

EXHIBIT A

MULTNOMAH COUNTY, OREGON

FINANCIAL AND BUDGET POLICY

FISCAL YEAR 1995-96

Prepared by: Finance Division and Budget & Quality Division

FINANCIAL AND BUDGET POLICY

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FINANCIAL AND BUDGET POLICY

OBJECTIVES

The objectives 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 meet the goals of the Board of County Commissioners.
3. To ensure that all financial 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. To provide an accountable form of Government to the citizens of Multnomah County.

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.

In 1986 and 1987 the Board twice increased the Business Income Tax rate to cover the cost of expanded social and correction programs. In 1991, following passage of the Measure 5 limits on property taxes the Board considered, but did not pass, a third increase in the 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source to replace property tax support of the Library system, the Board passed a utility excise tax in 1992, then rescinded the tax in 1993 before it took effect.

The Passage of Measure 5 presented all local governments with a different kind of taxation problem: an increase in property tax levies by any government has the potential of reducing the property tax receipts of all other local governments. To avoid this possibility, Multnomah County and the cities of Portland, Troutdale, Fairview and Wood Village have uniformly agreed not to propose levies that will change their relative 1992-93 shares of the \$10 constitutional cap.

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.

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:

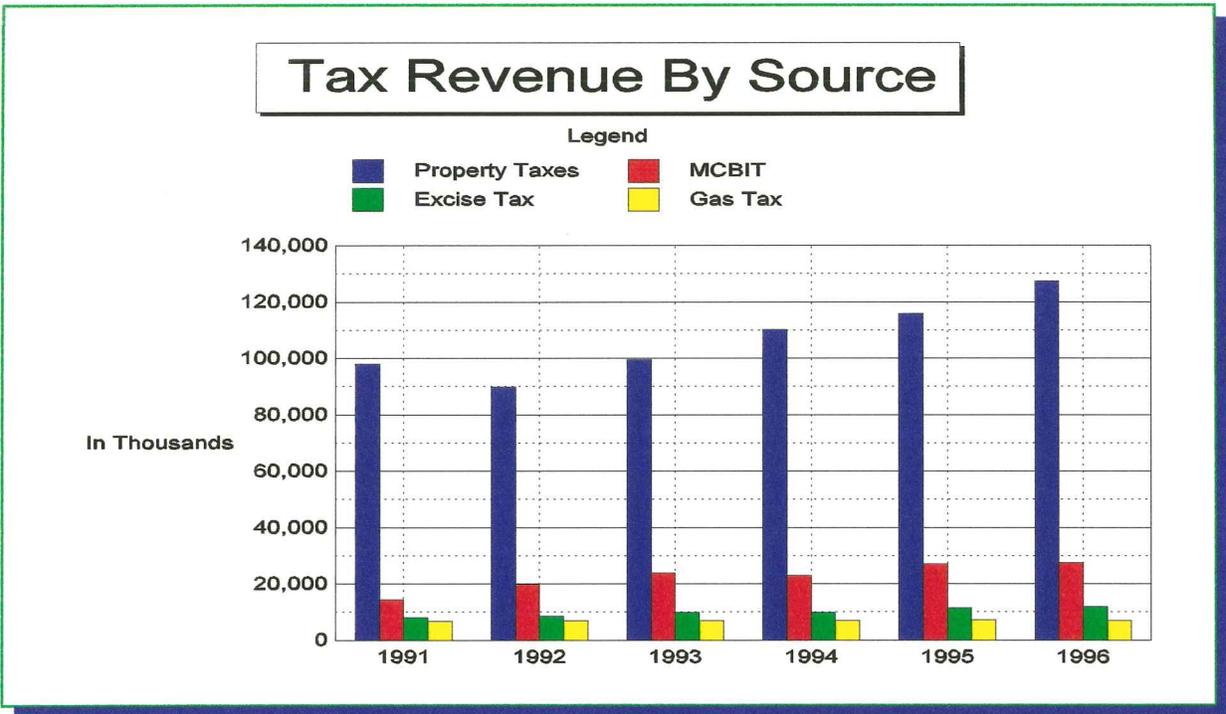
1. The ability of taxpayers to pay the tax.
2. The impact of the taxes imposed by the County on other local governments.
3. The effect of taxes on the economy in the county.
4. Administration and collection costs of the tax.
5. The ease of understanding the tax by the taxpayers.

STATUS:

The County has several sources of taxes. These taxes include property taxes which are paid on the assessed value of real, personal and utility property. Except for the general obligation bond levy, County property taxes are currently generated by the County's tax base established in 1956 and two separate levies. The tax base has generally increased by the allowed 6% each year. The two serial levies that support jail and library operations are discussed under short term local revenues. Business income taxes are paid by business entities doing business in Multnomah County based on their net income. The County has adopted two excise taxes, Motor Vehicle Rental Tax and Transient Lodging Tax. Motor vehicle rental taxes are assessed on the gross income generated from short-term vehicle rentals. Transient lodging taxes are basically imposed on room rental rates at hotels/motels. The majority of the transient lodging taxes collected are passed on to Metro for

FINANCIAL AND BUDGET POLICY

Convention Center operations and most recently the funding of the operations of the Performing Arts Center and Regional Art and Culture Commission. The County also imposes a gasoline tax that is dedicated to roads. The County's tax revenues represent about 45% of the total Governmental Fund Type revenues (General and Special Revenue Funds). The graph depicts the tax revenue by source since fiscal 1991 (1995 are preliminary and 1996 are budget). The budget dollar amounts for 1996 are: (Property Tax; \$122,216,000) (MCBIT; \$27,400,000) (Excise Taxes; \$11,823,000) (County Gas Tax; \$6,925,000)



FINANCIAL AND BUDGET POLICY

SHORT TERM LOCAL REVENUES

BACKGROUND:

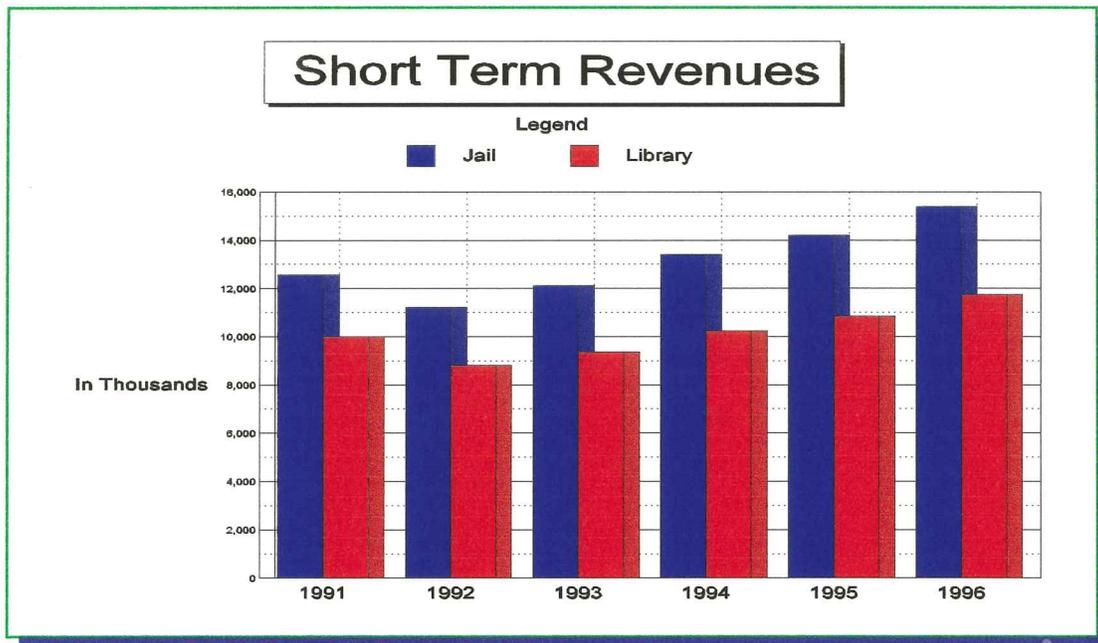
Short-term revenues are sources of limited duration. The main source of these revenues are the two three-year serial levies for jail and library services. These levies have historically been used for Library and Jail services. Continued use of short-term revenues for on-going programs places these programs or other programs at risk if the voters fail to approve subsequent three year levies by June 30, 1996.

POLICY STATEMENT:

It is the goal of the Board to reduce the County's reliance on short term revenue sources to fund programs that have been established by the Board as priority services; ie, Library and Jail Three Year Serial Levies. The Board will consider the feasibility of asking the voters to add the Library and Jail Three Year Levies to the tax base in 1996.

STATUS:

As a result of Measure 5 and compression, the County has passed resolutions with the City of Portland, Fairview, Troutdale and Wood Village agreeing that each jurisdiction will not take action to increase its share of the total local governmental tax receipts without mutual agreement with the other jurisdiction. In the past, consideration has been given to increase the County's tax base by the amount of the two levies. This action would not violate the agreements between the jurisdictions. Any tax base measure considered by the Board would need to be presented to the voters at a Primary or General election. The next general election is November 1996 and the next Primary election would be in May of 1996. The following graph reflects the use of short term revenues since 1991 (1995 and 1996 are budget). The budget dollar amounts for 1996 are: (Jail Levy; \$15,379,000) (Library Levy; \$11,731,000)



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 Foundations 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, entitlement or fees for services.

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.
4. The degree of stability of the funding source.
5. Whether decline or withdrawal of the grant/foundation revenue source creates a budgetary problem for the County to continue the program.
6. If the grant/foundation funds used for pilot or model programs will result in a more efficient way of doing business.

Status:

The 1995-96 Budget has 120 active grant revenue sources. They are expected to provide \$107.2 million of support to programs operated by the County in the coming year. The Target Cities Grant (\$1.3 million) is a pilot project which will expire at the end of a specified period, leaving the County with the option of continuing the programs using local revenue or ending the operations. The County General Fund pays in excess of \$5 million dollars of overhead for grant revenues.

FINANCIAL AND BUDGET POLICY

INDIRECT COST ALLOCATION

BACKGROUND:

The Federal and State Governments recognize that the cost of providing services include overhead or indirect charges of central support services. Generally, federal and state grantors allow programs to recover indirect charges based on an indirect cost allocation plan. The County has historically prepared an indirect cost allocation plan in accordance with federal guidelines. The central services included 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 & Quality, Purchasing, Radio, and Records. Overhead rates will vary depending on the use of central support service functions and departmental administrative costs that are not charged directly to the program. The flow-through rate is the indirect rate charged for funds that are passed through the County.

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.

The Finance Division 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 functions 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 charged 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 and has published the Fiscal Year 1995-96 Indirect Cost Allocation Plan. The overhead rates for fiscal year 1995-96 are as follows:

Department/Office	% Rate
Community & Family, Aging and Juvenile	3.64
Health	11.81
Community Corrections	5.05
District Attorney	6.24
Sheriff	5.72
Environmental Services	4.64
Management Support/Non Departmental	3.97
Library	7.60
Flow-through rate	.70

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RECURRING COSTS AND ONE-TIME ONLY REVENUE

BACKGROUND:

Unrestricted one-time only revenues 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.

It is also not prudent to sustain an ongoing program level by deferring necessary expenditures or by incurring future obligations.

POLICY STATEMENT:

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

Further, when the County receives unrestricted one-time-only revenue, these funds will be set aside for reserves or will support projects or programs that will not require future financial commitments. The Board will use the following criteria when allocating these one-time-only receipts:

1. The level of reserves set aside as established by this 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 long-term efficiencies or savings that do not require additional ongoing costs.
4. One-time only dollars that encourage innovative ideas or technology.

STATUS:

During any budget deliberations the Budget and Quality 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.

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USER FEES

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 rate increases.

POLICY STATEMENT:

It is the policy of the Board that user fee and service charges will be established at a level to recover the costs to provide services 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, 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 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 & Quality Manager 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.

STATUS:

The County is in compliance with this policy.

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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 actively 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.

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 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 Three above.
6. The potential return compared to development or marketing cost associated the with the proposed action.
7. The primary purpose of the County for 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.
8. Whether the County will subsidize its costs for providing the product or service.
9. In general, net revenues from entrepreneurial activity shall be used to support the enhancement of 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.

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STATUS:

The County is currently marketing its program for training employees in avoiding the risks associated with blood borne pathogens. The Library is implementing a number of entrepreneurial initiatives and is considering others with the revenue produced being accounted for in a separate fund.

FINANCIAL AND BUDGET POLICY

RESERVES

BACKGROUND:

Annually using all available ongoing revenue to pay for ongoing programs results in programs being added in one year and programs of equivalent cost being cut the next or two years later. 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 established benchmark for the General Fund Balance or reserve is a dollar amount equal to at least 5% of General Fund revenues.

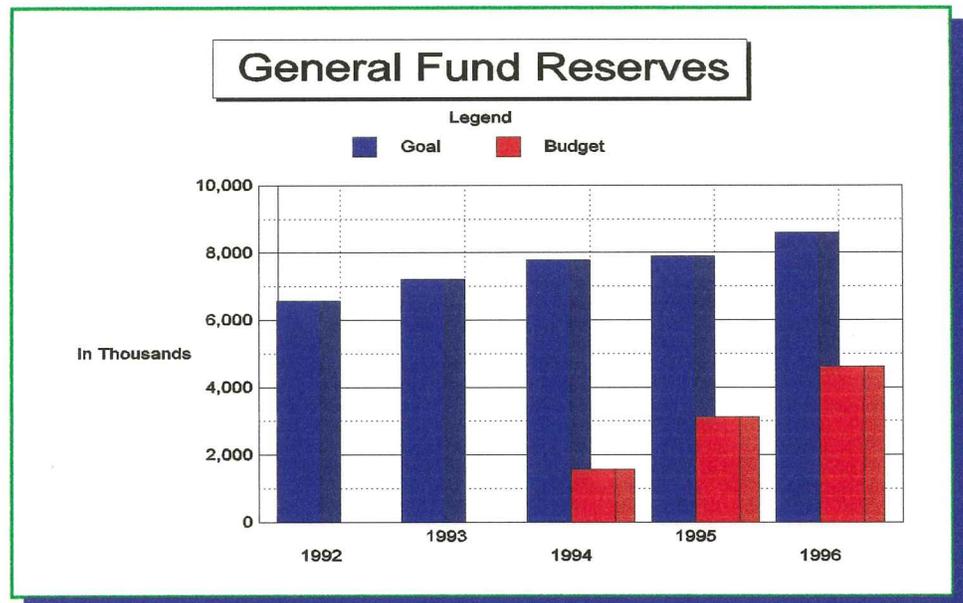
POLICY STATEMENT:

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

It is the goal of the Board to maintain a reserve account in the General Fund, designated as unappropriated fund balance, that is to be funded at approximately 5% of the total General Fund budgeted expenditures. The reserve account is to be used when basic revenue growth falls below the rate of basic revenue change achieved during the prior ten years. "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. 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 not use more than 40% of the actual reserve in a fiscal year and the Board will restore the account within two years of its use.

STATUS:

The graph reflects the 5% reserve goal to the budgeted reserve level and actual fund balance since fiscal 1992. The budgeted reserves do not include funds for contingency or emergency situations. The dollar amounts for 1996 are: (Goal; \$8,600,000) (Budget; \$4,620,000)



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.

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.

STATUS:

The Budget and Quality Manager is responsible for periodically requesting contingency meetings that are necessary to address emergency situations or meet unappropriated expenditure mandates. The Budget & Quality Manager will inform the Board if contingency requests submitted for Board approval meets the criteria of this policy. In addition at the first contingency request meeting in a new fiscal 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.

POLICY STATEMENT:

When any wage or benefit increase is authorized in an amount exceeding the budgeted contingency 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.

STATUS:

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

FINANCIAL AND BUDGET POLICY

ALLOCATIONS FOR FACILITIES MAINTENANCE AND REPAIR

BACKGROUND:

Multnomah County owns in excess of 50 buildings at a historical cost of about \$180 million. In 1995-96 we will spend approximately \$2.9 million on major maintenance and improvements to those buildings out of the General Fund. The \$2.9 million excludes the Library and the Juvenile Detention Home.

The structural maintenance of 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 projects builds an unfunded liability that there is no way to avoid sooner or later.

POLICY STATEMENT:

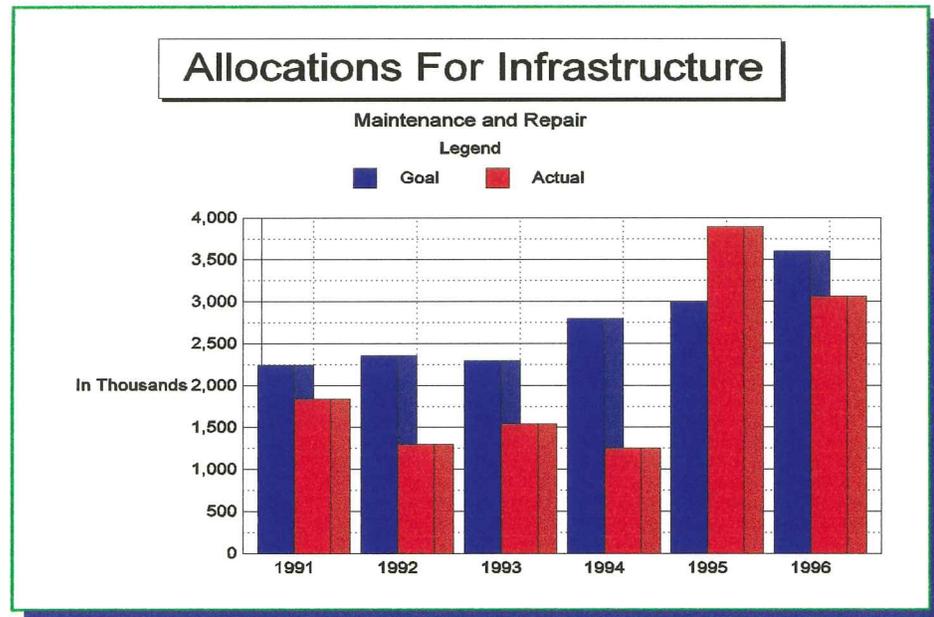
The Board recognizes that an adequate ongoing level of funding for capital improvements is essential to avoid costly reconstruction or replacement of capital assets. These capital assets include County buildings, bridges and roads.

It is the policy of the Board to maintain a Capital Improvement Program (CIP) Plan covering a period of five years. The Plan is to provide for anticipated future major improvements and maintenance to County owned and leased capital assets and provide for additional and replacement capital assets. The Plan will include major construction to be undertaken by the County, no matter what the funding source. The Plan will be reviewed and updated annually.

It is the goal of the Board to fund, out of the General Fund, the County's capital maintenance need at approximately 2% of the historical cost of County buildings. (2% represents a depreciation factor of depreciating the facilities over a 50 year period)

Status:

The five year CIP Plan has been developed and was updated for fiscal year 1995-96. The graph on the following page depicts the goal and actuals for fiscal 1991 to 1996 (1996 is the budget estimate). The dollar amounts for 1996 are: (Goal; \$3,600,000, Actual; \$3,060,000)



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 of County Commissioners 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 funding 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 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."

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. These liabilities included, but are not limited to; accrued vacation, 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, 1994, funding level of each liability:

Type of Liability	Total Liability	Amount Funded	Percent Funded
Vacation (1)	\$ 8,999,000	\$ 7,129,000	79.00%
Self Insurance (2)	7,939,000	7,939,000	100.00%
Post Retirement (3)	9,724,000	6,669,000	68.50%
Library Retirement (4)	<u>9,818,000</u>	<u>10,279,000</u>	<u>104.70%</u>
Total	<u>\$36,480,000</u>	<u>\$30,285,000</u>	<u>83.00%</u>

(1) GASB requires a portion of the vacation liability be recorded and the remaining amount be disclosed.

(2) GASB requires self-insurance claims be recorded as a liability in the financial statements.

(3) GASB requires employer paid benefits extended to retirees be disclosed in the financial statements.

(4) 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.

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 Audit, Single Audit and Report to Management to the Board of County Commissioners.
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 when the budget is adopted.

POLICY STATEMENT:

The Finance Manager 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.

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.

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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

LIQUIDITY AND ACCOUNTS PAYABLE

BACKGROUND:

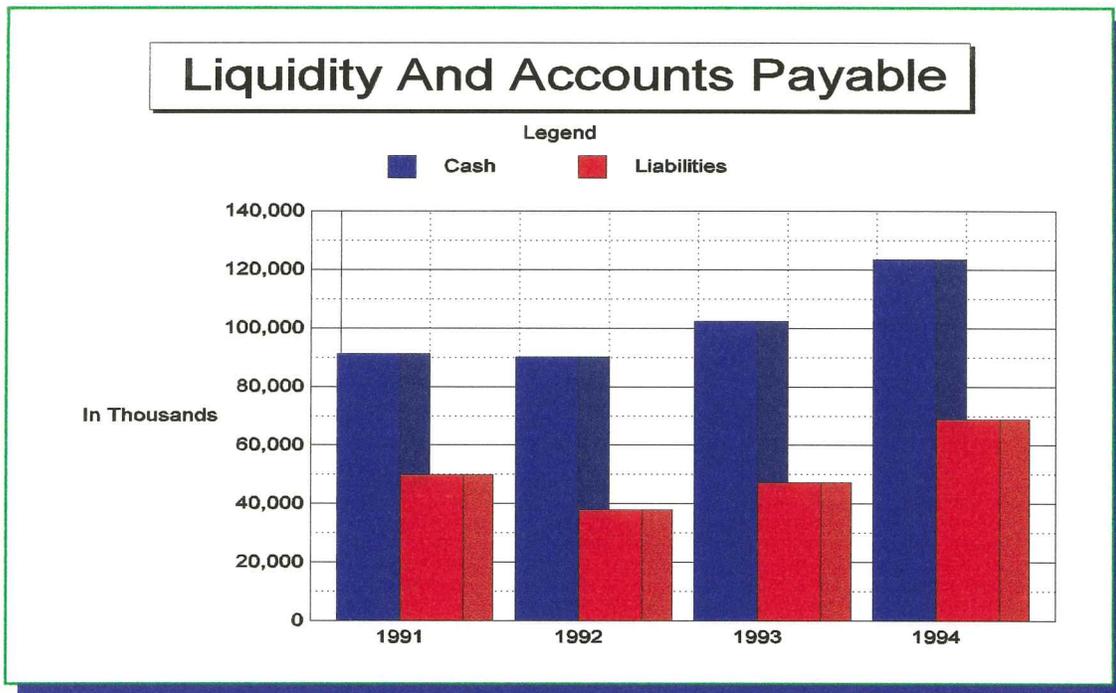
Liquidity is the ratio of cash and short-term investments to current liabilities including amounts held in trust and reflects the County's ability to pay its short-term debts and accounts payable. Cash and Investments in the capital projects funds and debt retirement funds are long-term cash and investments. 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.

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. The County will also strive to maintain year end accounts payable equal or less than 5% of operating revenues.

STATUS:

The County is in compliance. The graph depicts the cash and investments to current liabilities for fiscal years 1991 to 1994. The actual amounts for 1994 are: Cash & Investments; (\$123,332,000) (Liabilities; \$68,719,000)



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.

POLICY STATEMENT:

Banking services shall be solicited at least every five years on a competitive basis. The Finance Manager 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 Manager is authorized to establish internal Finance Division 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.

STATUS:

The County is in compliance with this policy. The following is the County's June 30, 1995 investment portfolio summary (\$ in thousands):

Description	Carrying Value	Market Value
U. S. Government securities	\$ 14,239	\$ 14,320
U. S. Government agency securities	21,862	21,907
Repurchase Agreements	31,500	31,500
Commercial Paper	21,599	21,601
Bankers' Acceptances	13,961	13,960
Local Government Investment Pool	16,756	16,756
Deferred compensation - Mutual Funds	37,590	37,590
Pension Trust Investments	9,796	9,796
Cash deposits	<u>617</u>	<u>617</u>
Total Cash and Investment	<u>\$167,920</u>	<u>\$168,047</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 benefitting from the project pay for the debt retirement costs.

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 Division 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 may be issued if such notes will result in a financial benefit to the County. Before issuing short-term debt the Board must authorize the financing by 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 can not be met on a pay as you go basis and the project has been determined to benefit future citizens the County will evaluate the feasibility of issuing a long-term debt financing instrument.
3. 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. 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. 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. 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.
7. 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, and needed for infrastructure or economic development.

FINANCIAL AND BUDGET POLICY

1. 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.
 2. 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 which have been determined to be essential to the maintenance or development of the County.
1. Capital improvement projects will be analyzed, prioritized and designated as to essential characteristics through the CIP committee process.
 2. Use of G.O. bonding will only be considered after exploring alternative funding sources such as Federal and State grants and project revenues.
- C. Lease-Purchases or Certificate of Participation will be considered as a financing method if Revenue bonding or G.O. bonding is not feasible. All leases as reported in the County's comprehensive annual financial report under the Long-Term Obligation Account Group will be limited as follows:
1. Annual lease-purchase payments recorded in the respective Funds or Capital Lease Retirement Fund will be limited to 5% of the total revenues of the fund supporting the lease payment.
 2. All lease-purchases will be limited to the economic life of the capital acquisition or improvement and in no cases shall exceed 20 years.
 3. All lease-purchases must fit within the County's mission, goals & objectives or governmental role.
 4. All annual lease-purchase payments must be included in the originating Departments' approved budget.
- D. Intergovernmental agreements with the State of Oregon for Energy Loans.
- E. It is the policy of the Board not to form Local Improvement Districts (LIDs) for purposes of issuing debt to finance LID improvements. 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.
- F. It is the policy of the Board to act as an "Issuer" of conduit financing for any private college, university, hospital, 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. 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

FINANCIAL AND BUDGET POLICY

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.

- G. External financial advisors, underwriters and bond counsel will be selected in accordance with the County's Administrative Procedures.

STATUS:

The following is the County's outstanding obligations as of October 1, 1995:(\$ in thousands)

Description	Moody's rating	Dated	Maturity date	Amount issued	Principal outstanding	FY 95-96 payment
SHORT-TERM DEBT	MIG 1	07/01/95	06/28/96	<u>\$11,000</u>	<u>\$11,000</u>	<u>\$11,000</u>
GENERAL OBLIGATION BONDS	Aa1	03/01/94	10/01/13	22,000	19,975	1,709
	Aa1	09/01/94	10/01/14	<u>9,000</u>	<u>8,735</u>	<u>760</u>
				<u>31,000</u>	<u>28,710</u>	<u>2,469</u>
REVENUE BONDS			None			
CERTIFICATES OF						
1992 Juvenile Justice Complex	Aa	08/01/92	08/01/12	36,000	32,665	3,034
1993A & B Health Facilities	Aa	05/01/93	07/01/13	19,890	16,920	1,674
1990 Probation Building	Aa	07/01/90	07/01/99	455	260	64
1995 Juvenile Justice (est)	Aa	09/01/95	08/01/15	7,400	7,400	444
1995 Equipment	A1	03/01/95	09/01/99	<u>2,455</u>	<u>2,000</u>	<u>548</u>
				<u>\$58,800</u>	<u>\$54,292</u>	<u>\$5,320</u>
LEASES AND CONTRACTS						
Portland Building	N/A	01/22/81	01/22/08	3,475	2,542	332
Computer Leases	N/A	02/02/94	02/01/99	534	424	135
Other leases	N/A	various	various	<u>837</u>	<u>239</u>	<u>75</u>
				<u>\$7,514</u>	<u>\$3,205</u>	<u>\$642</u>
G. O. Debt per capita						<u>\$46</u>
Gross Debt per capita						<u>\$154</u>
COP/LEASE CAPACITY						
5 % Limitation				8,950		
Annual Payment				<u>5,962</u>		
Remaining capacity (estimate)		Annual	Payment	<u>\$2,668</u>	Principal	<u>\$26,680</u>