



600 NE Grand Ave.  
Portland, Oregon  
97232-2736

# 2011-12

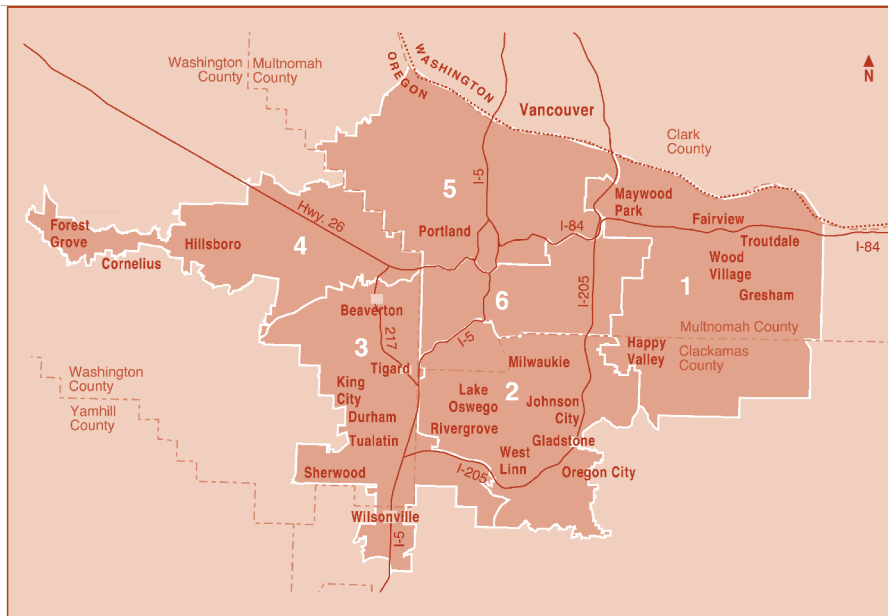
## ADOPTED BUDGET Summary



Metro | *Making a great place*

# 2011-12

## ADOPTED BUDGET Summary



### **Metro** **Making a great place**

Clean air and clean water do not stop at city limits or county lines. Neither does the need for jobs, a thriving economy and good transportation choices for people and businesses in our region. Voters have asked Metro to help with the challenges that cross those lines and affect the 25 cities and three counties in the Portland metropolitan area.

A regional approach simply makes sense when it comes to protecting open space, caring for parks, planning for the best use of land, managing garbage disposal and increasing recycling. Metro oversees world-class facilities such as the Oregon Zoo, which contributes to conservation and education, and the Oregon Convention Center, which benefits the region's economy.

### **Your Metro representatives**

**Council President**  
Tom Hughes  
503- 797-1889

**District 1**  
Shirley Craddick  
503- 797-1547

**District 2**  
Carlotta Collette  
503- 797-1887

**District 3**  
Carl Hosticka  
503- 797-1549

**District 4**  
Kathryn Harrington  
503- 797-1553

**District 5**  
Rex Burkholder  
503- 797-1546

**District 6**  
Barbara Roberts  
503- 797-1552

**Auditor**  
Suzanne Flynn, CIA  
503- 797-1891

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## **Budget and financial structure**

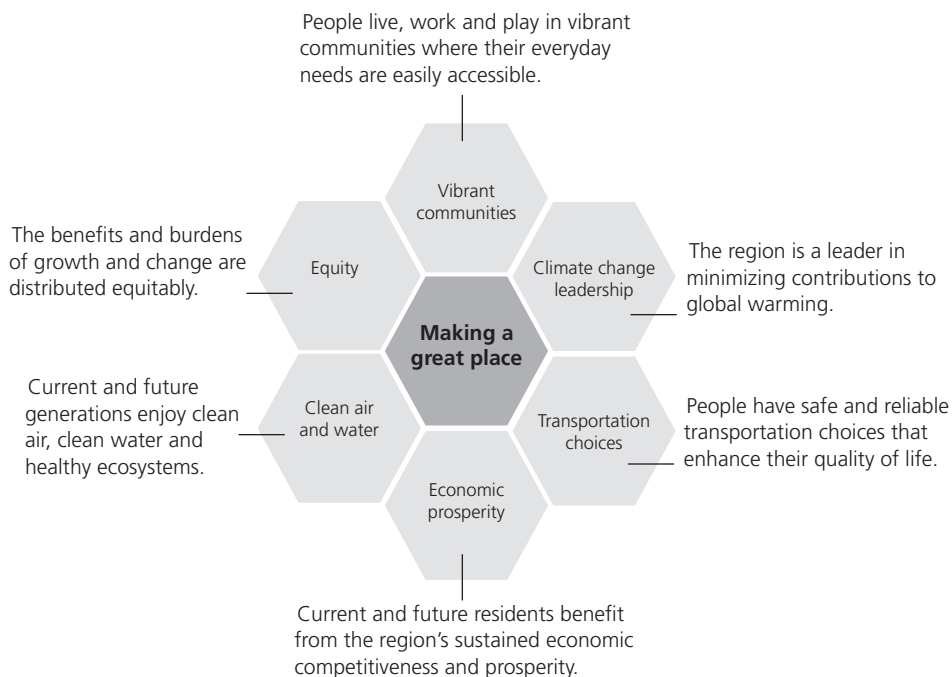




Development of the budget is an important and legally required process. The result is a policy and financial plan covering all of Metro’s programs and services. The budget document presents a strategically focused discussion of goals and objectives, programs and outcomes, and spending priorities within resource constraints. The budget process at Metro includes two concurrent, complementary cycles: (1) the strategic process for evaluating progress and setting future expectations and (2) the development of the final policy and financial document.

## THE STRATEGIC BUDGET PROCESS

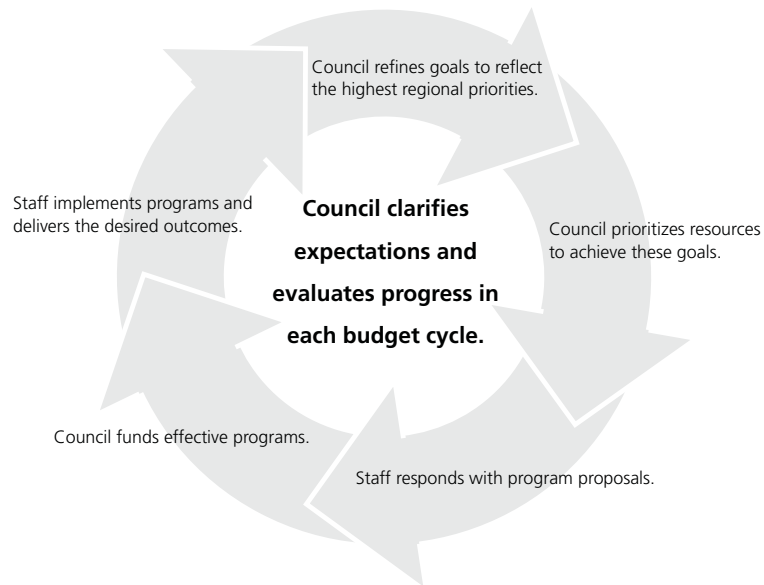
Metro follows a strategic budgeting process that guides not only the development of its annual budget but also provides focus for multi-year funding commitments toward specific objectives. In 2008 under Metro’s leadership, regional leaders agreed on six desired outcomes for communities throughout the region. By embracing measurable outcomes, leaders shifted from talking about abstract concepts like “compact urban form” to focusing on what really matters in the everyday lives of the region’s 1.5 million residents. Identifying regional values ensures decisions are guided by a clear focus. The following six desired outcomes for the region were adopted by the Metro Council in 2010 as part of the region’s growth management policies:



With this regional framework in mind, Metro adopts its agency goals and operates programs and projects that make positive contributions to the regional outcomes. Metro adopts program goals and measures performance, including the internal efficiency and effectiveness of its business practices. During the year the Metro Council reviews quarterly program and financial reports to track performance towards these outcomes. Every fall the Council provides direction to the Budget Officer, increasing focus in particular areas or redirecting efforts to adjust to changing circumstances within the region. The diagram at the top of next page illustrates this year-round dynamic process.

During the year the Metro Council uses quarterly program reports to review the performance and determine if changes are necessary. Each fall Council discusses initiatives or proposals aimed at meeting the strategic goals. These discussions provide direction to the Chief Operating Officer (COO) and operating units in the preparation and formulation of the proposed budget. The diagram on C-4 illustrates this year-round budget process.

## Annual strategic budget process



### THE BUDGET CYCLE

The budget cycle focuses on the development of an annual budget document that incorporates the Metro Council's strategic direction into a comprehensive policy and financial plan for all Metro programs and services. It is a process designed to meet the expectations of the general public, the Metro Council and the requirements of Oregon Budget Law.

#### Review of prior year

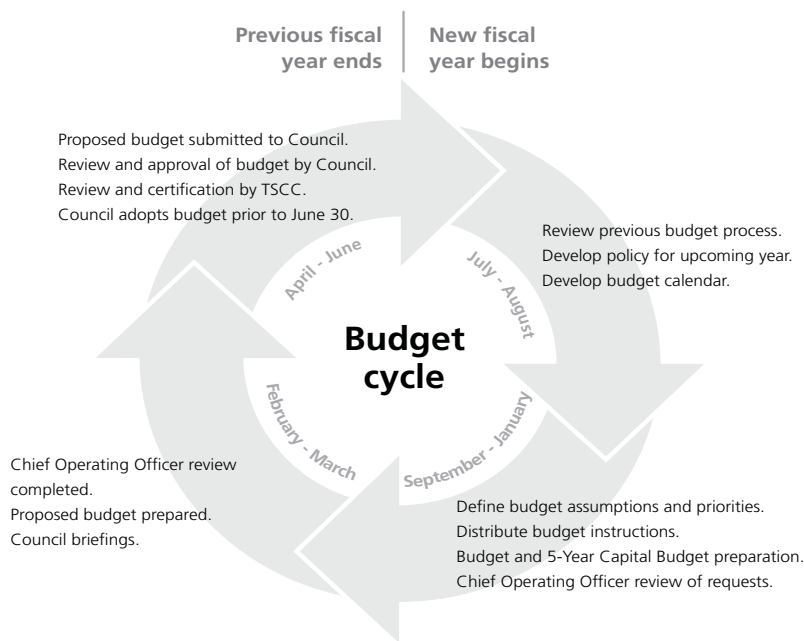
Each fiscal year begins with a review of the previous year's budget cycle to determine areas of success and areas of concern. Staff works to refine the process for the upcoming year. New budget parameters are developed to set out the basic assumptions organizational units should adopt for the preparation of their budgets. These parameters are incorporated with the policies and priorities set by the Metro Council and the Chief Operating Officer.

#### Budget instructions

The Financial Planning division of Finance and Regulatory Services provides detailed instructions for the preparation of the requested operating and capital budgets. The instructions provide the universal assumptions for increasing or decreasing staff, calculating changes in personnel costs and costing out commonly purchased items such as office furniture and computer software. The instructions also give operating units detailed information for budgeting capital projects already approved in the five-year Capital Improvement Plan, for proposing new capital projects for future years and for undertaking scheduled renewal and replacement projects to safe guard Metro's public assets.

#### Budget requests

Staff in operating units apply the instructions and assumptions from Financial Planning and the direction received from the COO to forecast their base program activities and financial needs for the next fiscal year. In addition, programs prepare a series of proposals to add, cut or change program activities, functions or funding levels. The base forecasts along with the add, cut or change proposals form the basis of the requested budgets.



### Review and analysis resulting in proposed budget

The Financial Planning division reviews, analyzes and consolidates the base budget requests, meeting with each operating unit to verify and refine the requests, as needed. The COO, serving as the agency’s Budget Officer, conducts review meetings to discuss identified issues and program changes. The COO presents preliminary budget information to the Metro Council identifying early issues and revenue constraints, seeking additional guidance on program and policy direction. Following additional review, analysis and discussion and budget modification, the COO holds an all day work session with the Senior Management Team and the Finance Team to discuss the Council’s additional guidance, the operating proposals and budget balancing options. The COO, as Budget Officer, makes the final decisions, and delivers a budget message and proposed budget to the Metro Council and the public.

### Review and analysis by the Metro Council resulting in approved budget

The Metro Council, sitting as the Budget Committee, holds a series of public work sessions to review the budget, take program and public testimony, and make any additions, deletions or modifications to the proposed budget. After due consideration, the Metro Council approves a budget and determines the amount required and allowed to be levied from property taxes. The approved budget and tax levy are then submitted to the Multnomah County Tax Supervising and Conservation Commission (TSCC).

### Tax Supervising and Conservation Commission review and certification

Oregon law requires local governments to establish a budget committee that reviews the budget and makes decisions regarding the approved budget. For most jurisdictions this committee comprises members of the governing body and an equal number of citizens. In counties where the population is greater than 500,000 (currently Multnomah County and Washington County), a TSCC may be established. Members of this commission are appointed by the governor to supervise local government budgeting and taxing activities. Currently, Multnomah County is the only county with a TSCC. Washington County has chosen to retain its citizen budget committee and implement the alternative publication option now allowed under Oregon Budget Law. Because more than 50 percent of Metro’s total assessed value is within Multnomah County, Metro has chosen submit its budget to the Multnomah County TSCC. After the commission reviews Metro’s budget, it holds a public hearing and asks

for clarification on items within the budget or items affecting the financial health of the organization. Upon completion of the public hearing, the TSCC issues a letter of certification, which becomes part of the official record included with the adoption of the budget.

### **Metro Council adoption and submission to County Tax Assessors**

After receiving certification by the TSCC, the Metro Council makes any necessary and final technical adjustments and adopts the budget prior to June 30, the end of the fiscal year. Legally required documentation to levy property taxes for the ensuing year is filed with each county tax assessor in the region prior to July 15th. The final adopted budget document is prepared, printed and submitted to each of the county tax assessors in the region and to the TSCC.

### **Changes to the budget after adoption**

Oregon Local Budget Law provides several ways for the budget to be changed after adoption. If the government receives additional revenue in the form of grants, donations or bequests, appropriations may be increased through Metro Council action in an amount equal to the additional revenues. If other new revenues are received that were not anticipated at the time that the budget was adopted, the government may prepare a supplemental budget to recognize the additional revenue and increase appropriations. The Council may amend appropriations by ordinance when adjustments within a fund are made between appropriation levels in the budget (e.g., increase in operating expense appropriation and a corresponding decrease in contingency appropriation).

### **The five-year capital improvement plan**

Metro's five-year capital planning process identifies the agency's capital asset needs for projects that cost \$100,000 or more and have a useful life of five years or more. The Metro Council adopted the agency's first capital improvement plan in January 1997. A more complete description of the capital budget process is found in Section H of this document. Metro Council reviews the capital budget concurrently to promote improved coordination between capital spending and the overall budget.

## Budget calendar

Budget planning session with Council to discuss strategic direction for FY 2011-12	Oct. 14, 2010
Draft budget assumptions and instructions released to operating units	Nov. 2, 2010
Council reviews budget assumptions for FY 2011-12	Nov. 9, 2010
Financial Planning issues final budget instructions and assumptions	Nov. 12, 2010
Update of renewal & replacement database and base capital improvement plan	By Nov. 26, 2010
Base line budgets, status quo CIP, and five-year forecasts due to Financial Planning	Dec. 4, 2010
Operating Unit add, cut, change proposals due to Financial Planning	Dec. 27, 2010
COO Analysis, review and discussion of department budget requests and add, cut, change proposals	Jan. 3 – Feb 10, 2011
Council reviews base budgets, CIP and five-year forecasts; discusses early identification of issues and revenue sensitivities	Jan. 11, 2011
COO, Sr. Leadership Team and Finance Team all day budget retreat; discussion of budget proposals, balancing options	Jan. 21, 2011
Council work session to review budget balancing options and receive additional direction from Council	Feb. 1, 2011
COO provides final direction on program proposals and makes final budget balancing decisions for proposed budget	Feb. 11, 2011
Final budgets due from operating units	Feb. 18, 2011
Financial Planning produces proposed budget documents (summary budget, program budget, line item detail, five-year capital budget, operating forecasts)	Feb. 21 - March 4, 2011
Prepare Chief Operating Officer Budget Message and presentation	March 2011
Proposed budget released to Council for individual review	March 24, 2011
Chief Operating Officer presents proposed budget; initial public hearing held	April 7, 2011
Council work sessions on budget	April 2011
Additional public hearings held	April 21, April 28 and June 16, 2011
Council public hearing; budget approval and tax levy (Resolution No. 11-4259)	April 28, 2011
Metro submits approved budget to Tax Supervising and Conservation Commission	May 10, 2011
Tax Supervising and Conservation Commission public comment period	May 11–June 8, 2011
Tax Supervising and Conservation Commission public hearing on approved budget	June 9, 2011
Council considers and approves final amendments to budget; public hearing	June 16, 2011
Council budget public hearing; adoption (Ordinance No. 11-1253C)	June 23, 2011

# Budget development guidelines

At an early November 2010 Council work session, Financial Planning staff presented for discussion a series of financial assumptions to guide the development of the FY 2011-12 budget. The assumptions included estimates for salary adjustments for various employee groups, fringe benefit costs for health and welfare and the Oregon Public Employee Retirement System (PERS) and a variety of general revenue or global assumptions such as excise tax forecast, renewal and replacement allocations and special appropriations. The council reviewed, discussed and approved the assumptions. The Chief Operating Officer was directed to return to the Council in the event of a significant change to any of the assumptions.

The following financial assumptions were used in the development of the FY 2011-12 budget. When changes to the assumptions evolved during the budget deliberation, they are noted.

## **MAJOR REVENUE ASSUMPTIONS**

### **Excise tax rate on eligible revenues**

7.5 percent rate for all non-solid waste revenues subject to the Metro excise tax. For the FY 2011-12 budget, the CPI factor on base solid waste excise tax revenue is 1.59 percent. The base solid waste excise tax amount for FY 2011-12 is \$11,550,783.

### **General Fund allocations**

Allocations of the General Fund's discretionary resources (operating property tax, excise tax, interest earnings) will be made by the Chief Operating Officer during the course of budget development based on program priorities and Council direction.

### **Interest**

Interest rate for resource calculations for FY 2011-12 will be 0.50 percent.

## **MAJOR EXPENDITURE ASSUMPTIONS**

### **Gross available hours per year per FTE**

A standard 2088 hours is set for non-exempt, hourly employees. Exempt employees (salaried) should be budgeted based on an annual salary. Exempt annual salaries are calculated on a 2080 hour basis.

### **Salary and wage adjustments**

The following assumptions should be used when estimating personal services costs for FY 2011-12. Organizational units will need to forecast salaries and wages for the remainder of FY 2010-11 using the existing approved pay plans. Estimated step increases occurring prior to the end of FY 2010-11 should be folded into the forecast. All assumptions listed below should be applied to the employees' salaries or wages as they will be on June 30, 2011. Human Resources will provide on request a list of all existing employees, their current hourly rate or annual salary and next anniversary date.

Budgeted salaries should reflect base salary without adjustments for FY 2011-12. All FY 2011-12 salary adjustments will be budgeted in one of several adjustment pools.

**Elected Officials** – No increase for FY 2011-12.

## **Metro and MERC Non-Represented Employees**

Assume 1.0 percent on existing salaries and wages for merit pool (effective July 1, 2011).

*Note: The merit pool will be awarded as a lump sum one-time payment for FY 2011-12. The lump sum payment will not increase base salary. The payment will be applied progressively with the lowest salary levels receiving a 2.5 percent payment and the second to highest level receiving a 0.5 percent payment. The Senior Leadership Team chose again to forgo salary adjustments for FY 2011-12.*

## **Metro AFSCME 3580**

Assume 1.0 percent cost of living adjustment to wages effective July 1, 2011.

Assume 1.10 percent on existing salaries and wages for step adjustment pool.

*Note: Metro and AFSCME 3580 remain in contract negotiations at the time of budget adoption.*

## **LIU Local 483**

Assume 1.5 percent cost of living adjustment to wages effective July 1, 2011.

*Note: LIU 483 collective bargaining agreement calls for a cost of living adjustment based of no less than 1.5 percent and no greater than 3.25 percent. The CPI indicator for this unit for July 1, 2011 was 1.3 percent.*

**MERC Represented Groups** (all adjustments based on existing collective bargaining agreements)

**IUOE 701-1** - Assume 3.00 percent cost of living adjustment to wages effective July 1, 2011.

**IUOE 701** – Assume 3.00 percent cost of living adjustment to wages effective July 1, 2011.

**AFSCME 3580-1** - Assume 2.50 percent cost of living adjustment to wages effective July 1, 2011.

**IATSE B-20** – Assume 2.50 percent cost of living adjustment to wages effective July 1, 2011.

**IATSE B28** – Assume 2.50 percent cost of living adjustment to wages effective July 1, 2011.

**ILWU 28** – Assume 3.00 percent cost of living adjustment to wages effective July 1, 2011.

## **Zoo Visitor Services Seasonal**

Assume appropriate increases per the Visitor Services pay range effective Jan. 1, 2011. Minimum wage effective Jan. 1, 2011 = \$8.50.

Assume a 1.5 percent cost of living adjustment to the pay plan effective Jan. 1, 2012.

## **All Other Temporary or MERC Part-Time employees**

Assume appropriate increases per existing pay plans.

## **Fringe rates**

Base fringe rates are split into two components – a fixed rate per FTE and a variable rate to be applied to estimated salaries and wages. The variable rate includes all portions of the fringe benefits that are calculated on a straight percentage of salaries/wages – PERS, FICA, TriMet payroll tax, and long-term disability. Some departments have temporary or seasonal employees that, while not eligible for full benefits, receive PERS benefits. For those employees, organizational units should use the PERS eligible temporary variable rates.

The fixed rate per FTE includes all other benefits – health and welfare (medical, dental, vision), life insurance, dependent life insurance, accidental death insurance, worker compensation tax and employee assistance program. There is a fixed component for all temporary or seasonal employees. Although the budget document does not reflect FTE for temporary, seasonal or MERC part-time event related employees, units will need to estimate an associated FTE for the purposes of calculating this portion of the fringe costs.

Fringe benefits also includes the PERS bond recovery rate; the amount that is needed

### Fringe Rates for FY 2011-12

Account Number	Base Fringe 5100	Bond Recovery* 5190
<i>Variable Fringe Rates: Calculated on eligible salaries/wages</i>		
Regular Employees– with 6 percent PERS pick-up	22.95%	3.0%
Regular Employees– without 6 percent PERS pick-up	16.95%	3.0%
Temporary/Seasonal/MERC PT Employees– PERS eligible	22.55%	3.0%
Temporary/Seasonal/MERC PT Employees– non-PERS eligible	8.35%	
<i>Fixed Fringe Rates: Calculated per FTE</i>		
Regular Employees– All regular employees	\$13,557	
Temporary Employees	\$29	
<i>Planning Department Composite Rate (fixed and variable)</i>		
All salaries and wages	39.2%	3.0%

to pay the debt service on the bonds that were issued to fund Metro’s unfunded actuarial liability with PERS. Organizational units received a reduction in their base variable rate at the time the bonds were issued.

*\*Note: Beginning in FY 2011-12 the accumulated PERS Reserve will be used to offset all or a portion of the costs of the PERS Bond Recovery rate for a period of three to five years. The rate for FY 2011-12 will be zero.*

#### **New positions**

New position requests are not allowed in the base budget request. All new positions must be requested as an add package to a program proposal. The need for a new position should be well documented as to need and anticipated benefit. New positions are to be budgeted at no more than 20 percent above the beginning rate or step. Positions that are budgeted at the beginning rate should allow for a 5 percent increase after successful completion of a six-month probationary period.

#### **Vacant positions**

Vacant positions are to be budgeted at no more than 20 percent above the beginning rate or step.

#### **Reclasses**

Base budget requests should include only those reclasses approved in the current fiscal year and approved career ladder reclasses for FY 2011-12. General reclasses are not allowed in the base budget request for FY 2011-12. All general reclasses anticipated for FY 2011-12 must be included as an add package to the budget.

## Materials and services

Inflation factor = 1.0 percent. The inflation factor should be used when there are no other means to estimate costs.

## Contingency

General Fund contingency and reserves will be budgeted in accordance with established policy. The consolidated General Fund will provide for the following:

Contingency equivalent to 4 percent of total operating expenses.

Stabilization Account equivalent to 3 percent of total operating expenses.

Opportunity Account - \$500,000.

For other funds, contingency should be an amount not less than 4 percent of the total of personal services, materials and services and capital outlay. Variations from this amount are allowed based on operational needs. Other reserves should be budgeted in accordance with adopted policies.

## Unemployment

Unemployment costs are budgeted in the Risk Management Fund on a retrospective basis. For FY 2011-12 costs reflect actual expenditure incurred in FY 2009-10.

### Unemployment expense

Council Office	\$16,094
Metro Auditor's Office	7,230
Office of Metro Attorney	9,860
Communications	5,423
Human Resources	25,175
Information Services	2,341
Planning and Development	11,338
Research Center	2,090
Parks and Environmental Services	119,608
Sustainability Center	11,010
Oregon Zoo	241,839
MERC	125,796
<b>TOTAL UNEMPLOYMENT CHARGES</b>	<b>\$577,804</b>

## FUND-BASED BUDGET

Metro's accounts are organized on the basis of funds, where each fund is considered a separate fiscal entity accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures. Each fund has a specific purpose, with specific revenue sources and uses and is classified according to GASB standards.

## BASIS OF ACCOUNTING USED BY METRO FOR BUDGETING

Metro's budget is prepared on the modified accrual basis of accounting. In modified accrual accounting revenues are recognized when they become measurable and available. Measurable means that the dollar value of the revenue is known. Available means that it is collectible within the current period, or soon enough after the end of the current period to pay the liabilities of the current period. Significant revenues that are considered to be measurable and available under the modified accrual basis of accounting are interest earned on temporary investments, property taxes received within approximately 60 days of the end of the fiscal year, excise taxes, cemetery revenue surcharges, grants, local government shared revenues such as hotel/motel taxes, government contributions and charges for services. Expenditures are recognized when the liability is incurred, if measurable, except for interest on long-term debt which is recognized on its due date and certain compensated absences which are recognized when the obligations are expected to be liquidated with expendable available financial resources.

The Comprehensive Annual Financial Report (CAFR) shows the status of Metro's finances in accordance with "generally accepted accounting principles" (GAAP). In many cases, this conforms with the way Metro prepares its budget. Major exceptions are as follows:

- Central services costs incurred by funds are recorded as direct expenses on a GAAP basis, whereas these amounts are reflected as operating transfers on a budget basis.
- Depreciation and amortization expenses are recorded on a GAAP basis. The budget basis does not reflect these items.
- Reductions to certain liabilities on a GAAP basis are recorded as expenditures on a budget basis.
- Certain funds are aggregated and reported as fund components on a GAAP basis and are reported as separate funds on a budget basis.

The Comprehensive Annual Financial Report shows fund expenditures and expenses, as well as revenues, on both a GAAP basis and budget basis for comparison purposes.

**GENERAL FUND**

In accordance with GAAP, the General Fund accounts for all activities not required to be accounted for in another fund. In FY 2005–06 the General Fund was consolidated to conform to Metro’s strategic objectives and includes Metro’s general government activities (including Council and Communications functions, regional transportation and growth planning, regional parks, and operations of the Oregon Zoo), as well as all administrative support functions (such as Finance and Regulatory Services, Human Resources, Information Services, Metro Auditor, Office of Metro Attorney and Metro headquarters building operations). The principal resources of the fund are an excise tax on Metro’s facilities and services levied in accordance with the Metro Code, general property taxes derived from a tax levy approved by voters in May 1990, charges for services provided by the various activities of Metro, intergovernmental revenues in the form of grants and contracts, charges for services provided to Metro functions not accounted for within the General Fund and investment earnings.

**ENTERPRISE FUNDS****Solid Waste Revenue Fund**

This fund accounts for revenues and expenditures for the implementation, administration, and enforcement of Metro’s Solid Waste Management Plan. The primary revenue source is from fees collected for the disposal of solid waste. This fund also accounts for the operation of the Metro South and Metro Central transfer stations and recycling facilities, and the closed St. Johns Landfill.

**Metropolitan Exposition Recreation Commission Fund**

This fund accounts for the revenues and expenditures of the Metropolitan Exposition Recreation Commission (MERC), which includes the Oregon Convention Center, Portland Center for the Performing Arts and the Portland Expo Center. The fund maintains the facilities and administration as divisions within the fund but is appropriated at the following levels: total operating expenditure including capital outlay for all venues, debt service, transfers and contingency. Principal sources of revenues are user fees and charges, food service revenues and hotel/motel tax.

**SPECIAL REVENUE FUNDS****Smith and Bybee Wetlands Fund**

This fund accounts for the implementation of the Smith and Bybee Lakes management plan, managed by Metro’s Parks and Environmental Services. A natural Resources Plan for Smith and Bybee Lakes was adopted by the City of Portland and Metro in December 1990. Primary resources are grants and interest.

**General Asset Management Fund**

This fund accounts for major non-bond funded capital acquisition and construction projects undertaken by General Fund assets of Metro as well as provides for the ongoing and future renewal and replacement needs of Metro’s assets acquired by the General Fund. Included are projects for regional parks and facilities and the Oregon Zoo as well as significant capital expenditures for other non-enterprise related Metro activities. In addition, this fund accounts for designated funds transferred from Multnomah County as of January 1, 1994. The funds are restricted for the construction of a nature center. Major capital project revenue sources include, but are not limited to, grants, donations, contributions from the General Fund and other

revenues and contributions identified for capital purpose. Primary sources of revenue for renewal and replacement are annual scheduled contributions from the General Fund and interest earnings. Expenditures are made in accordance with a 25-year renewal and replacement schedule reviewed and updated on a regular basis, with physical inventory and evaluation at least once every five years. In the CAFR, this fund is consolidated as part of the General Fund to be in compliance with GAAP.

#### **General Revenue Bond Fund**

General revenue bonds and other financing proceeds are accounted for in this fund. To date this fund has been used for construction of the Metro Regional Center, the Washington Park parking lot renovation, contribution to TriMet for the zoo light rail station and for the construction of the Expo Center Hall D replacement. This fund also accounts for the payments on outstanding debt associated with these projects. The principal sources of revenue are charges to organizational units for debt service, interest earnings and loan proceeds. In the CAFR, this fund is segregated and then combined with another applicable fund for proper GAAP classification within the General Fund (zoo and building management), and an enterprise fund (MERC) on a GAAP basis.

#### **Rehabilitation and Enhancement Fund**

This fund accounts for funds received and expenditures for rehabilitation and enhancement of the area in and around the solid waste transfer facilities and St. Johns Landfill. Primary resources are rehabilitation and enhancement fees and interest. Expenditures are for planning and implementation of rehabilitation and enhancement programs in the area.

### **CAPITAL PROJECTS FUNDS**

#### **Open Spaces Fund**

This fund accounts for the bond proceeds and expenditures related to the Open Spaces, Parks and Streams general obligation bonds approved by the voters in 1995. Primary sources of revenue include interest earnings on the bond proceeds and public and private contributions toward the acquisition program. Expenditures are governed by the bond measure and are related to the acquisition of land and the establishment of trails.

#### **Natural Areas Fund**

This fund accounts for the bond proceeds and expenditures related to the Natural Areas general obligation bonds approved by the voters in 2006. Primary sources of revenues include bond proceeds, interest earnings on the bond proceeds and public and private contributions toward the acquisition program. Expenditures are governed by the bond measure and are related to the acquisition of land and the preservation of natural areas.

#### **Oregon Zoo Infrastructure and Animal Welfare Bond Fund**

This fund accounts for bond proceeds and expenditures related to the Oregon Zoo general obligation bonds approved by the voters in 2008. Primary sources of revenue include bond proceeds and interest earnings on the bonds. Expenditures are governed by the bond measure and are related to design and construction of capital projects for infrastructure and animal welfare at the Oregon Zoo.

## **INTERNAL SERVICE FUNDS**

### **Risk Management Fund**

This fund accounts for insured, self insured and risk management activities performed for the organizational units within Metro. The fund purchases property and liability insurance and maintains reserves for self insured deductible expenses. Workers' compensation costs are also a combination of purchased and self insurance. In addition, the fund accounts for unemployment insurance. Primary revenues are charges to user funds and interest. Primary expenditures are insurance premiums, claims costs and actuarial evaluations.

## **DEBT SERVICE FUND**

### **General Obligation Bond Debt Service Fund**

This fund accounts for payments of general obligation bond principal and interest to bond holders. The principal source of revenue is property taxes.

## **PERMANENT FUND**

### **Metro Pioneer Cemetery Perpetual Care Fund**

This fund was created in 2003 to provide financial support for the long-term maintenance of the Metro Pioneer Cemeteries after the cemeteries are no longer receiving revenue from grave sales and burial services. The fund will receive revenue from a 15 percent surcharge on grave sales, the maximum allowed under state law. It is anticipated that no expenditures will be made from this fund until grave sites are exhausted at the cemeteries.

BEFORE THE METRO COUNCIL

FOR THE PURPOSE OF REVIEWING and ) RESOLUTION NO. 11-4275  
READOPTING COMPREHENSIVE FINANCIAL )  
POLICIES FOR METRO AND DIRECTING ) Introduced by Dan Cooper, Acting Chief  
THEM TO BE PUBLISHED IN THE FY 2011-12 ) Operating Office in concurrence with  
ADOPTED BUDGET ) Council President Hughes

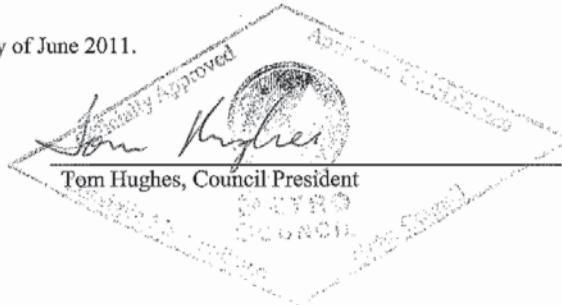
WHEREAS, Metro recognizes the important of comprehensive financial policies to provide a framework for the overall fiscal management of the agency; and

WHEREAS the comprehensive financial policies as first approved by the Metro Council in 2004 and most recently amended and readopted in June 2010 provide as a general principal "Metro's financial policies" shall be reviewed annually by the Council and shall be published in the adopted budget; and

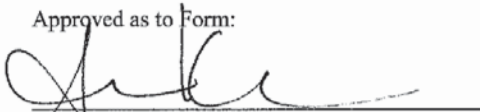
Whereas the Metro Council has reviewed the current policies; now therefore

BE IT RESOLVED that the Metro Council readopts the comprehensive financial policies as shown in Exhibit A of this resolution, entitled "Metro Financial Policies;" and directs that said policies be published in the FY 2011-12 Adopted Budget.

ADOPTED by the Metro Council this 23rd day of June 2011.



Approved as to Form:

  
Alison Kean Campbell, Acting Metro Attorney

In 2004 the Metro Council enacted Resolution No. 04-3465, “adopting comprehensive financial policies for Metro.”

Each year as part of the annual budget adoption process the Metro Council reviews the financial policies which 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. 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 June 2010 the Metro Council took action to amend Metro’s Comprehensive Financial Policies to incorporate the GASB Statement No. 54 principles and to re-approve the policies. These changes are reflected in Budget and Financial Planning, section 2.

These financial 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.
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 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.
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.

The following policies establish the framework for Metro's overall capital asset

# Capital Asset Management Policies

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 and Replacement Reserve account for each operating fund responsible for major capital assets.

Ensuring that the public receives the maximum benefit for its investments in major facilities and equipment requires an ongoing financial commitment. A Renewal and 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.

4. Capital improvement projects are defined as facility or equipment purchases or construction which results in a capitalized asset costing more than \$100,000 and having a useful (depreciable life) of five years or more. Also included are major maintenance projects of \$100,000 or more that have a useful life of at least five years.<sup>1</sup>

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

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<sup>1</sup> Effective July 1, 2009, capital asset threshold was increased from \$50,000 to \$100,000 in accordance with Metro Resolution 08-3941A. This reflected a State of Oregon definition of a public improvement project.

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 and 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 and Replacement Reserve account should be evaluated and adjusted to reflect the greater of the average renewal and replacement project needs over the coming five years or 2 percent 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 and 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.

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 and 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.

Note: the Capital Asset Management Policies were readopted by the Metro Council on June 17, 2010, and incorporated into the financial policies by reference.