREPRENEURIAL ACTIVITIES**

### **BACKGROUND:**

As a consequence of carrying out duties or mandated functions, County programs and employees develop or acquire specialized skills, assemble information, and create educational and/or operational systems. Business, other governments or clients, who are not the primary focus of the County operation, may find these products or services economically valuable and are willing to pay for the specialized skills or products that relate to their business. In addition, County owned land or buildings may be strategically located or suitable for certain entrepreneurial activities.

Multnomah County will seek opportunities to sell a product or a service. When an opportunity does occur, County managers and policy makers face a complex decision about whether the activity will produce revenue; whether the revenue would benefit taxpayers who indirectly supported the development of the product or service; how the County should conduct itself in the marketplace consistent with the purposes for which the product or services was developed; and the use of the net revenue.

### **ENTREPRENEURIAL ACTIVITIES POLICY STATEMENT:**

The Board wishes to reduce the cost of services to taxpayers as much as possible consistent with fairness, common sense and ethical consideration.

The primary purpose of the County engaging in any entrepreneurial activity will be that the dissemination of the product itself serves a public interest (broadly defined) independent of the net revenue obtained and the County will conduct itself in the marketplace accordingly. The Board recognizes that the decision to engage in entrepreneurial activities requires consideration of economic and public policy factors. In deciding whether to market County services and/or products the Board will consider the following:

1. Any legal restrictions that would prevent the action.
2. The ability of a County program to provide the service or product without allowing the marketing to interfere with its primary purpose.
3. Whether the product or service is superior, unique or benefits the taxpayers in the market, which may include location considerations.
4. The appropriateness of the product as it relates to a public agency.
5. The impact of marketing the particular service on the private sector providers of the same or related services. In general, the County should not compete with its taxpayers except where clearly justified under criterion 3 above.
6. The potential return compared to development or marketing cost associated with the proposed action.
7. Whether the County will subsidize its costs for providing the product or service.
8. In general, net revenues from entrepreneurial activity will be used to support or enhance the services linked to or used in the development of the product. The Board may make exceptions from time to time and use the revenues to fund other County priority services.

### **STATUS:**

The County continues to explore entrepreneurial opportunities.

# FINANCIAL AND BUDGET POLICY

---

## RESERVES

### BACKGROUND:

Annually using all available ongoing revenue to pay for ongoing programs can result in fluctuations in program levels as revenues vary from one year to the next. Programs added in one year based on positive short term receipts can cause programs of equivalent cost being cut in the next year if economic factors cause those revenues not to grow as fast as costs. This has a detrimental effect on service delivery over time. It reduces efficiency. It also sets up difficult budget problems that could be avoided if program decisions were made in the context of the County's long-term financial capacity rather than on the basis of revenue available from one year to the next.

Maintaining an appropriate reserve assists the County in maintaining its favorable bond rating, which is currently Aa1 from Moody's Investors Service. Moody's generally established benchmark for the General Fund Balance or reserve is a dollar amount equal to at least 1010% of actual General Fund revenues.

### RESERVES POLICY STATEMENT:

The Board understands that to avoid financial instability, continuing requirements should be insulated from temporary fluctuations in revenues.

It is the goal of the Board to fund and fund and maintain two General Fund Reserves designated as unappropriated fund balance, funded at approximately 5% each of the total budgeted revenues of the General Fund. The Public Safety Fund is primarily supported by the General Fund and for purposes of calculating these reserves, revenues and actual ending fund balances reported in the Public Safety Fund will be included.

The first 5% is a reserve account in the General Fund, designated as unappropriated fund balance. This reserve account is to be used when basic revenue growth falls below the rate of basic revenue change achieved during the prior ten years.\* In years when basic revenue growth falls below long term average growth, the Board will reduce the unappropriated fund balance to continue high priority services that could not otherwise be funded by current revenues. If the reserve account is so used, to maintain fiscal integrity, the Board will seek to restore the account as soon as possible.

The second 5% is a reserve maintained separate from the General Fund in the General Reserve Fund. This reserve fund is to be used for non-reoccurring extreme emergencies. Extreme Emergencies is defined as uses for disaster relief, expenditures related to essential services or expenditures that are related to public life and safety issues. If the reserve account is so used, to maintain fiscal integrity, the Board will seek to restore the account as soon as possible.

---

\* "Basic revenue" is defined as the sum of General Fund property tax, business income tax, motor vehicle rental tax, cigarette tax, liquor tax and interest income. "Growth" is defined as total increase in fiscal year compared to the amount in the prior fiscal year, adjusted for changes in collection method, accrual method, or legislation defining the rate or terms under which the revenue is to be collected.

## FINANCIAL AND BUDGET POLICY

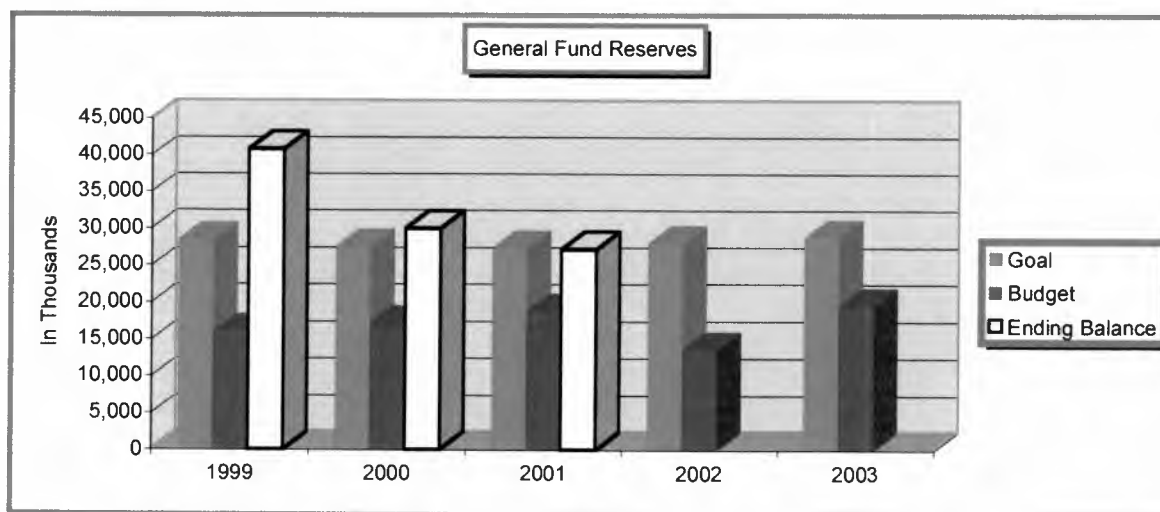
The Board will replenish the General Fund Reserve to approximately 5% of General Fund revenues over the next three years. The anticipated plan to accomplish this is as follows:

	Amount	Source
FY04	\$1,800,000	Reserves currently held for COPs issued in 1993 This issue will be refunded July 2003 backed by full faith and credit of County. Reserves will no longer be needed.
FY05	\$1,300,000	Options Include: 1. Proceeds from asset sales 2. Yearend surplus identified through the audit. 3. Service reductions
FY06	\$1,300,000	Options Include: 4. Proceeds from asset sales 5. Yearend surplus identified through the audit. 6. Service reductions

### STATUS:

In Fiscal Year 2002 the basic revenue growth fell below the long term average growth. To continue funding priority services, the Board used \$5.7million of the reserve account. In Fiscal Year 2002 the Board established the General Reserve Fund and funded it with approximately \$9.1 million from General Funded vacation liabilities that are not required to be recorded in the governmental funds of Multnomah County (see discussion in Long-Term Liabilities section). In the fiscal year 2003 budget the Board replenished the unappropriated fund balance to \$10.1 million and has outlined a specific plan to completely fund the reserve over the next 3 years.

The following graph shows the reserve goal, budget and actual reserve since FY 1999. The budgeted reserves do not include funds budgeted in contingency. (Graph includes vacation account prior to the establishment of the General Reserve Fund) Actual for 2002 and 2003 not available.



# **FINANCIAL AND BUDGET POLICY**

---

## **GENERAL FUND EMERGENCY CONTINGENCY**

### **BACKGROUND:**

General Fund contingency transfers have a significant effect on the annual budget process by reducing the amount of ending working capital that is carried over to the subsequent fiscal year. Contingency transfers should be reviewed in the context of other budget decisions so that higher priority projects are not jeopardized.

### **GENERAL FUND EMERGENCY CONTINGENCY POLICY STATEMENT:**

The Board understands that in order to avoid financial instability, continuing requirements cannot increase faster than continuing revenues.

It is the policy of the Board to establish an emergency contingency account in the General Fund, as authorized by ORS 294.352, each fiscal year during the budget process. The account will be funded at a level consistent with actual use of transfers from contingency during the prior ten years.

To achieve financial stability, the following are guidelines to be used by the Board in considering requests for transfers from the General Fund Contingency Account:

1. Approve no contingency requests for purposes other than "one-time only" allocations.
2. Limit contingency funding to the following:
  - a) Emergency situations which, if left unattended, will jeopardize the health and safety of the community.
  - b) Unanticipated expenditures that are necessary to keep previous public commitment, or fulfill a legislative or contractual mandate, or can be demonstrated to result in significant administrative or programmatic efficiencies that cannot be covered by existing appropriations.
3. The Board may, when it adopts the budget for a fiscal year, specify programs which it wishes to review during the year and increase the Contingency account to provide financial capacity to support those programs if it chooses. Contingency funding of such programs complies with this policy.

### **STATUS:**

The Budget & Service Improvement Manager is responsible for informing the Board if contingency requests submitted for Board approval meet the criteria of this policy. In addition, each year the Board will receive a report on the prior year contingency actions. This report will include the total dollar amount of contingency requests, dollar amount approved and dollar amount that did not meet the criteria of this policy.

# **FINANCIAL AND BUDGET POLICY**

---

## **COMPENSATION**

### **BACKGROUND:**

Wage and benefit increases are negotiated between collective bargaining units and the County. In addition the Board authorizes wage and benefit increases to exempt employees by ordinance.

### **COMPENSATION POLICY STATEMENT:**

When any wage or benefit increase is authorized in an amount exceeding budgeted setasides for such wage and benefit increases, the alternatives considered for funding such increases shall include:

1. A budget reduction in the affected department or elsewhere in the County; or
2. An additional draw on contingency; or,
3. A combination of the above.

All tentative approved labor agreements or proposed exempt compensation packages presented to the Board for final approval shall contain, in writing, the following specific costing:

1. Estimates in percentage increases of the wage benefit and package as a whole for all years of the agreement or ordinance, as well as the absolute dollar amount of such increases; and
2. A specific narrative remark, if possible, of any future fiscal impacts of the contract or ordinance and financial impact on any language changes in the contract or ordinance. Such remarks shall address any estimated effects on the unfunded liability of the pension fund, any other fund or any other funded or unfunded liability.

The full financial impacts of negotiated labor agreements will be included in the current budget and financial forecasts.

### **STATUS:**

This policy has been complied with throughout the prior fiscal year.

# **FINANCIAL AND BUDGET POLICY**

---

## **CAPITAL ASSET MANAGEMENT POLICIES**

### **BACKGROUND:**

Capital financial management policies show the credit rating industry and prospective investors (bond buyers) the County's commitment to sound financial management and fiscal integrity. Adherence to adopted policies ensures the integrity of the financial planning process and can lead to maintaining or improving bond ratings and lowering the cost of capital.

In general, a facilities and property management plan includes three phases: (1) capital improvement planning and funding; (2) facility operations and long-term maintenance plan and funding; (3) property management to determine best use or disposition of property.

Multnomah County owns in excess of 60 buildings with a historical cost of about \$280 million and estimated replacement costs of \$800 million. Structural and systems maintenance in the County's capital plant is largely a non-discretionary activity. That is, the question is not whether such expenditures are necessary but in what year to schedule the expenditure on particular projects. Deferral of spending on capital improvements and maintenance builds an unfunded liability that will need to be funded sooner or later.

Multnomah County's Capital Improvement Program was last updated in 1995 and projects were reviewed in 1998. In 1998, the Strategic Space Plan contemplated innovative development offerings and public partnerships for mixed-use facilities and the County has taken steps toward the realization of such innovations in projects like the Multnomah County East Building and the Hollywood Library. Multnomah County's capital improvement project list and space utilization has significantly changed since it was last updated.

Over the last several years the County has been presented with several opportunities to improve efficiencies by acquiring equipment and/or by redirecting building rental payments to pay for the construction/renovation/acquisition of a facility. It is reasonable to assume that the County will have additional similar opportunities in the future. Given the current scarcity of capital funding, it may be appropriate to consider a variety of creative funding strategies to respond to these opportunities in the future.

The Board of County Commissioners may authorize the sale, long-term lease, or development of property and/or improvements and may authorize full faith and credit financing obligations. It is financially prudent to adequately plan capital projects and to address the unfunded need for capital improvements so that decisions about the use of revenues and financing may be made in an orderly and effective manner.

### **CAPITAL IMPROVEMENT PLANNING AND FUNDING POLICY:**

The County shall prepare, adopt and annually update a five-year Capital Improvement Plan (CIP). The Plan will identify and set priorities for all major capital asset acquisition, renovation, maintenance or construction projects.

During the annual budget development process the Director of the Facilities and Property Management Division is directed to update the Capital Improvement Plan with input from the Chief Operating Officer's Cabinet. This plan shall include recommendations to the Chair and Board of County Commissioners on the priority of projects including those that may have been identified by the Cabinet, suggested by Commissioners or otherwise identified.

## **FINANCIAL AND BUDGET POLICY**

---

A Capital Improvement Financial Plan Committee is established, to be composed of representatives of Finance, Budget and Service Improvements, Facilities and Property Management, and others deemed necessary by the Chair.

The Capital Improvement Financial Plan Committee shall review the Capital Improvement Plan and any other equipment acquisitions being requested to be financed with long term obligations, develop a priority list and a plan to finance the requirements of the Capital Improvement Project plan and any other capital requests. Prior to the adoption of the annual budget, the Capital Improvement Financial Plan Committee shall present a report to the Board. This report shall include a listing of the projects, intended use, alternative methods of financing, current debt commitments, current debt capacity and recommendations.

### **FACILITY OPERATIONS AND LONG-TERM MAINTENANCE PLAN AND FUNDING POLICY:**

The Board recognizes that adequate operations and long-term maintenance funding is essential to avoid costly reconstruction or replacement of capital assets.

The five year Capital Improvement Plan shall provide for anticipated future major improvements and maintenance to County capital assets as well as additional and replacement capital assets. The Plan shall include major construction to be undertaken by the County, no matter what the funding source. The Plan will be reviewed and updated annually.

The Capital Improvement Plan shall identify adequate funding to support repair and replacement of deteriorating capital assets and avoid a significant unfunded liability from deferred maintenance. In order to facilitate CIP discussions and to create a clear alignment of policy and funding, the Facilities and Property Management Division shall evaluate all owned County facilities and shall maintain a current list of facilities which are in substantial compliance with all applicable building codes and which have no required capital work. These facilities shall be designated as Tier I (Asset Preservation) facilities.

An Asset Preservation Fee shall be assessed on tenants within all Tier I buildings. This fee is established to be \$1.65/rentable square feet in the initial year and shall be adjusted in future years to reflect the facilities needs and County funding capacity. It is the goal of the Board to fund the County's capital needs at approximately 2% of the cost of County buildings. (2% is equivalent to depreciating the facilities over a 50-year period). While the County does not have the capacity to fund facilities at this rate currently, the Board will keep this goal in mind when establishing the rate in future years.

An Asset Preservation Fund is maintained to collect the assessed Asset Preservation Fees and to serve as a long-term reserve fund to maintain the Tier I facilities in their current excellent condition. Required capital projects for Tier I facilities shall be budgeted annually in the Asset Preservation Fund. The remaining balance of the Fund shall be maintained as a long-term reserve and shall be budgeted as an unappropriated balance.

Any facility which does not meet the criteria for designation as a Tier I building shall be designated as a Tier II or Tier III building. Tier II buildings are not up to current building standards and may require substantial capital work but are determined appropriate for continued investment and long-term retention in the County facilities inventory.

Tier III buildings appear to be uneconomic or impractical for long-term retention and will be analyzed to determine if they should be declared surplus and offered for disposition. Only "fire life safety" and urgent capital projects will be considered for Tier III buildings in order to avoid further uneconomic investment in these facilities.

## **FINANCIAL AND BUDGET POLICY**

---

A Capital Improvement Fee shall be assessed on tenants within all Tier II and III buildings. This fee is established to be \$1.65/rentable square feet in the initial year and shall be adjusted in future years to reflect the facilities needs and County funding capacity. It is the goal of the Board to fund the County's capital needs at approximately 2% of the cost of County buildings. (2% is equivalent to depreciating the facilities over a 50-year period). While the County does not have the capacity to fund facilities at this rate currently, the Board will keep this goal in mind when establishing the rate in future years.

A Capital Improvement Fund is maintained to collect the assessed Capital Improvement Fees. This Fund will be used to provide for the continuing repair and maintenance of Tier II and III buildings. Given the current inadequacy of these funds to adequately meet the needs of these buildings, projects will be identified and proposed for funding based on an annual assessment of need and urgency. The Facilities and Property Management Division shall maintain an inventory of the capital needs in all owned County facilities. An evaluation process and rating system shall be implemented and managed by the Facilities and Property Management to assist in determining which projects to propose for funding each year. Recommended capital projects for Tier II and III facilities shall be budgeted annually in the Capital Improvement Fund. Any remaining balance of the Fund shall be maintained as a long-term reserve.

Property and Facilities Management will perform all preventative and corrective maintenance on all County facilities to provide facilities that are safe, functional and reliable for County operations. Facilities and Property Management will prepare and administer tenant agreements, respond to service requests, and manage commercial leases. The service level agreements with each tenant will be prepared to reflect the level of service and various pricing of each service that have been agreed upon by the parties.

### **Best use or disposition of SURPLUS property policy:**

As part of the CIP presented to the Board, the Capital Improvement Financial Plan Committee shall annually recommend the best use or disposition of surplus property held by the County. The recommendation will detail the financial and service impact of each recommendation. The Board will make the final determination on the best use or disposition of the property identified.

When deciding on the best uses or disposition of surplus property, the Board will consider that the proceeds from the sale of unrestricted property may be:

1. Credited to the Capital Improvement Fund for providing resources for future capital projects, deferred maintenance, or capital acquisition/construction.
2. Credited to the Asset Preservation Fund to provide adequate reserves to meet future capital needs in Tier I facilities.
3. Credited to increase General Fund reserves.
4. Used to retire outstanding debt.

In addition:

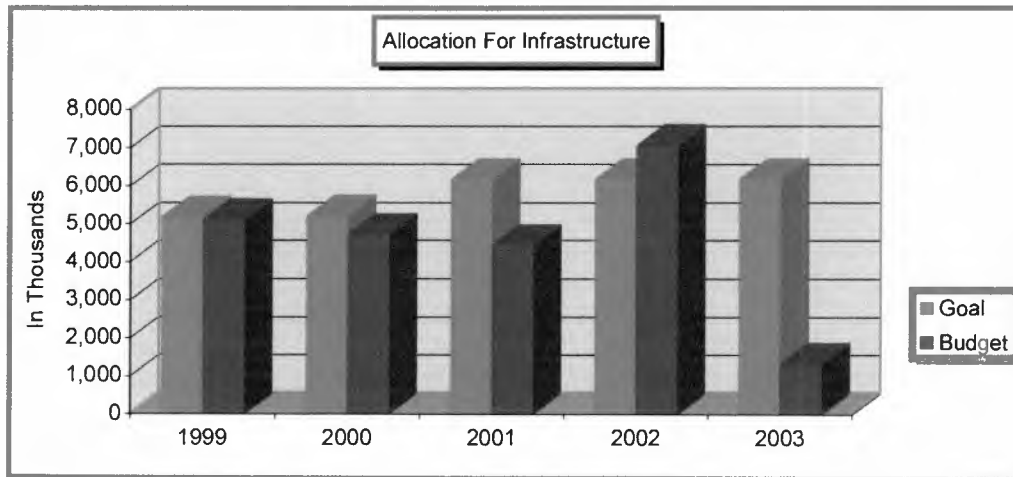
1. Property may be traded for other properties that are needed to provide services or carry out the mission of the County.
2. Property may be leased to other agencies.

## FINANCIAL AND BUDGET POLICY

---

### STATUS:

The five year CIP Plan was updated in Fiscal Year 1996. The following graph depicts the goal and actual for FYs 1999 to 2001. FYs 2002 & 2003 reflect budget figures.



# FINANCIAL AND BUDGET POLICY

---

## LONG-TERM LIABILITIES

### BACKGROUND:

The Financial Accounting Standards Board has issued various statements which require private sector organizations to record long-term liabilities in their financial records. The Governmental Accounting Standards Board has been moving towards private sector accounting standards and is requiring governmental organizations to either record long-term liabilities in the financial records of the organization or disclose the liabilities in the notes to the financial statements. To avoid having the Board or future Boards face huge unfunded liabilities, beginning in the mid 1980's, the County began funding many of its unfunded liabilities. By funding these liabilities over time the County will not be faced with liabilities without the resources to fund them. The practice of funding long-term liabilities has a favorable impact on our bond rating. The following is quoted from our most recent credit report: "The County's historically strong financial management is underscored by its response to revenue limitations imposed by Measure 5 beginning in Fiscal Year 1992. In addition to making dramatic program cuts and organizational changes, the County nevertheless continued its policy on funding long-term liabilities. The County's high credit rating is supported by the strong economy, sound financial management, high level of cooperation with underlying jurisdictions and moderate debt position."

### LONG-TERM LIABILITIES POLICY STATEMENT:

It is the goal of the Board to fund 100% of all long term liabilities that are required by the Governmental Accounting Standards Board (GASB) to be disclosed or accounted for in the County's comprehensive annual financial report. GASB 34 states that vacation liabilities do not need to be reported in the governmental fund types until they are paid. Vacation liabilities in the proprietary funds will be recognized on the full accrual basis of accounting. These liabilities include, but are not limited to; medical & dental incurred but not reported (IBNR) claims, workers compensation IBNR claims, liability IBNR claims, post retirement benefits, and Library Retirement Plan benefits. The Finance Director is responsible for ensuring that these liabilities are funded according to the actual liability or the actuarially determined liability.

### STATUS:

The following is the June 30, 2001 funding level of each liability (\$ in thousands):

Type of Liability	Total Liability	Amount Funded	Percent Funded
Self Insurance (1)	\$ 9,378	\$ 9,378	100.00%
Post Retirement (2)	10,788	8,142	75.47%
Library Retirement (3)	11,240	11,197	99.62%
Total	<u>\$ 31,406</u>	<u>\$ 28,717</u>	<u>91.43%</u>

- (1) GASB requires self-insurance claims be recorded as a liability in the financial statements.
- (2) GASB requires employer paid benefits extended to retirees be disclosed in the financial statements.
- (3) The Library Retirement Funds are required to be disclosed. Funds are dedicated to former employees of the Library Association of Portland.

# **FINANCIAL AND BUDGET POLICY**

---

## **ACCOUNTING AND AUDITS**

### **BACKGROUND:**

Under ORS 294 the County is required to have the County's financial records audited by an independent accounting firm annually.

### **ACCOUNTING AND AUDITS POLICY STATEMENT:**

The Board understands that the County's accounting system and financial records are required by State law to be maintained according to Generally Accepted Accounting Principles (GAAP), standards of the Government Finance Officers Association (GFOA) and the principles established by the Governmental Accounting Standards Board (GASB), including all effective pronouncements.

Multnomah County's Ordinance No. 660 as amended, which established an Audit Committee, audit procedures and audit rules, will apply to all financial audits. The basic duties of the Audit Committee are:

1. Review the scope and general extent of the external auditor's planned examination.
2. Review with management and the external auditor the financial results of the audit.
3. Review with the external auditor the performance of the County's financial and accounting personnel.
4. Review written responses of management letter comments and single audit comments.
5. Present the Audit, Single Audit and Report to Management to the Board.
6. Select the external auditor.

The Comprehensive Annual Financial Report (CAFR) shall be sent to grantor agencies and rating agencies on a regular basis and at such other times as may be deemed appropriate in order to maintain effective relations.

It is the goal of the Board to maintain a fully integrated automated financial system that meets the needs of the County. This financial system is to include; general ledger, accounts payable, accounts receivable, purchasing, payroll and cost accounting for all applicable operations. The financial system will be maintained on a monthly basis to monitor expenditures and revenues, budget and actual.

### **STATUS:**

In compliance.

# FINANCIAL AND BUDGET POLICY

---

## FUND ACCOUNTING STRUCTURE

### BACKGROUND:

According to local budget law and generally accepted accounting principles the County is required to establish and maintain various funds. To ensure that the Board is informed of the various funds Finance has historically presented to the Board the County's fund structure each year.

### FUND ACCOUNTING STRUCTURE POLICY STATEMENT:

The Finance Director is responsible for preparing and presenting a resolution defining the various County funds to the Board each fiscal year.

The County will follow generally accepted accounting principles number three and number four when creating a fund and determining if the fund is to be a dedicated fund.

PRINCIPLE 3 TYPES OF FUNDS: The following types of funds should be used by state and local governments:

### GOVERNMENTAL FUNDS

**General Fund** - to account for all financial resources except those required to be accounted for in another fund.

**Special Revenue Funds** - to account for the proceeds of specific revenue sources (other than expendable trusts or for major capital projects) that are legally restricted to expenditure for specified purposes.

**Capital Projects Funds** - to account for financial resources to be used for the acquisition or construction of major facilities (other than those financed by proprietary funds and trust funds).

**Debt Service Funds** - to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest.

### PROPRIETARY FUNDS

**Enterprise Funds** - to account for operations (a) that are financed and operated in a manner similar to private business enterprises-where the intent of the governing body is that costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenue earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, or accountability.

**Internal Service Funds** - to account for the financing of goods or services provided by one department or agency to other departments or agencies of the governmental unit, or to other governmental units, on a cost-reimbursement basis.

## **FINANCIAL AND BUDGET POLICY**

---

### **FIDUCIARY FUNDS**

**Trust and Agency Funds** - to account for assets held by a governmental unit in a trustee capacity or as an agent for individuals, private organizations, governmental units, and/or other funds. These include (a) Expendable Trust Funds, (b) Nonexpendable Trust Funds, (c) Pension Trust Funds, and (d) Agency Funds.

**PRINCIPLE 4 NUMBER OF FUNDS:** Governmental units should establish and maintain those funds required by law and sound financial administration. Only the minimum number of funds consistent with legal and operating requirements should be established, however, since unnecessary funds result in inflexibility, undue complexity, and inefficient financial administration.

**STATUS:**

In compliance.

# FINANCIAL AND BUDGET POLICY

---

## INTERNAL SERVICE FUNDS

### BACKGROUND:

It is often advantageous to centralize the provision of certain goods and services within Multnomah County by establishing internal service funds. Internal service funds provide a useful means of accounting for such centralized intra governmental activities.

The Governmental Accounting Standards Board's (GASB) Codification of Governmental Accounting and Financial Reporting Standards (Codification) states that internal service funds may be used "to account for the financing of goods or services provided by one department or agency to other departments or agencies of the governmental unit on a cost-reimbursement basis. The purpose of the internal service funds is that they use the flow of economic resources measurement focus and the full accrual basis of accounting, thus allowing them to measure and recover the full cost of providing goods and services to departments and agencies (including depreciation on fixed assets). Other governmental funds do not provide cost data, but instead focus on flows of financial resources.

GASB also directs governments to use either the general fund or an internal service fund if they wish to use a single fund to account for all of their risk financing activities of a given type. If a government chooses to use an internal service fund to account for its risk-financing activities, interfund premiums are treated as quasi-external transactions (similar to external insurance premiums), rather than as reimbursements. Because interfund premiums paid to internal service funds are treated as quasi-external transactions rather than as reimbursements, their amount is not limited by the amount recognized as expense in the internal service fund, provided that the excess represents a reasonable provision for anticipated catastrophe losses or the excess is the result of a systematic funding method designed to match revenues and expenses over a reasonable period of time (e. g., an actuarial funding method, a funding method based upon historical cost data).

GASB indicates that internal service funds may be used for services provided on a cost-reimbursement basis to other governments, nonprofits and quasi-governmental entities.

Most transactions between internal service funds and other funds take the form of quasi-external transactions. That is to say, the funds receiving goods or services report an expense or expenditure, while the internal service fund reports revenue. The practical consequence of this approach is that expenses/expenditures are duplicated within the financial reporting entity. The duplication resulting from the use of internal service funds is preferable to the duplication that sometimes occurs when internal service funds are not used. Under current Generally Accepted Accounting Principles, GAAP, quasi external transactions may occur between departments within the same fund:' (e.g., general fund) or between funds within the same fund type (e.g." special revenue funds). Consequently, if an internal service fund is used, duplication could occur within the same fund or fund type. The internal service fund has the advantage of isolating such duplicate transactions within a separate fund type, where their special character is clearer to users of the financial statements.

Internal service funds are used to account for services provided on a cost reimbursement basis without profit or loss.

Surpluses and deficits in internal service funds may be an indication that other funds were not charged properly for the goods or services they received.

## **FINANCIAL AND BUDGET POLICY**

---

The principle that internal service funds should operate on a cost reimbursement basis applies to the operations of these funds over time. It is only when internal service funds consistently report significant deficits or surpluses that the adequacy or inadequacy of charges made to other funds must be reassessed. If it is determined that the charges made to other funds are either more or less than is needed to recover cost over a reasonable period, the excess or deficiency should be charged back to the participating individual funds. In particular, it is not appropriate to report a material deficit in internal service fund without the demonstrable intent and ability to recover that amount through future charges to other funds over a reasonable period.

Often internal service funds charge for asset use in excess of historical cost depreciation to ensure that adequate funds will be available to purchase replacement assets (whose cost is likely to be higher because of inflation). The systematic recovery of the replacement cost of fixed assets is not a violation of the cost allocation principle because the surpluses are only temporary (i.e., they will disappear when the higher priced assets are, in fact acquired).

In recent years, federal grantors have become increasingly sensitive to the potential for overcharges connected with internal service funds. Accordingly, high levels of retained earnings in internal service funds (as defined by federal cost allocation principles) may lead to the disallowance of some costs charged out to other funds.

The main purpose of establishing separate internal service funds is to identify and allocate costs related to the provision of specific goods and services within Multnomah County

### **INTERNAL SERVICE FUND POLICY STATEMENT:**

Multnomah County will establish internal service funds for the following services:

1. Risk Management
2. Facilities and Property Management
3. Motor pool and electronics
4. Mail distribution
5. Telephone
6. Data processing.

Services provided by internal service funds will be defined and put in writing.

The internal service funds will be used to account for business operations and charge for services to account for the financing of the goods or services provided to other departments or agencies on a cost-reimbursement basis. Periodically the rates charged by internal service funds will be compared to other public or private sector operations to ensure that the pricing is competitive. The internal service fund charges will include asset replacement charges (depreciation) to ensure that adequate funds will be available to purchase replacement assets.

The internal service fund charges will include charges to maintain a contingency or reserve requirement no greater than 5% to ensure that service reimbursements charged to other departments are maintained at a relatively constant level. Excess reserves or retained earnings will be used to reduce future rates or will be returned to the originating fund.

The internal service reserves and amounts being billed to other departments or agencies will be reviewed annually by budget and finance to ensure they are meeting this policy.

## FINANCIAL AND BUDGET POLICY

---

### LIQUIDITY AND ACCOUNTS PAYABLE

#### BACKGROUND:

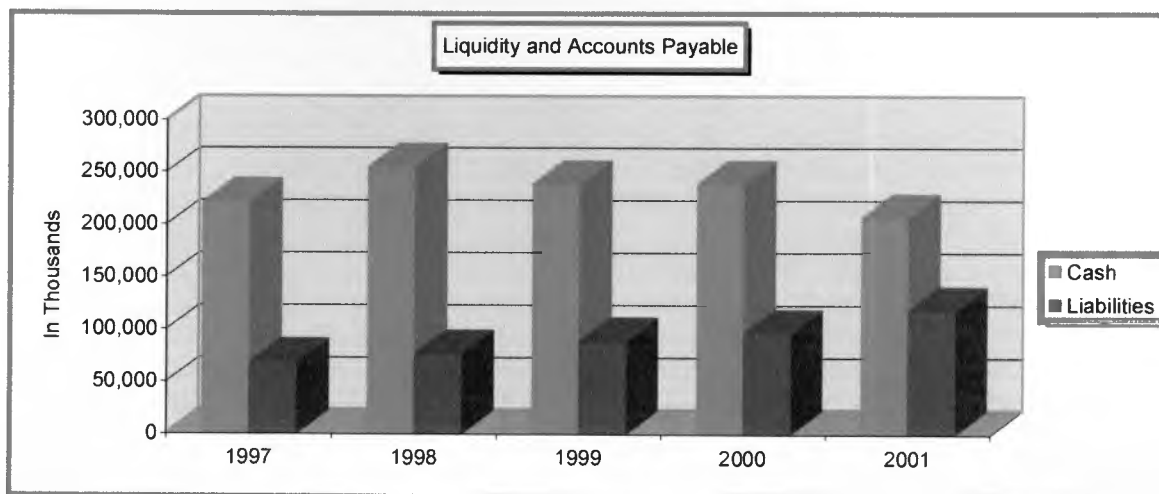
Liquidity is the ratio of cash and short-term investments to current liabilities including amounts held in trust. It reflects the County's ability to pay its short-term debts and accounts payable. Cash and Investments in the capital projects funds and debt retirement funds are long-term cash and investments. The credit rating industry considers a liquidity ratio of \$1 of cash to \$1 of debt as an acceptable liquidity ratio. Generally the County has maintained about \$2 of available cash to every \$1 of current liabilities.

#### LIQUIDITY AND ACCOUNTS PAYABLE POLICY STATEMENT:

The County will strive to maintain a liquidity ratio of at least \$1 dollar of cash and short-term investments to each \$1 dollar of current liabilities.

#### STATUS:

The County is in compliance. The following graphs depict the comparison of cash and investments to current liabilities and accounts payable to revenues for fiscal years 1997 to 2001.



## FINANCIAL AND BUDGET POLICY

---

### BANKING, CASH MANAGEMENT AND INVESTMENTS

#### BACKGROUND:

Multnomah County maintains an active investment program. An investment policy was first formalized in 1982 and has been revised several times since. These policies incorporate various Oregon Revised Statute Codes which specify the types and maturity restrictions that local governments may purchase. The County's Investment Policy also contains self-imposed constraints in order to effectively safeguard the public funds involved.

#### BANKING, CASH MANAGEMENT AND INVESTMENT POLICY STATEMENT:

Banking services shall be solicited at least every five years on a competitive basis. The Finance Director is authorized to act as "Custodial Officer" of Multnomah County and is responsible for performing the treasury functions of the County under ORS 208, 287, 294 and 295 and the County's Home Rule Charter. In carrying out these duties and functions, the Finance Director is authorized to establish internal Finance Program Area policy that meets generally accepted auditing standards relating to cash management.

In accordance with ORS 294.135, Multnomah County's investment transactions shall be governed by a written investment policy, which will be reviewed and adopted annually by the Board of County Commissioners. The investment policy will include the investment objectives, diversification, limitations and reporting requirements. In accordance with MCC 2.60.305 through 2.60.315 the County will utilize an independent Investment Advisory Board to review the County's investment plan and investment performance. Unrecognized gains or losses on investments will be recorded in the County's financial report.

#### STATUS:

The County is in compliance with this policy. Banking services were put out to bid in the Spring of 1997 and the services are currently out to bid. The following is the County's June 30, 2001 investment portfolio summary (\$ in thousands):

Description	Market Value
U.S. Government Agencies	\$12,579
Municipal Bonds	5,009
Repurchase Agreements	1,300
Commercial Paper	42,681
Bankers' Acceptances	16,967
LGIP	29,786
Library Pension	11,241
Cash Deposits	7,287
Total	<u>\$ 235,850</u>

# FINANCIAL AND BUDGET POLICY

---

## SHORT-TERM AND LONG-TERM DEBT FINANCINGS

### BACKGROUND:

Prior to 1988, the County had maintained a pay-as-you-go philosophy for financing capital projects. The philosophy of pay-as-you-go may be costly in some ways due to cost acceleration in inflationary periods. Over-utilized facilities generate higher operation and maintenance costs and the citizens are not served well by over-utilized or nonexistent facilities. An alternative is to issue debt which is sometimes referred to as pay-as-you-use. The philosophy of issuing debt for public projects is to have the citizens benefiting from the project pay for the debt retirement costs.

### SHORT-TERM AND LONG-TERM DEBT FINANCING POLICY STATEMENT:

All financings are to be issued in accordance with the County's Home Rule Charter and applicable State and Federal Laws.

1. **Short-Term Debt.** If it is determined by the Finance Program Area that the General Fund cash flow requirements will be in a deficit position prior to receiving property tax revenues in November, the County will issue short-term debt to meet the anticipated cash flow requirements. When financing a capital project, Bond Anticipation Notes or a Line of Credit may be issued if such financings will result in a financial benefit to the County. Before issuing short-term debt the Board must authorize the financing by adopting a resolution.
2. **Bonds and Other Long-Term Obligations.** It is the policy of the Board that the County will attempt to meet its capital maintenance, replacement or acquisition requirements on a pay as you go basis. If the dollar amount of the capital requirement cannot be met on a pay as you go basis, if it is financially beneficial to issue bonds or COPs, and if the project has been determined to benefit future citizens, the County will evaluate the feasibility of issuing a long-term debt financing instrument.
3. **Uses.** All long-term financings must provide the County with an economic gain or be as a result of a mandate by the Federal or State Government or court. Under no circumstances will current operations be funded from the proceeds of long-term borrowing.
4. **Purchase/Leasing Facilities.** It is also the policy of the Board to purchase or lease/purchase facilities, instead of renting, when the programs or agencies being housed in the facility are performing essential governmental functions.
5. **Debt.** When issuing debt, the County will follow the Government Finance Officers Association recommended practice of selecting and managing the method of sale of State and Local Government Bonds.
6. **Capital Expenditures.** If capital expenditures are anticipated to be incurred prior to the issuance of the debt, the Board authorizes the Finance Director to execute a declaration of official intent "DOI" with regard to such expenditure. The DOI must express the County's reasonable expectations that it will issue debt to reimburse the described expenditures. It must contain a general description of the project and state the estimated principal amount of obligations expected to be issued to finance the project. A copy of the DOI shall be sent to the Board.

## FINANCIAL AND BUDGET POLICY

---

7. **Financing Mechanisms.** The following are the different types of financings the County may use to fund its major capital acquisitions or improvements.

a) **Revenue Bonds** may be used whenever possible to finance public improvements which can be shown to be self-supported by dedicated revenue sources, needed for infrastructure or economic development or approved by the Board for specific purposes.

i) Revenue supported bonds are to be used to limit the dependency on property taxes for those projects with available revenue sources, whether self-generated or dedicated from other sources.

ii) Adequate financial feasibility studies are to be performed for each project to determine the adequacy of the dedicated revenue source.

b) **General Obligation Bonds** (G.O. bonding) will be used to finance capital projects that have been determined to be essential to the maintenance or development of the County.

i) Capital improvement projects will be analyzed, prioritized and designated as to essential characteristics through the CIP committee process.

ii) Use of G.O. bonding will only be considered after exploring alternative funding sources such as Federal and State grants and project revenues.

c) **Full Faith and Credit or Limited Tax Bonds** will be considered as a financing method if Revenue bonding or G.O. bonding is not feasible.

d) **Lease-Purchases or Certificate of Participation** (COP) will be considered as a financing method if Revenue bonding or G.O. bonding is not feasible.

e) **Leases and limited tax bonds** as reported in the County's comprehensive annual financial report will be limited as follows:

i) Annual lease-purchase payments or limited tax bond payments recorded in the respective Funds, except proprietary funds, will be limited to 5% of the total revenues of the fund supporting the lease payment.

ii) All acquisitions will be limited to the economic life of the capital acquisition or improvement and in no cases shall exceed 20 years.

iii) All acquisitions must fit within the County's mission, goals & objectives or governmental role.

iv) All annual lease-purchase or bond payments must be included in the originating Departments' adopted budget or in the facilities management's building service reimbursement .

f) **Refundings or Advance Refundings** will be done if there is a present value savings of 3% or more or if the restructuring of the financing will benefit the County.

g) **Intergovernmental Agreements** with the State of Oregon for Energy Loans.

## FINANCIAL AND BUDGET POLICY

---

- h) **Local Improvement Districts.** Except as required by State law, it is the policy of the Board not to form Local Improvement Districts (LIDs) for purposes of issuing debt to finance LID improvements unless specifically required by Oregon Revised Statutes. The reasoning for not forming LIDs is because of the added costs of administering the LIDs, the small number of citizens served, and the potential risk that in the event of default by the property owners, the County's General Fund will have to provide funds to retire any outstanding obligations.
- i) **Conduit Financings.** It is the policy of the Board to act as an "Issuer" of conduit financing for any private college, university, hospital, for profit or non-profit organization that is located in Multnomah County and is eligible to use this type of financing. The County will charge a fee of \$1.00 per \$1,000 of bonds issued or \$10,000, whichever is greater, to act as an issuer for the organization. The maximum fee to be collected will not exceed \$50,000. This fee is to offset any administrative costs that may be incurred by the County when acting as an issuer. The County will retain bond counsel to represent the County on any legal issues including any risks associated with the conduit financing. The university or college will be assessed an additional fee to cover any bond counsel expenses incurred by the County. In addition to the fees established above, the organization must have a Moody's rating of Baa or better or BBB rating from Standard and Poor's and must not condone any discriminatory practices or policies. The Board of County Commissioners must approve each conduit financing issue.
- j) **External financial advisors, underwriters and bond counsel** will be selected in accordance with the County's Administrative Procedures.

### 8. Revenue Bonds in Partnership with Nonprofit Agencies.

- a) The County may issue tax exempt revenue bonds in partnership with a 501(c)(3) non-profit agency. The non-profit agency is responsible for 100% of the capital project costs, all of the debt financing issue costs, any debt reserve requirements and will be responsible for the ongoing annual debt payments and other related costs. The County will issue debt not to exceed 60% of the total capital costs of the project.
- b) The County enjoys a very good credit rating and does not wish this rating to be negatively impacted. Before the County considers a proposal to assist a 501(c)(3) non-profit agency by issuing tax exempt revenue bonds to finance a capital project, the agency and the County must comply with the following. The conditions listed below are in addition to the applicable requirements contained in this section of the County's Financial and Budget Policies.
- c) **Preconditions:**
  - i) The agency must be an IRS 501(c)(3) organization and must demonstrate that it cannot obtain conventional financing at a reasonable cost.
  - ii) In general, it is intended that the County will be assisting small to medium size agencies that have total annual revenues from all sources of at least \$1,000,000 but not greater than \$10,000,000

## **FINANCIAL AND BUDGET POLICY**

---

- iii) The planned use of the revenue bond proceeds must be consistent with County policy priorities or benchmarks.
- iv) The agency must provide the County with five years of historical financial information and operational trends.
- v) The agency must provide the County with a capital and business expansion plan including a five year revenue and expenditure forecast.
- vi) The agency must demonstrate its ability to conduct a capital fund raising campaign.
- vii) The agency must be non-discriminatory in providing access to its services and in its employment practices.

### **d) Cost Responsibilities:**

- i) The agency is responsible for 100% of the capital project costs. The County will assist the agency by issuing tax exempt revenue bonds to finance no more than 60% of the capital project and related allowable debt issuance costs. The agency is responsible for raising the remaining project funds.
- ii) The agency is responsible for all bond issuance costs.
- iii) Unless granted an exception by the Chair, County administrative costs are to be reimbursed by the agency or capitalized as part of the debt to be repaid by the agency.
- iv) The agency is responsible for all ongoing costs related to the financing. These include annual debt payments, paying agent costs, or other related costs. The agency is obligated for the term of the financing and may not have the option of a "nonappropriation" clause.
- v) Before the County issues the debt, the agency must have raised 75% of the project funds for which it is responsible; with the County's administrative agreement, a portion of those funds may be in the form of well- secured promissory notes from grantors or private contributors; the remaining agency contributions must be deposited before matching debt funds are released, on a schedule negotiated in the contract for each project.
- vi) It is expected that all private funds will be collected within one year of the County's approval of the bond financing partnership. If the private funds are not collected within two years of the County's approval of bond financing, the County shall no longer be considered as committed to the revenue bond financing partnership.

### **e) Other Conditions:**

- i) The County must have title, or first lien rights if the escrow agent holds title on behalf of the lender, to the property while debt is outstanding.

## FINANCIAL AND BUDGET POLICY

---

- ii) The agency must provide the County an unencumbered cash reserve in the amount equal to at least six monthly payments or make monthly installment payments equal to 1/12 of the annual debt service requirement. Any interest earned on these funds remains the property of the County and will be used to offset administration costs. Payments are to begin upon the issuance of the debt. This reserve is in addition to any reserves required by the financing.
  - iii) The County will conduct a risk analysis and fully disclose this information to the Board prior to approval of the debt. The County reserves the right to have a third party perform a credit analysis.
  - iv) The Board must approve of the financing by resolution
  - v) Contractual language must be in place to protect the County in case of late payments or default by the agency.
  - vi) The agency must provide an annual, independently audited financial report to the County.
- f) **Non-Profit Revenue Bond Limits:**
- i) In general, the County will not provide revenue bond financing for a non-profit agency for any project that is under \$1,000,000 or over \$4,000,000. in bonded indebtedness.
  - ii) The issuance of revenue bonds in partnership with non-profit agencies shall not be greater than \$8,500,000 of principal outstanding.
  - iii) The maximum term of revenue bonds issued under this policy will not exceed 15 years.
- g) **Administration of this Policy Section:**
- i) The Finance Program Area is responsible for coordinating the overall process of accepting and reviewing proposals by non-profits to enter into partnership with the County for revenue bond financing and for making recommendations to the Chair in considering these requests.
  - ii) County operating department(s) with related programs are responsible for analyzing proposals for conformity with related program policy guidelines
  - iii) The Finance Program Area is responsible for analyzing proposals for conformity with these financial policy guidelines and for implementing revenue bond financing partnerships, as approved.
9. **Hospital Authority:** It is the policy of the Board to issue revenue bonds for hospital facilities as authorized by Resolution 98-1 adopted by the Board of County Commissioners, acting as the Hospital Authority, on December 3, 1998.

## FINANCIAL AND BUDGET POLICY

### STATUS:

The following shows the County's outstanding obligations as of July 1, 2002:(\$ in thousands)

Description	Moody's Rating	Dated	Maturity Date	Amount Issued	Principal Outstanding	2002/2003 Prin & Int Payment
Short Term Notes "TRANS" Planned	MIG 1	7/1/01	6/30/02	\$ 20,000	\$ 20,000	\$ 20,900
General Obligation Bonds	Aa1	10/1/96	10/1/16	\$ 79,700	\$22,270	\$ 3,743
	Aa1	10/1/96	10/1/16	29,000	3,475	664
	Aa1	3/1/94	10/1/13	\$ 22,000	4,190	1,152
	Aa1	9/1/94	10/1/14	9,000	1,160	418
	Aa1	2/1/99	10/1/16	66,115	65,440	3,211
				<u>\$205,815</u>	<u>\$ 96,535</u>	<u>\$ 9,191</u>
Revenue Bonds						
RCC Series 1998	A3	10/1/98	10/1/14	\$3,155	\$2,835	\$ 288
Motor Vehicle Revenue Bonds 2000	A3	11/01/00	11/01/15	5,500	5,500	534
				<u>\$8,655</u>	<u>\$8,335</u>	<u>\$822</u>
Pension Obligation Revenue bonds	Aa2	12/1/99	6/1/30	<u>\$184,548</u>	<u>\$184,008</u>	<u>\$ 9,484</u>
Full Faith and Credit Obligations						
Series 1999A Multnomah Building	Aa2	4/1/99	8/1/19	\$ 36,125	\$ 33,745	\$ 2,744
Series 2000A Full Faith	Aa2	4/1/00	4/1/20	61,215	55,070	6,152
				<u>\$ 97,340</u>	<u>\$ 88,815</u>	<u>\$ 8,896</u>
Certificates of Participation						
1998 JJC Refunding & New	Aa3	2/1/98	8/1/17	48,615	\$ 33,591	\$ 5,372
1993 A & B Health Facilities	Aa3	5/1/93	7/1/13	19,890	11,515	1,650
				<u>\$ 68,505</u>	<u>\$ 45,105</u>	<u>\$ 7,022</u>
Portland Building Contract	N/A	1/22/81	1/22/08	\$ 3,475	\$ 1,507	\$ 332
Total Debt Payments						\$16,250
Deduct Non General Fund Debt						(2,673)
						<u>\$13,577</u>

### REMAINING BORROWING CAPACITY

#### Debt Capacity (Supported by General Government Fund Types Only)

2002-2003 General Fund Revenues	\$ 287,215
5 % limitation	0.05
5% Limitation Dollar Amount	\$ 14,360.
Lease/Debt Capacity Used	\$ (13,577)
Annual Payment Available	\$ 783
Estimate Principal Value Available	\$ 10,000