

BEFORE THE COUNCIL OF THE
METROPOLITAN SERVICE DISTRICT

FOR THE PURPOSE OF
ESTABLISHING BUDGET CONTROL
PROCEDURES

) RESOLUTION NO. 79-52
)
) Introduced by:
Cindy Banzer
Craig Berkman
Mike Burton

WHEREAS, it is appropriate for the Council to establish control procedures for Metropolitan Service District (MSD) budgets; now, therefore,

BE IT RESOLVED,

(1) That FY 1979 financial records of MSD shall be closed by August 15, 1979. Information on the cash balances shall be sent to the Council;

(2) That the Executive Officer shall take all steps necessary to have all records available to expedite an independent audit of MSD financial records for FY 1979. A report on the status of the audit shall be made to the Council at the first meeting in November;

(3) That a report shall be prepared for Council review by October 15, detailing the establishment of a revised budgeting and accounting system;

(4) That contract proposals exceeding \$2,500, and for which payment shall be made from the General Fund or the Planning Fund, shall be reviewed by the Ways and Means Committee and sent to the Council to be considered on the Consent Agenda. Contractual arrangements with payment secured by funds other than General Fund and Planning Fund, shall be reviewed by the appropriate substantive Council standing committee;

(5) That appropriate measures, within the constraints of State law, shall be taken to increase the earnings on invested MSD funds. The balances on invested funds and resultant earnings shall be reported on a quarterly basis to the Council;

(6) That quarterly financial reports shall be prepared for the Council which include, but are not necessarily limited to, the following information:

- . expenditures made and revenues realized to date,
- . federal and state grants status reports, including increases and/or decreases in budgeted grant revenues,
- . cumulative savings in personal services and materials and services resulting from vacancies in authorized staff positions, and
- . investment program report;

(7) That the Council shall, if necessary, make appropriate transfers between operating and contingency funds based on information received in the quarterly financial reports;


(8) That the Executive Officer shall request of the Council appropriation of additional funds, if necessary, to implement these budget controls; and

(9) That prior to the end of FY 1980, these budget controls shall be reviewed by the Council Ways and Means Committee in order to recommend to the Council which controls, if any, shall be continued in FY 1981, and thereafter.

(10) That the attached "Report on Proposed Budget Control Strategies," dated May 22, 1979, which has been approved by the Ways and Means Committee is made a part of this Resolution and shall

serve to implement the necessary budget controls to provide for an additional \$100,000 in contingency funds by the end of FY 1980.

ADOPTED by the Council of the Metropolitan Service District this 24th day of May, 1979.



Presiding Officer

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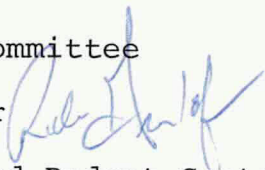
Metropolitan Service District

527 SW Hall Portland, Oregon 97201 503/221-1646

Memorandum

Date: May 22, 1979

To: Ways and Means Committee

From: Executive Officer 

Subject: Report on Proposed Budget Control Strategies

Attached for your information and review is a report which details some possible budget control strategies to develop a larger contingency for the FY 1980 budget. I hope you will take time to read the report, as it provides a good synopsis of where we are, at the current moment, in the budgeting process, as well as speaking directly to some of the questions and comments that have been previously raised in light of our financial management system.

In summary, the items included in the report provide for the following:

- There is some flexibility in the current \$179,883 in the combined contingency for Planning and General Funds.
- Salary savings will be experienced during the year, due to turnover and attrition.
- Executive Officer will propose, effective FY 1980, a position vacancy freeze to maintain vacancies for two months, unless otherwise approved by the Council..
- Work programs for Public Information and Citizen Involvement will be developed and submitted to the Council for approval prior to expenditure of funds for those items.
- Executive Officer will review with the Ways and Means Committee any contract over \$2,500 which is not predominately funded by either state or federal funds, prior to its authorization.
- "Overmatch" amounts will not be authorized by Council prior to the normal ratio of federal, state and local matching funds being expended.

Ways and Means Committee
May 22, 1979

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- Positions authorized for the first time in the FY 1980 Budget, funded from the Planning or General Fund, will not be filled until October.
- Council will receive a report on any increases in carryover funds from FY 1979 as soon as possible after the close of the fiscal year..
- Outside audit report on FY 1979 Budget will be expedited to be available to the Council as soon as possible.
- Program managers will be asked to curtail any non-essential expenditures for the remainder of FY 1979.
- All appropriate sources of state and federal funding which will enhance MSD program direction will be pursued.
- An aggressive fund investment process will be instituted to increase existing yield from investments.
- Financial reports relating to the above items will be presented to the Council as soon as possible after the close of each quarter.

The implementation of these controls will be sufficient to enable the Agency to accumulate an additional \$100,000 in contingency prior to the end of FY 1980.

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PROPOSED BUDGET CONTROL STRATEGIES TO
DEVELOP LARGER CONTINGENCY FOR FY 1980 BUDGET

BACKGROUND

In considering the FY 1980 Budget, the Ways and Means Committee has been exploring the option not to make immediate cuts to increase the contingency effective July 1, but to instigate internal budget controls to attain the goal of a \$100,000 contingency at the end of FY 1980. The following report proposes various strategies to accomplish this goal and explains various current circumstances which will give the assurances that this is a fiscally responsible action to recommend to the Council.

PROPOSED CONTINGENCY FUNDS IN FY 1980 BUDGET

Currently there is a combined contingency of \$179,883 in the Planning and General Funds. As has been previously stated, this amount would provide salary increases of a flat 10% for all employees for an entire year, effective July 1, 1979. That 10% target figure may be higher than the amount approved by Council for salary increases in FY 1980. The granting of salary increases, for example, can be varied both in time of implementation (cost of living in July or October, etc.),, and in amount of salary increase. For each percentage point below a composite 10% for all employees, \$7,900 would accrue to unallocated funds in the General Fund contingency and approximately \$10,000 in the Planning Fund contingency. The effect of these numbers is best shown by using the following example: If the Council decided to set a maximum target of a flat 7% salary increase for all employees and instructed the Executive Officer to make the appropriate split between cost of living, merit and step increases, the resulting unallocated funds in the existing contingency would total \$53,700.

It should be pointed out that, even with the granting of a 10% increase for all employees, the contingency funds would not be immediately zeroed out on July 1. Quarterly transfers will be made from contingency to personal services accounts. Therefore, even the maximum 10% of the combined contingency funds would be reduced by only \$45,000 in the first quarter - July to October, 1979.

SALARY SAVINGS DURING THE YEAR

The historic pattern of the CRAG agency was that approximately \$15,000 per quarter was accumulated from underspending

for personal services. This savings was due to turnover (which results in hiring new people at a lesser salary than that of the person previously holding the position) and from positions not being filled during the recruitment process. While we would hope to minimize turnover, there is no reason to believe, at this point, that the current pattern will not continue into FY 1980. Our experience in the first quarter of this year verifies that this level of savings should continue until the end of the fiscal year.

The term or length of vacancy of a position can be influenced by management decisions. For example, the Executive Officer is willing to institute a policy to put a two month hiring freeze on all vacant positions to assist in accumulation of a surplus which will be transferred to the contingency. The caveat on this control would be that there may be some critical positions that cannot be left open for two months. These could be reviewed by the Ways and Means Committee and the Executive Officer to reach agreement to modify or waive the two month freeze rule, in these instances. The second portion of the caveat is that, for positions which are totally or largely (over 75%) funded by state or federal funds, the policy may be self defeating in that the local savings would be minimal, while the productivity loss would be relatively great. However, the freeze policy would increase savings over our traditional experience.

It would also be appropriate to establish a policy that new positions recommended in the FY 1980 Budget not be filled until October 1, which will provide some additional local funding for transfer into the contingency.

Staff will also undertake a reevaluation of the work programs, proposed in the FY 1980 Budget, to ascertain personnel requirements to meet program objectives, and any recommendations for appropriate adjustments concerning a reduction of staffing will be made.

It is proposed that all local funds that can be accumulated through these salary saving techniques would be transferred from personal services accounts to the contingency fund by Council resolution on a quarterly basis.

MATERIALS AND SERVICES - CONTRACTUAL ACCOUNTS

Certain funding proposals in the FY 1980 Budget represent potential expenses, rather than completely detailed expenses. This is particularly true in the contractual services account for Public Information and Citizen Involvement. Work programs will be developed and presented to the Council for

approval prior to authorization of any expenditures from those accounts.

For other contractual services which are not predominately funded by either state or federal funds, the Executive Officer will attempt to delay expenditure for those services to the greatest extent possible to impact the agency productively. He will review with the Ways and Means Committee the authorization of any such contract over \$5,000, prior to authorizing letting of contracts.

OVERMATCH

Some programs included in the proposed FY 1980 Budget for the Metropolitan Development Department proposed to spend a higher amount of local funds than is required to match the federal portion of the program in order to meet program objectives for the year. The difference between the amount of local funds required to match and the total local funds budgeted for the program is termed "overmatch." It will be the policy of the agency to not expend any overmatch funds until the federal and local matching funds are expended in that program area. Any deviation from this policy would have to be approved by the Ways and Means Committee.

Not only will this policy provide a closer review and control on the expenditure of overmatch funds, but also will provide a potentially larger investment pool for a longer period of time than would otherwise be available.

YEAR END BALANCE

There is a good prospect that the agency will end the current fiscal year with a larger surplus than is reflected in the proposed budget as a beginning fund balance. Because we operate on an accrual accounting system, we will not be able to ascertain the exact amount of that surplus until after the close of the fiscal year on June 30. We will do everything possible to provide an accurate closing figure as soon as possible. We will also expedite as much as possible the outside audit report on our fiscal year's operation so that an outside accuracy check of carryover will be available to the Council.

The Executive Officer will instruct all program managers to curtail any non-essential expenditures for the remainder of this fiscal year. This could result in the saving of local funding this year to increase the carryover figure for the FY 1980 Budget.

FEDERAL GRANTS-IN-AID

At the current time there is one fairly certain source of federal aid that is not reflected in the proposed FY 1980 Budget. That source is the areawide Housing Opportunity Plan bonus funds to be reported from the Department of Housing and Urban Development. The use of those funds will be restricted to activities relating to assisted housing programs. However, it is possible to structure that program to pick up a portion of all overhead costs as well as relieving more flexible "701" Planning Funds that could then be diverted to assume some costs in the current "overmatch" programs.

Staff will continue to pursue all appropriate sources of additional state and federal funding which will enhance MSD's program direction. There is some possibility that MSD, being a unique agency with an array of protections and accountability not found in most regional agencies, can successfully attract federal funds from discretionary and/or research categories that would assist our programmatic goals.

INVESTMENTS

As of April 30, MSD had \$5.1 million invested in the State investment pool at the rate of 7.9%, and has accrued \$323,554 in interest earnings. Since the April financial records will not be consolidated for another week, an exact estimate of the percent of funds invested is not available. The finance staff estimates that at least 95% of available funds have been invested in the State pool.

The staff has been successful in maintaining a high level of investments in the State pool. Over 95% of revenues received are deposited with the State and withdrawn as required. The balance in the checking account used for payroll expenses is maintained at about \$100. Funds are transferred as needed every two weeks from the State pool to meet payroll expenses. The checking account for accounts payable is maintained at about \$25,000. Funds are also transferred as needed to cover checks issued by the Finance Division.

With additional staff, which have been authorized, and an improved accounting system, the investment program can be improved with better forecasting of cash balances and placing investments in longer term, higher yield government securities. Improvements can also be made by increasing the frequency of billings for grant reimbursements. A search

for an improved computer software system has begun and should be in place during the first quarter of the fiscal year. With these improvements, and given the existing level of interest rates, MSD can expect to increase interest rates on specific investments up to 9%.

IMPLEMENTATION

The implementation of these budget control strategies should provide sufficient control to the Executive Officer and the Council to delay any further cuts in the proposed FY 1980 Budget until the results of these controls, the year end audit and the prospect of additional grants-in-aid will be more refined. It is proposed that the Council receive a report on the agency's financial condition as soon as possible after the close of the first quarter on October 1, 1979, and, based upon that report, make any adjustments necessary at that point to alter contingency or programmatic directions. It is felt that such a procedure would be financially responsible and any decisions made after the first quarter would be based upon experience and information that can only be estimated, at this point.

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