



LANE COUNTY


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W. 7. b.

AGENDA COVER MEMORANDUM

AGENDA DATE: May 31, 2006

PRESENTED TO: Board of County Commissioners

PRESENTED BY:  Dave Garnick, Budget/Financial Planning Manager

AGENDA TITLE: **IN THE MATTER OF AMENDING CHAPTER 4 OF THE LANE MANUAL TO REVISE AND ENHANCE FINANCIAL AND BUDGET MANAGEMENT POLICIES (LM 4.005-4.011)**

I. MOTION

MOVE APPROVAL OF THE ORDER AMENDING THE FINANCIAL AND BUDGET MANAGEMENT POLICIES IN THE LANE MANUAL.

II. ISSUE

Should the County adopt revised financial and budget management policies to clarify operational and budgeting practices and enhance the County's ability to maintain a favorable bond rating?

III. DISCUSSION

A. Background

As a result of the "negative outlook" issued by the County's rating agency upon the most recent bond sale, financial and management policies were reviewed and changes were recommended.

The proposed changes were presented to the Finance and Audit Committee on December 6, 2005. After Finance and Audit approval, the changes were presented to and discussed at Leadership Team. County personnel have incorporated the revised policies into the FY 06-07 budget process.

B. Analysis

The specific changes to the policies are detailed below:

1. A comprehensive reserve policy for the General Fund that includes guidelines for both appropriate use of the reserve and rebuilding of the reserve.
2. A documented “lapse” policy to maintain the integrity of the financial planning models, provide accountability and maintain reserve levels.
3. Existing financial management policies have been reworded and grouped by topic to strengthen certain policies and provide wording that is more consistent with the strategic plan.

C. Alternatives/Options

1. Amend Lane Manual to revise and enhance the financial and budget management policies.
2. Leave existing policy language in place

D. Recommendation

Approve Option 1.

IV. IMPLEMENTATION/FOLLOW-UP

Following Board action, the revised policies will be incorporated into future budgeting and financial operational practices.

V. ATTACHMENT

Board Order

IN THE BOARD OF COUNTY COMMISSIONERS OF LANE COUNTY, OREGON

ORDER NO.

IN THE MATTER OF AMENDING CHAPTER 4 OF
THE LANE MANUAL TO REVISE AND ENHANCE
FINANCIAL AND BUDGET MANAGEMENT POLI-
CIES (LM 4.005 through 4.011)

The Board of County Commissioners of Lane County orders as follows:

Lane Manual Chapter 4 is hereby amended by deleting, substituting, and adding the following section:

DELETE THIS SECTION

4.005 through 4.010
as located on pages 4-1 through 4-2
(a total of 2 pages)

INSERT THIS SECTION

4.005 through 4.011
as located on pages 4-1 through 4-4
(a total of 4 pages)

Said section is attached hereto and incorporated herein by reference. The purpose of this substitution and addition is to revise and enhance financial and budget management policies (LM 4.005 through 4.011).

Adopted this _____ day of _____ 2006.

Chair, Lane County Board of Commissioners

APPROVED AS TO FORM

Date 5/18/06 Lane County


OFFICE OF LEGAL COUNSEL

Chapter 4

MANAGEMENT POLICIES

FINANCIAL AND BUDGET MANAGEMENT

4.005 Purpose.

The purpose of these policies is to provide guidance to the departments in the prudent management of the financial affairs of Lane County. The following financial and budget policies are adopted in support of the County's strategic goals, to ensure stability in service delivery, and to promote the efficient use of public funds. *(Revised by Order No. 84-12-19-9; Effective 12.19.84)*

4.010 Policies.

Departments will use the following policies in administering their budgets, developing long-range goals and plans, and dealing with the public and other governments.

(1) Budget and Management Policies:

Goal: To provide an accountable form of government to the citizens of Lane County.

(a) The County budget will provide information concerning program service delivery and will integrate performance measures and productivity indicators, where possible.

(b) The County budget will provide for an appropriate balance between the operating and capital portions of the budget to insure that equipment and facility maintenance and replacement are adequately funded and occur in a timely cost-effective manner.

(c) Long-range financial plans and revenues and expenditure estimates will be developed in order to contribute to financial and program stability.

(d) The County will endeavor to prepare and publish a comprehensive annual disclosure of its financial affairs in a format intelligible to the interested public, with the goal of obtaining the Certificate of Excellence in Financial Reporting (issued by the Governmental Finance Officers Association).

(e) The County will manage its separate funds in a manner that insures that one fund does not improperly subsidize another fund.

(2) Revenue Policies:

Goal: To develop and maintain balanced sources of revenue sufficient to meet the ongoing financial commitments of Lane County.

(a) To the extent feasible, one-time revenues will be used for one-time capital expenditures or projects and will not be used for recurring operating purposes.

(b) Prior to initiating new projects, whether service programs, grants, or capital improvement projects, financial impact analyses will be completed and considered. The analysis will identify the short term and long-range effects of such programs on the County along with any commitment for additional County resources.

(c) The County will strive to diversity revenues and develop controllable revenue sources in order to maintain services during times of economic downturn.

(d) Charges for services will be set by the Board of Commissioners and based on an analysis of who benefits from the service, amounts charged by other agencies for similar services, the actual direct and indirect cost of providing the services, and statutory limits. It is the general policy that fees will be set to recover the cost of providing the service.

(e) Fees and charges for internal service funds will be set at a cost recovery level. For replacement reserves, the charges will be established at a level to fund the replacement over the expected useful life of the equipment. Internal service charges will be reviewed annually for appropriateness.

(f) The County may sell or lease services that were developed to meet a County need, but the sale or lease will be secondary to the purpose of meeting the identified need.

(3) Reserve Policies:

Goal: To maintain adequate reserves to provide a cushion against unforeseen events and economic downturns, thus providing for stability in planning and service delivery, and to maintain a reserve level sufficient to maintain a favorable bond rating.

(a) The County will establish reserve funds that can be used to reduce the impact of revenue fluctuations and provide for more stable delivery of services to Lane County citizens.

(b) The County will strive to maintain a minimum of a 5% Prudent Person Reserve for all funds except the General Fund. The reserve in each fund will be reviewed annually during the budget process by the designated fund manager and associated committee.

(c) The County will establish operational reserves within the General Fund and strive to maintain a reserve balance of at least 10% of General Fund operating revenues. Refer to General Fund Reserve Policy at LM 4.011 below.

(d) The County will establish and budget adequate contingency reserves for all operating funds to meet unanticipated requirements during the budget year.

(4) Expenditure Control Cost Recovery Policies:

Goal: To delivery maximum services in a cost effective and efficient manner.

(a) The County will increase efforts to review programs effectiveness to insure maximum return from extremely limited resources. One major effort will be an expanded performance audit capability.

(b) Contracting for services with outside agencies/vendors will be considered when cost efficient and consistent with County labor policies.

(c) Intergovernmental services agreements shall be encouraged wherever services used by several departments can be more effectively provided on a collective basis. Service billings to user agencies will be sufficient to fully recover costs of operation, including depreciation of equipment, direct and indirect costs.

(d) Department expenditures shall not exceed appropriations, and expenditures of discretionary General Fund dollars will not exceed the amount approved in the department budget, except upon written authorization by the Board of Commissioners.

(e) The County will charge the allowable indirect to all departments and funds in the most equitable manner possible and will recover the allowable indirect from all grants, contracts and intergovernmental agreements. Any exceptions will be made only upon Board approval.

(f) It is County policy to fully expend all grant, contract, and other program generated revenues (e.g. fees, reimbursements) prior to expending county funds unless otherwise directed by specific grant or contract requirements.

(g) Any services or programs that are largely or wholly supported by time-limited grant or contract funds will be considered to automatically sunset at the expiration of the grantor contract

(5) Lapse Policy:

Goal: To maintain the integrity of financial planning models, provide accountability, and maintain reserve levels.

(a) Each department utilizing General Fund resources is expected to lapse 2% of net General Fund use. The lapse generally results from expenditures less than the total appropriated amount. However, revenues in excess of the budgeted amount can be used to offset expenditures for the net lapse calculation.

(b) If a department fails to meet the 2% lapse target by more than \$5,000, the department is expected to repay the shortfall to the General Fund within one year. At year-end, an interfund loan will be executed to cover the shortfall, which is subject to approval by the Board of Commissioners for approval. (Refer to Lane Manual 4.034-4.040).

(c) Under extraordinary circumstances, the Board of Commissioners may waive the lapse expectation for one or more departments. (*Revised by Order No. 02-1-30-1; Effective 1.30.02*)

4.011 General Fund Reserve Policy

Lane County will establish adequate reserves to provide a cushion against unforeseen events and economic downturns. Adequate reserves provide for stability in planning and service delivery and assist the County in maintaining a favorable bond rating. The County will establish operational reserves within the General Fund and strive to maintain a reserve balance of at least 10% of General Fund operating revenues. The General Fund operational reserve will have two components:

(1) Emergency Reserve.

(a) The first 5% reserve will be designated by the Board as emergency reserve. The emergency reserve is available to fund one-time or non-recurring emergency, unanticipated expenditure requirements. Emergency examples include disaster relief, expenditures related to essential services, or expenditures that are related to public life and safety issues. Use of the reserve requires a Board order.

(b) Restoration of the emergency reserve will begin the fiscal year following use and will be the first priority for any "lapse" or carryover resources. During budget development, consideration will be given to authorizing appropriations at 98% of available resources in an effort to rebuild the 5% reserve in the earliest prudent timeframe.

(2) Economic Stabilization Reserve.

(a) The second 5% reserve will be designated by the Board as an economic stabilization reserve. The economic stabilization reserve is available to reduce the impact of revenue fluctuations and drops in revenue growth due to economic downturns. The reserve can be used to continue high priority services that could not otherwise be funded by current revenues.

(b) Use of the stabilization reserve can be approved through the annual budget process, or by Board order. The Budget Committee and Board should consider trends such as:

- (i) Revenue growth below 2.5% annually
- (ii) Unemployment rate in excess of 7%

(c) When the General Fund reserve falls below 10% as a result of use of the economic stabilization reserve, or as a result of failure to meet carryover targets, the Board will endeavor to restore the reserve as soon as possible to maintain the fiscal integrity of the County and maintain a favorable bond rating.

(d) Restoration of the reserve will be targeted within two fiscal years, and the restoration plan will be included in the County Financial Plan and adopted budget. The restoration plan should give consideration to measures such as:

- (i) Increasing the “lapse” expectation by reducing appropriated expenditures.
- (ii) Appropriating a minimum of 1% of operating revenues annually to the reserve.
- (iii) Temporary reductions in assessments to other funds, to be redirected to rebuilding the reserve.
- (e) Both components of the targeted General Fund reserve are considered as “operational reserve” (Account 992920) and require appropriation through the Supplemental Budget process before expenditures can be made.

INVESTMENT POLICIES

4.015 Purpose.

The purpose of these policies is to provide direction to the Director of Management Services in the investment of surplus cash in all funds, including moneys held in a fiduciary capacity. *(Revised by Order No. 94-6-28-7, Effective 6.28.94; 04-12-8-4, 12.8.04)*

4.020 Policies.

The following are the policies to be used by the Director of Management Services in administering the investment program.

- (1) Investment practices shall be in accord with all applicable state and federal statutes and regulations. Investments shall be made in accordance with such statutes and regulations, including but not limited to, ORS chapters 294 and 295 as applicable.
- (2) Maturity of such investments will be made to coincide as nearly as practical with the expected use of the funds and may not exceed three (3) years or statutory requirements, unless matched to a specific cash flow and approved by the Board of Commissioners.
- (3) Investment of County funds shall be made only upon the authorization of the Director of Management Services or designee.

Chapter 4

MANAGEMENT POLICIES

~~Chapter 4~~ FINANCIAL AND BUDGET MANAGEMENT POLICIES

4.005 Purpose.

The purpose of these policies is to provide guidance to the departments in the prudent management of the financial affairs of Lane County. ~~The following financial and budget policies are adopted in support of the County's strategic goals, to ensure stability in service delivery, and to promote the efficient use of public funds. (Revised by Order No. 84-12-19-9; Effective 12.19.84)~~

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Departments will use the following policies

The following are the policies to be used by departments in administering their budgets, developing long-range goals and plans, and dealing with the public and other governments.

(1) Budget and Management Policies:

Goal: To provide an accountable form of government to the citizens of Lane County.

(a) The County budget will provide information concerning program service delivery and will integrate performance measures and productivity indicators, where possible.

(b) The County budget will provide for an appropriate balance between the operating and capital portions of the budget to insure that equipment and facility maintenance and replacement are adequately funded and occur in a timely cost-effective manner.

(c)

~~(2) Before new capital projects, new service programs, and grant programs are initiated, financial impact reports which identify the short and long range effect on the County will be prepared and considered.~~

~~(3) Long-range financial plans and revenues and expenditure estimates will be developed in order to which will contribute to financial and program stability.~~

(d)

~~(4) The County budget will provide information concerning program service delivery and will integrate performance measurement and productivity indicators, where possible.~~

~~(5) Any County debt will be eliminated by the most cost effective and equitable means.~~

~~(6) County revenue sources should be developed which can be controlled by the County and which reduce the impact of fluctuations in major revenue sources.~~

~~(7) Lane County will establish reserve funds which can be used to reduce the impact of substantial revenue fluctuations, thus providing for a more stable delivery of services to Lane County citizens.~~

~~(8) County fee and charge amounts will be set by the Board of County Commissioners and based on an analysis of who benefits the amounts charged by other agencies for the same services, the indirect and direct costs of providing the services and the statutory limits.~~

~~(9) Normally, the County may sell or lease services which were developed to meet a County need, but such sales or leases will be the secondary purpose of the development effort.~~

~~_____ (10) Adequate contingency funds will be identified in every operating fund within the County budget to meet unanticipated requirements during the budget year.~~

~~_____ (11) The County's cash management program will seek to minimize the overall cost of cash management banking services while maximizing the rate of return on all cash investments, consistent with safety and liquidity requirements of state law.~~

~~_____ (12) Nonrecurring revenue will normally not be used for operating purposes but will be used for one-time capital expenditures or project.~~

~~_____ (13) Contracting for services will be considered when cost effective and consistent with labor policies.~~

~~_____ (14) LaneThe County will endeavor to prepare and publish a comprehensive annual disclosure of its financial affairs in a format intelligible to the interested public, with the goal of obtaining the Certificate of ~~Conformance~~ Excellence in Financial Reporting (issued by ~~of~~ the Governmental Finance Officers Association, the highest form of recognition in the field of governmental financial reporting.~~

~~(15) (e) LaneThe County will manage its separate funds in a manner that to insures that one fund does not improperly subsidize another fund.~~

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~~(21) (f) It is County policy to fully expend all grant, contract, and other program generated revenues (e.g. fees, reimbursements) prior to expending county funds unless otherwise directed by specific grant or contract requirements.~~

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(c) Under extraordinary circumstances, the Board of Commissioners may waive the lapse expectation for one or more departments. ~~Exceptions will only be made on the basis of departments finding alternative funding or doing service shifting within their budgets. (Revised by Order No. 02-1-30-1; Effective 1.30.02)~~

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