

BEFORE THE METRO COUNCIL

FOR THE PURPOSE OF ADOPTING) RESOLUTION NO. 04-3465
COMPREHENSIVE FINANCIAL)
POLICIES FOR METRO) Introduced by Mike Jordan, Chief Operating Officer,
) with the 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

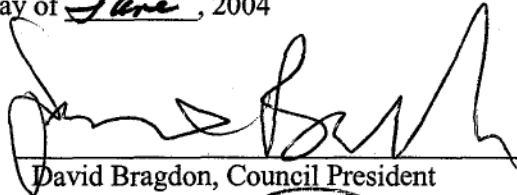
WHEREAS, Metro's Financial Planning division working in conjunction with the Finance Advisory Strategy Team under the guidance of the Chief Financial Officer developed a set of comprehensive financial policies for consideration of the Metro Council; and

WHEREAS, these comprehensive financial policies were reviewed by the Senior Management Team and the Chief Operating Officer; and


WHEREAS, Resolution No. 84-444, "Adopting Long-Range Financial Policies for the Metropolitan Service District" (Attachment 1) was adopted January 26, 1984, has become outdated and should be rescinded; now therefore

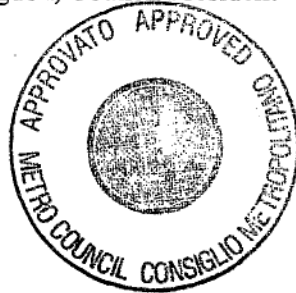
BE IT RESOLVED that the Metro Council adopts Exhibit A of this resolution, entitled "Metro Financial Policies," and rescinds Resolution No. 84-444.

ADOPTED by the Metro Council this 17th day of June, 2004


David Bragdon, Council President

Approved as to Form:


Daniel B. Cooper, Metro Attorney



METRO FINANCIAL POLICIES

Metro Financial Policies

Metro's financial policies, set forth below, provide the framework for the overall fiscal management of the agency. Operating independently of changing circumstances and conditions, these policies are designed to help safeguard Metro's assets, promote effective and efficient operations, and support the achievement of Metro's strategic goals.

These policies establish basic principles to guide Metro's elected officials and staff in carrying out their financial duties and fiduciary responsibilities. The Chief Financial Officer shall establish procedures to implement the policies established in this document.

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.

METRO FINANCIAL POLICIES

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.
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 readoption.
2. Metro shall schedule disbursements, collections and deposits of all funds to ensure maximum cash availability and investment potential.

METRO FINANCIAL POLICIES

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.
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.

Capital Asset Management Policies

The following policies establish the framework for Metro's overall capital asset planning and management. They provide guidance for current practices and a framework for evaluation of proposals for future projects. These policies also seek to improve Metro's financial stability by providing a consistent approach to fiscal strategy. Adopted financial policies show the credit rating industry and prospective investors (bond buyers) the agency's commitment to sound financial management and fiscal integrity. Adherence to adopted policies ensures the integrity and clarity of the financial planning process and can lead to improvement in bond ratings and lower cost of capital.

1. Metro shall operate and maintain its physical assets in a manner that protects the public investment and ensures achievement of their maximum useful life.

Ensuring the maximum useful life for public assets is a primary agency responsibility. Establishing clear policies and procedures for monitoring, maintaining, repairing and replacing essential components of facilities is central to good management practices. It is expected that each Metro department will have written policies and procedures that address:

- *Multi-year planning for renewal and replacement of facilities and their major components;*
- *Annual maintenance plans.*

2. Metro shall establish a Renewal & Replacement Reserve account for each operating fund responsible for major capital assets.

Ensuring that the public receives the maximum benefit for their investments in major facilities and equipment requires an ongoing financial commitment. A Renewal & Replacement Reserve should initially be established based on the value of the asset and consideration of known best asset management practices. Periodic condition assessments should identify both upcoming renewal and replacement projects and the need to adjust reserves to support future projects. If resources are not sufficient to fully fund the Reserve without program impacts, the Council will be consider alternatives during the annual budget process. Establishing and funding the Reserve demonstrates Metro's ongoing capacity and commitment to these public investments.

3. Metro shall prepare, adopt and update at least annually a five-year Capital Improvement Plan (CIP). The Plan will identify and set priorities for all major capital assets to be acquired or constructed by Metro. The first year of the adopted CIP shall be included in the Proposed Budget.

The primary method for Metro departments to fulfill the need for multi-year planning is the Capital Improvement Planning process. The CIP allows a comprehensive look at Metro's capital needs for both new facilities and renewal and replacement of existing ones, and allows the Council to make the necessary decisions to ensure financial resources match forecasted needs.

Capital Asset Management Policies

4. Capital improvement projects are defined as facility or equipment purchases or construction which results in a capitalized asset costing more than \$50,000 and having a useful (depreciable life) of five years or more. Also included are major maintenance projects of \$50,000 or more that have a useful life of at least five years.

A clear threshold ensures that the major needs are identified and incorporated in financial plans.

5. An assessment of each Metro facility will be conducted at least every five years. The report shall identify repairs needed in the coming five years to ensure the maximum useful life of the asset. This information shall be the basis for capital improvement planning for existing facilities and in determining the adequacy of the existing Renewal & Replacement Reserves.

A foundation step for capital planning is an understanding of the current conditions of Metro facilities. It is expected that Metro departments have a clear, documented process for assessing facility condition at least every five years. The assessment processes may range from formal, contracted engineering studies to in-house methods such as peer reviews. The assessment should identify renewal and replacement projects that should be done within the following five years. The Renewal & Replacement Reserve account should be evaluated and adjusted to reflect the greater of the average renewal & replacement project needs over the coming five years or 2% of the current facility replacement value.

6. The Capital Improvement Plan will identify adequate funding to support repair and replacement of deteriorating capital assets and avoid a significant unfunded liability from deferred maintenance.

Using the information provided by facility assessments, Metro departments should use the CIP process to identify the resources necessary to keep facilities in an adequate state of repair. In situations where financial resources force choices between programs and facility repair, the annual budget process should highlight these policy choices for Council action.

7. A five-year forecast of revenues and expenditures will be prepared in conjunction with the capital budgeting process. The forecast will include a discussion of major trends affecting Agency operations, incorporate the operating and capital impact of new projects, and determine available capacity to fully fund the Renewal & Replacement Reserve.

Incorporation of capital needs into agency five-year forecasts ensures that problem areas are identified early enough that action can be taken to ensure both the maintenance of Metro facilities and integrity of Metro services.

Capital Asset Management Policies

8. To the extent possible, improvement projects and major equipment purchases will be funded on a pay-as-you-go basis from existing or foreseeable revenue sources. Fund Balances above established reserve requirements may be used for one-time expenditures such as capital equipment or financing of capital improvements.

Preparing a CIP and incorporating it into five-year forecasts enables Metro to plan needed capital spending within foreseeable revenues. This minimizes the more costly use of debt for capital financing and ensures renewal and replacement of facility components takes place without undue financial hardship to operations.

9. Debt (including capital leases) may only be used to finance capital, including land acquisition, not ongoing operations. Projects that are financed through debt must have a useful service life at least equal to the debt repayment period.

Because interest costs impact taxpayers and customers, debt financing should be utilized only for the creation or full replacement of major capital assets.

10. When choosing funding sources for capital items, every effort should be made to fund enterprise projects either with revenue bonds or self-liquidating general obligation bonds. For the purpose of funding non-enterprise projects other legally permissible funding sources, such as systems development charges should be considered.

11. Acquisition or construction of new facilities shall be done in accordance with Council adopted facility and/or master plans. Prior to approving the acquisition or construction of a new asset, Council shall be presented with an estimate of the full cost to operate and maintain the facility through its useful life and the plan for meeting these costs. At the time of approval, Council will determine and establish the Renewal & Replacement Reserve policy for the asset to ensure resources are adequate to meet future major maintenance needs.

New Metro facilities should be planned within the overall business and service objectives of the agency. To ensure that the public gains the maximum utility from the new facility or capital asset, Metro should identify the full cost of building and operating the facility throughout its useful life. Resources generated from its operation or other sources should be identified to meet these needs.

STAFF REPORT

IN CONSIDERATION OF RESOLUTION NO. 04-3465, FOR THE PURPOSE OF ADOPTING COMPREHENSIVE FINANCIAL POLICIES FOR METRO

Date: June 7, 2004

Prepared by: Casey Short

BACKGROUND

Metro operates without a comprehensive set of financial policies to guide the agency's overall financial management. While there are Council-adopted policies governing capital asset management, and a series of Executive Orders that outline policy and procedures in certain areas, adoption of a set of comprehensive policies would both broaden the scope of formal policy direction and identify those policies that are of greatest importance to the agency. Adoption and maintenance of financial policies is a recommended practice of professional organizations in the field of public sector finance, most notably the Government Finance Officers Association and the National Advisory Council on State and Local Budgeting.

This resolution would adopt a set of financial policies for Metro. The policies contained in the resolution were drafted by a group of department finance managers and Financial Planning staff, thoroughly reviewed, discussed, and revised by a committee of finance staff from all major operating departments and Finance & Administrative Services, and presented to the Senior Management team before coming to the Council. Staff has developed these policies with the expectation that their application should not be considered to be required in all cases; rather, the policies will serve as strong guidelines for financial management that may occasionally not be practicable to meet. In those cases, it is further understood that Council should be apprised of exceptions to the policies and advised of the reasons why a policy goal was not achieved.

The policies address six specific areas of financial management as well as a series of general policies. Several of these simply echo federal or state laws and regulations, or establish as policy certain practices that are currently being done. Highlights of the proposed policies include the following:

- The policies will be reviewed annually by the Council and published in the adopted budget.
- The Chief Financial Officer will develop guidelines and procedures in a number of areas, including determination of fund balances appropriate to each major fund, determination of appropriate contingencies to be maintained, and internal controls.
- A definition of a balanced budget, which is one in which current year revenues meet or exceed current year expenditures.
- The justification for a budgeted draw on fund balance in an operating fund will be included in the adopted budget document.
- A study to assess the affordability of any new program will be done before the program is implemented.
- The Council's existing capital asset management policies are incorporated into this document, by reference.
- One-time revenues will be used to pay for one-time costs or add to fund balance.

ANALYSIS/INFORMATION

1. Known Opposition

None

2. Legal Antecedents

Resolution #01-3113 adopted Capital Asset Management Policies, which are incorporated into the proposed comprehensive policies contained in this resolution. Resolution 84-444, "Approving Long-Range Financial Policies for the Metropolitan Service District," is woefully out of date and should be replaced by the policies in this resolution.

3. Anticipated Effects

Adoption of the proposed financial policies would give Metro policy-makers and staff guidelines for the financial management of the agency, which have heretofore been lacking. In addition, the requirements that the Council annually review the policies and include them in the Adopted Budget document will help ensure that they remain visible and in force, as well as provide a mechanism to keep them up to date.

4. Budget Impacts

No direct impact. Implementation of the policies may lead to different budgetary choices as their full impact is felt.

RECOMMENDED ACTION

Adoption of the Resolution.

BEFORE THE COUNCIL OF THE
METROPOLITAN SERVICE DISTRICT

FOR THE PURPOSE OF APPROVING) RESOLUTION NO. 84-444
LONG-RANGE FINANCIAL POLICIES)
FOR THE METROPOLITAN SERVICE) Introduced by the
DISTRICT) Executive Officer

WHEREAS, The Metropolitan Service District relies on a variety of revenue sources to conduct its business; and

WHEREAS, The Metropolitan Service District over the past five years has demonstrated its ability to carry out its assigned responsibilities; and

WHEREAS, The expiration of a three-year serial levy and changes in state laws will alter the revenue sources for the Metropolitan Service District; and

WHEREAS, A set of financial policies and principles has been developed to be used as a guide for reaching financial stability for the Metropolitan Service District; now, therefore,

BE IT RESOLVED,

That the Council adopts the financial principles and policies contained in Exhibit A attached.

ADOPTED by the Council of the Metropolitan Service District
this 26th day of January, 1984.



Presiding Officer

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01/05/84

EXHIBIT A

To assist in the achievement of the broad goal of providing financial stability for Metro, the following general principles are adopted:

1. Each functional area shall have identified sources of revenue;
2. Each functional area shall prepare a five-year financial plan; and
3. Any new functions assumed by Metro shall have a source of funding.

To aid decision making in each of the functional areas, the following policies are adopted:

General Government/Mandated Services

1. General government and mandated services shall have an external source of revenue to cover their direct costs and to pay their share of support services.
2. When specific funds are identified for general government and mandated services, interfund transfers shall no longer be used to support these activities.
3. The support services functions of the General fund shall be totally financed from all Operating funds on the basis of actual use.

Local Assistance and Coordination

1. Local assistance activities carried out by Metro shall be funded by the jurisdictions and organizations using those services.
2. Metro shall annually review and develop a local assistance program in conjunction with local government users.

Zoo Operations

1. The Zoo shall rely on the property tax for a portion of its revenues.
2. Approximately 50 percent non-tax revenues shall be maintained for funding Zoo operations.

3. The Council shall annually review admission fees to assist in meeting Objective 2 above.
4. The Council shall develop a policy of maintaining a proper balance between funds used for animal and non-animal capital improvements and the use of private versus public funds.
5. As indicated in the adopted Master Plan, the priority for capital investments shall be the completion of the Zoo's development and the replacement of non-standard exhibits.
6. It shall be the policy of the Council to provide special benefits to residents of the region who pay taxes to help support the Zoo.

Solid Waste Operations

1. As part of the development of a five year financial plan, a set of financial policies shall be prepared for adoption by the Council prior to the beginning of the rate review process in September 1984 and shall address disposal rates, regional transfer charges, convenience charges, user fees and other appropriate issues.

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