

BEFORE THE METRO COUNCIL

FOR THE PURPOSE OF AMENDING AND)
READOPTING COMPREHENSIVE)
FINANCIAL POLICIES FOR METRO)

RESOLUTION NO. 10-4159

Introduced by Mike Jordan, Chief Operating Officer,
with concurrence of the Council President

WHEREAS, Metro recognizes the importance of comprehensive financial policies to provide a framework for the overall fiscal management of the agency; and

WHEREAS, the Government Finance Officers Association (GFOA) and the National Advisory Council on State and Local Budgeting (NACSLB) recommend the establishment and adoption of financial policies as a key budget and financial management practice; and

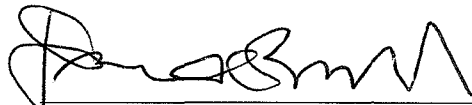
WHEREAS the Metro Council approved Resolution No. 04-3465 on June 17, 2004, "For the Purpose of Adopting Comprehensive Financial Policies for Metro" and reviews these policies annually as part of the budget process; and

Whereas the Metro Council last reviewed these policies on June 25, 2009; and

WHEREAS, Metro's comprehensive financial policies should be amended due to the requirements of Governmental Accounting Standards Board, Statement No. 54; now therefore

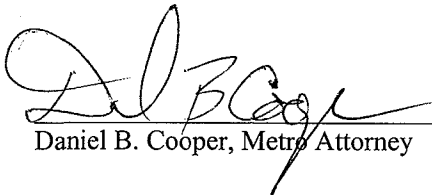
BE IT RESOLVED that the Metro Council amends the current financial policies to conform to GASB Statement No. 54; re-adopts the comprehensive financial policies as shown in Exhibit A of this resolution, entitled "Metro Financial Policies;" and rescinds Resolution No. 04-3465.

ADOPTED by the Metro Council this 17 day of JUNE, 2010.



David Bragdon, Council President

Approved as to Form:



Daniel B. Cooper, Metro Attorney



Metro's Financial Policies

General policies

1. Metro's financial policies shall be reviewed annually by the Council and shall be published in the adopted budget.
2. Metro shall prepare its annual budget and Comprehensive Annual Financial Report consistent with accepted public finance professional standards.
3. The Chief Financial Officer shall establish and maintain appropriate financial and internal control procedures to assure the integrity of Metro's finances.
4. Metro shall comply with all applicable state and federal laws and regulations concerning financial management and reporting, budgeting and debt administration.

Accounting, auditing and financial reporting

1. Metro shall annually prepare and publish a Comprehensive Annual Financial Report including financial statements and notes prepared in conformity with generally accepted accounting principles as promulgated by the Governmental Accounting Standards Board.
2. Metro shall maintain its accounting records on a basis of accounting consistent with the annual budget ordinance.
3. Metro shall have an independent financial and grant compliance audit performed annually in accordance with generally accepted auditing standards.

Budgeting and financial planning

1. As prescribed in Oregon budget law, total resources shall equal total requirements in each fund, including contingencies and fund balances. However, Metro considers a budget to be balanced whenever budgeted revenues equal or exceed budgeted expenditures. Beginning fund balances shall not be considered as revenue, nor shall contingencies or ending fund balances be considered expenditures, in determining whether a fund is in balance.
2. Metro shall maintain fund balance reserves that are appropriate to the needs of each fund. Targeted reserve levels shall be established and reviewed annually as part of the budget process. Use of fund balance to support budgeted operations in the General Fund, an operating fund, or a central service fund shall be explained in the annual budget document; such explanation shall describe the nature of the budgeted reduction in fund balance and its expected future impact. Fund balances in excess of future needs shall be evaluated for alternative uses.
 - a. *The Metro Council delegates to the Chief Operating Officer the authority to assign (and un-assign) additional amounts intended to be used for specific purposes more narrow than the overall purpose of the fund established by Council. A schedule of such assignments shall be included within the adopted budget document.*
 - b. *Metro considers restricted amounts to have been spent prior to unrestricted (committed, assigned, or unassigned) amounts when an expenditure is incurred for purposes for which both restricted and unrestricted amounts are available. Within unrestricted amounts, committed amounts are considered to have been spent first, followed by assigned amounts, and then unassigned amounts when an expenditure is incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.*
 - c. *The following information shall be specified by Council in the establishment of Stabilization Arrangements as defined in GASB Statement No. 54: a) the authority for establishing the arrangement (resolution or ordinance), b) the requirements, if any, for*

EXHIBIT A

additions to the stabilization amount, c) the specific conditions under which stabilization amounts may be spent, and d) the intended stabilization balance.

3. Metro staff shall regularly monitor actual revenues and expenditures and report to Council at least quarterly on how they compare to budgeted amounts, to ensure compliance with the adopted budget. Any significant changes in financial status shall be timely reported to the Council.
4. Metro shall use its annual budget to identify and report on department or program goals and objectives and measures of performance.
5. A new program or service shall be evaluated before it is implemented to determine its affordability.
6. Metro shall authorize grant-funded programs and associated positions for a period not to exceed the length of the grant unless alternative funding can be secured.
7. Each operating fund will maintain a contingency account to meet unanticipated requirements during the budget year. The amount shall be appropriate for each fund.
8. Metro shall prepare annually a five-year forecast of revenues, expenditures, other financing sources and uses, and staffing needs for each of its major funds, identifying major anticipated changes and trends, and highlighting significant items which require the attention of the Council.
9. Metro will annually prepare a cost allocation plan prepared in accordance with applicable federal guidelines to maintain and maximize the recovery of indirect costs from federal grants, and to maintain consistency and equity in the allocation process.

Capital asset management

1. Metro shall budget for the adequate maintenance of capital equipment and facilities and for their orderly replacement, consistent with longer-term planning for the management of capital assets.
2. The Council's previously-adopted policies governing capital asset management are incorporated by reference into these policies.

Cash management and investments

1. Metro shall maintain an investment policy in the Metro Code, which shall be subject to annual review and re-adoption.
2. Metro shall schedule disbursements, collections and deposits of all funds to ensure maximum cash availability and investment potential.
3. Metro shall manage its investment portfolio with the objectives of safety of principal as the highest priority, liquidity adequate to needs as the second highest priority and yield from investments as its third highest priority.

Debt management

1. Metro shall issue long-term debt only to finance capital improvements, including land acquisition, that cannot be readily financed from current revenues, or to reduce the cost of long-term financial obligations.
2. Metro will not use short-term borrowing to finance operating needs unless specifically authorized by the Council.
3. Metro shall repay all debt issued within a period not to exceed the expected useful life of the improvements financed by the debt.
4. Metro shall fully disclose financial and pertinent credit information as it relates to Metro's outstanding securities.
5. Metro shall strive to obtain the highest credit ratings to ensure that borrowing costs are minimized and Metro's access to credit is preserved.

EXHIBIT A

6. Equipment and vehicles should be financed using the least costly method, including comparison to direct cash expenditure. This applies to purchase using operating leases, capital leases, bank financing, company financing or any other purchase programs.

Revenues

1. Metro shall estimate revenues through an objective, analytical process.
2. Metro shall strive to maintain a diversified and balanced revenue system to protect it from short-term fluctuations in any one revenue source.
3. One-time revenues shall be used to support one-time expenditures or increase fund balance.
4. Metro shall pursue appropriate grant opportunities; however, before accepting any grant, Metro will consider the current and future implications of either accepting or rejecting it. The Chief Financial Officer may establish criteria to be used in evaluating the potential implications of accepting grants.

STAFF REPORT

IN CONSIDERATION OF RESOLUTION NO. 10-4159 AMENDING AND RE-ADOPTING COMPREHENSIVE FINANCIAL POLICIES FOR METRO

Date: May 24, 2010

Presented by: Margo Norton, 503-797-1934

Don Cox, 503-797-1632

Kathy Rutkowski, 503-797-1630

BACKGROUND

The Metro Council adopted its comprehensive financial policies in June 2004 (Resolution No. 04-3465) and annually reviews and re-approves the policies by resolution as part of the annual budget process. Recently the Governmental Accounting Standards Board (GASB) issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, which requires the Metro Council to make certain policy decisions regarding the use of resources and classifications of fund balance in order for staff to prepare correctly the Comprehensive Annual Financial Report (CAFR) in compliance with generally accepted accounting principles (GAAP). Moss Adams LLP, Metro's external financial auditor, previewed this change with Council in January when it delivered the FY 2008-09 audit opinion. Our analysis shows that, for the most part, implementing GASB Statement No. 54 will be a formalization of Metro's current practices.

The purpose of today's action is to amend Metro's Comprehensive Financial Policies to incorporate the GASB Statement No. 54 principles and to re-approve the policies. The complete accounting policy, incorporating the decisions of the Metro Council reflected in the resolution will be maintained by the Director of Finance and Regulatory Services.

New Classification Requirements

GASB Statement No. 54 introduces a restructuring and redefinition of fund balance components for governmental fund types. Enterprise funds such as the Solid Waste and MERC funds are not included. For the governmental funds, the categories of fund balance beginning in FY 2010-11, from most restrictive to least restrictive, will include: *non-spendable*, *restricted*, *committed*, *assigned* and *unassigned* amounts for external financial reporting purposes. The non-spendable and restricted categories are technical in nature or restricted by an external party and will be determined by Finance and Regulatory Services staff based upon the facts and circumstances. The committed and assigned categories arise from actions that the Metro Council may take, usually during the budget process. Bond holders will consider how available fund balances are to meet bond and full faith and credit obligations.

In accordance with GASB Statement No. 54, the Metro Council in its normal course of business retains sole authority to take formal action to designate what amount of resource, including fund balance, is to be used only for specific purposes and be considered *committed* fund balance. Such commitments of fund balance can only be removed by the Council through a legislative action to remove or change any such commitment.

The Council, by definition and at a minimum, has *assigned* resources and fund balance whenever the Council establishes a fund other than the General Fund. The amounts within such funds will be defined, at a minimum, as assigned; in many instances the source of the funds may require a designation more restrictive than the minimum *assigned*. To implement the provisions of the standard for *assigned* amounts in greater detail than this fund level, and for designations of such within the General Fund, staff require direction from Council as to whether the Council desires to retain sole authority for assignment of resources/fund balance, or whether to delegate such authority to the Chief Operating Officer.

Staff recommends that the Council delegate this authority to the Chief Operating Officer. The COO is currently designated as the Budget Officer. Metro's current practice is to seek Council authority, usually during the budget adoption process or subsequent budget amendments, for any use of reserves. These assignments are recorded in the line item detail of the budget. The current financial policies already require that the budget disclose and explain any use of fund balance. Now, under GASB Statement No. 54, such documented decisions by the designated level of authority will be the basis for such reporting, and this decision-making authority is required to be disclosed in the notes to the financial statements.

The attachment "GASB 54 – Fund Balance Designation" illustrates how fund balances in the government funds would be designated for reporting purposes.

Policy for Order of Expenditure

Further, GASB Statement No. 54 requires Metro to state its policy regarding the order of expending resources and fund balance from these classifications of restricted, committed, assigned and unassigned. The Council may choose any order of expenditure. Staff recommends the expenditure of the most restricted funds first and therefore in the following order: restricted, committed, assigned, and then unassigned. This is consistent with our current policy. In the event of special circumstances, the Council could choose to deviate from this order by specifying it as an exception in any enabling legislation. The policy for order of expenditure is required to be disclosed in the notes to the financial statements within the Comprehensive Annual Financial Report (CAFR).

Policy for Stabilization Arrangements

Finally, GASB Statement No. 54 requires certain conditions to be present for balances to be classified as a stabilization arrangement, and the Comprehensive Financial Policies are proposed to be amended to conform to these stated requirements:

- a) the authority for establishing the arrangement (resolution or ordinance),
- b) the requirements, if any, for additions to the stabilization amount,
- c) the conditions under which stabilization amounts may be spent, and
- d) the intended stabilization balance.

A "stabilization arrangement" is a technical term and should not be confused with other instances where Metro currently employs the term ("stabilization reserve", "recovery rate stabilization account"). In our opinion Metro does not have any current arrangements that meet the technical definition of a stabilization arrangement. Nevertheless, the policy must address what Metro would do if it made such an arrangement.

Effect of Council Action

Council approval will result in an amendment of the Comprehensive Financial Policies to include the decisions made in the three areas noted above and contained in the resolution in the *italicized* section. Following Council approval, Finance and Regulatory Services will develop and maintain procedures to implement and document these Council decisions once the Council has chosen from the alternatives.

ANALYSIS/INFORMATION

1. Known Opposition: None known.

2. **Legal Antecedents:** Resolution No. 04-3465, adopting Comprehensive Financial Policies for Metro, which is annually reviewed and readopted as part of the budget process.
3. **Anticipated Effects:** This action permits Metro to conform to generally accepted accounting principles as one step to receiving an unqualified opinion on its financial statements.
4. **Budget Impacts:** There are no changes to the level of resources or expenditures from this action. There will be a revised classification structure of fund balance amounts, which will be detailed in budget schedules in accordance with the definitions and actions taken in accordance with the financial policies.

RECOMMENDED ACTION

The Chief Operating Officer recommends adoption of this resolution.

GASB 54 - Fund Balance Designation

Fund	FY 2010-11 DESIGNATIONS				
	Non-spendable	Restricted	Committed	Assigned	Unassigned
General Fund					
Undesignated					5,706,490
Reserved for TOD (not including Assets for Resale)		4,758,727			
Project Carryover					886,724
Reserved for Local Gov't Grants (CET)			2,000,000		
Reserve for Future Debt Service					2,846,099
Tibbets Flower Account		212			
Reserved for Climate Change Project					47,500
Reserved for Regional Investment Strategy					2,821,907
Restricted Parks Reserve (Multnomah County)		44,000			
Reserved for Future Planning Needs					539,306
Reserved for Future Election Costs					183,411
Reserved for Nature in Neighborhood Grants					501,660
Reserved for Active Transportation Partnerships					176,100
Reserve for Future Natural Areas Operations					804,460
Prior year PERS Reserve					3,759,384
General Obligation Bond Debt Service Fund		12,045,000			
General Revenue Bond Fund					
Debt Service Account				5,677	
Project Account (prior year balance)				216,890	
Metro Capital Fund					
Information Services Account				90,000	
Zoo Capital Account		287,709			
Oxbow Park Nature Center Account				359,929	
Natural Areas Fund		50,775,000			
Open Spaces Fund		318,942			
Oregon Zoo Infrastructure & Animal Welfare Fund		2,121,338			
Pioneer Cemetery Perpetual Care Fund	316,297				
Rehab. And Enhancement Fund		1,988,304			
Smith and Bybee Wetlands Fund		3,987,047			
General Renewal and Replacement Fund				6,766,197	
TOTAL FUND BALANCE DESIGNATIONS	\$316,297	\$76,326,279	\$2,000,000	\$7,438,693	\$18,273,041