

FINANCIAL POLICIES

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.

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.

Goals of Metro’s financial policies

1. Institutionalize good financial management practices that align with strategic objectives of the Agency.
2. Establish guidelines around public management best practices and leverage resources for the best public good.
3. Promote the Agency’s commitment to accountability, transparency and internal controls.
4. Define clearly the policies and procedures that the Agency must follow and provide boundaries where staff can execute Agency work with innovation, efficiency and effectiveness.
5. Manage risks of the Agency, whereas the Agency does not take excessive risks in the pursuit of public goals.
6. Ensure that the Agency complies with all applicable state and federal laws and regulations concerning financial management and reporting, budgeting, and debt administration.

General policy oversight

1. Metro’s financial policies shall be reviewed annually by the Council and shall be published alongside the adopted budget.
2. Metro shall prepare its annual budget and Annual Comprehensive 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.

ACCOUNTING AND FINANCIAL REPORTING

Accounting and financial reporting

1. Metro shall annually prepare and publish an Annual Comprehensive Financial Report (ACFR) 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.

Cash management and investments

1. Metro shall maintain an investment policy, 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.

Revenues and grants

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.
5. Metro will administer federal awards subject to Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance) in accordance with those standards, as applicable.

Debt management

1. Metro shall issue long-term debt 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. As required by its continuing disclosure undertakings and Section 8 herein, and consistent with SEC Rule 15c2-12, as amended from time to time, 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, Metro's access to credit is preserved and Metro has ample future flexibility to adjust its debt portfolio as needed to support operational goals.
6. Equipment and vehicles should be financed using the least costly method, including comparison to direct cash expenditure. This applies to purchases using leases, bank financing, company financing or any other purchase programs. In evaluating such comparisons, Metro shall assume the opportunity cost for the use of its cash is the 90-day Treasury yield at the time of such analysis.
7. Metro may borrow money by issuing and selling general obligation (GO) bonds to fund projects it is legally authorized to provide, but only if approved by voters at a properly called election. The total amount of these bonds may not exceed 10 percent of the real market value of all taxable property in the district, as calculated under ORS 268.520. Metro will repay the bonds to the holder of the bond, including interest at a rate set at issuance, with interest paid according to the terms of the bond. The bonds will be repaid in scheduled installments and must be fully paid off within 30 years from the date they are issued.
8. This Post Issuance Compliance (PIC) section sets forth specific policies of Metro designed to (a) monitor post issuance compliance of tax-exempt qualified obligations (the "Obligations") issued by Metro with applicable provisions of the Internal Revenue Code of 1986, as amended (the "Code"), and regulations promulgated there under (the "Treasury Regulations") and (b) comply with continuing disclosure undertaking executed by Metro (the "Undertakings") in connection with a primary offering of municipal securities (including Obligations and federally taxable bonds, collectively, "Bonds") that are subject to Securities and Exchange Commission Rule 15c2-12, as amended from time to time ("Rule 15c2-12").

The section documents existing practices and describes various procedures and systems designed

to identify, on a timely basis, facts relevant to demonstrating compliance with the requirements that must be satisfied subsequent to the issuance of Bonds such that (a) the interest on such Obligations continue to be excludable from gross income for federal income tax purposes, and (b) Metro complies with its contractual obligations set forth in the Undertakings. Metro recognizes that compliance with applicable provisions of the Code and Treasury Regulations with respect to Obligations and Undertakings with respect to Bonds, is an on-going process, necessary during the entire term of the Bonds, and is an integral component of Metro's financial policies. Accordingly, the analysis of those facts and implementation of the policies will require ongoing monitoring and consultation with bond counsel.

The Chief Financial Officer in the Finance and Regulatory Services department approves the terms and structure of Bonds executed by Metro. Such Bonds are issued in accordance with the provisions of Oregon Revised Statutes, the Metro charter, and if issued as tax-exempt, also issued in accordance with the Code. Specific post issuance compliance procedures address the relevant areas described below. The following list is not intended to be exhaustive, and further areas may be identified from time to time by Finance staff in consultation with bond counsel.

- a. **General policies and procedures:** The following relates to procedures and systems for monitoring post issuance compliance generally. Staff may adjust procedures for non-tax advantaged Bonds as applicable.
 - i. The Chief Financial Officer (the "CFO") shall identify an appropriate staff member or members to be responsible for monitoring post issuance compliance issues (the "Staff Designee"). The CFO shall be responsible for ensuring an adequate succession plan for transferring post issuance compliance responsibility when changes in staff occur.
 - ii. The Staff Designee will coordinate procedures for record retention and review of such records.
 - iii. The Staff Designee will review post issuance compliance procedures and systems on a periodic basis, but not less than annually.
 - iv. Ongoing training shall be made available to the Staff Designee (generally, not less frequently than annually) to support such individual's understanding of the tax requirements applicable to the Obligations.
 - v. Electronic media will be the preferred method for storage of all documents and other records maintained by Finance and Regulatory Services. In maintaining such electronic storage, the Staff Designee will comply with applicable Internal Revenue Service (the "IRS") requirements, such as those contained in Revenue Procedure 97-22.
- b. **Issuance of Bonds and creation of files:** The following policies relate to specific issue of Obligations/Bonds.
 - i. The Staff Designee will obtain and store a closing binder or other electronic copy of the relevant and customary transaction documents including:
 1. Intent Resolution.
 2. Bond transcript.
 3. Final Written Allocation and/or all available accounting records related to the financed facilities showing expenditures allocated to bond proceeds and expenditures (if any) allocated to other sources of funds, including information regarding including, but not limited to, whether such facilities are land, buildings or equipment, economic life calculations and information regarding depreciation.
 - a. Records, including purpose, type, payee, amount, and date, of all expenditures of bond proceeds.

4. All rebate and yield reduction payment calculations performed by a rebate analyst and all investment records provided to the rebate analyst for purposes of preparing the calculation.
 5. Forms 8038-T together with proof of filing and payment of rebate.
 6. Investment agreement bid documents (unless included in the bond transcript) including:
 - a. Bid solicitation, bid responses, certificate of broker;
 - b. Written summary of reasons for deviations from the terms of the solicitation that are incorporated into the investment agreement; and
 - c. Copies of the investment agreement and any amendments.
 - d. Records, including dates and amounts, of investment income on bond proceeds.
 7. Any item required to be maintained by the terms of the tax compliance agreement involving the use of the financed facilities or expenditures related to tax compliance for the bonds.
 8. Any opinion of bond counsel regarding the bonds not included in the bond transcript.
 9. Amendments, modifications, or substitute agreements to any agreement contained in the bond transcript.
 10. Any correspondence with the IRS relating to the bonds, including all correspondence relating to an audit by the IRS of the bonds or any proceedings under the IRS's Voluntary Closing Agreement Program (VCAP).
 11. For refunding bond issues, the Bond File for the refunded bonds.
 12. Evidence of completion of compliance documentation (including checklists) as described in Section 8.8 herein.
 13. Evidence of periodic training of the Staff Designee.
 14. Evidence of tracking of private use and private payment, if any.
 15. Evidence of continuing disclosure filings pursuant to any Undertaking (as defined herein) and consistent with SEC Rule 15c2-12.
- c. The following policies relate to the monitoring and calculating of **arbitrage and compliance with specific arbitrage rules and regulations**. The Staff Designee will:
- i. Coordinate the tracking of expenditures, including the expenditure of any investment earnings, with other applicable Finance staff.
 - ii. Obtain a computation of the yield on each issue from Metro's outside arbitrage rebate specialist and maintain a system for tracking investment earnings.
 - iii. Maintain a procedure for the allocation of proceeds of the issue and investment earnings to expenditures, including the reimbursement of reissuance expenditures.
 - iv. Coordinate with Finance staff to monitor compliance by departments with the applicable "temporary period" (as defined in the Code and Treasury Regulations) exceptions for the expenditure of proceeds of the issue and provide for yield restriction on the investment of such proceeds if such exceptions are not satisfied.
 - v. Ensure that investments acquired with proceeds of such issue are purchased at fair market value. In determining whether an investment is purchased at fair market value,

any applicable Treasury Regulation safe harbor may be used.

- vi. Coordinate to avoid formal or informal creation of funds reasonably expected to be used to pay debt service on such issue without determining in advance whether such funds must be invested at a restricted yield.
 - vii. Consult with bond counsel prior to engaging in any post-issuance credit enhancement transactions.
 - viii. Identify situations in which compliance with applicable yield restrictions depends upon later investments and monitor implementation of any such restrictions.
 - ix. Monitor compliance with six-month, 18month or 2-year spending exceptions to the rebate requirement, as applicable.
 - x. Arrange for timely computation of any rebate or yield reduction payment liability by Metro's outside arbitrage rebate specialist and, if rebate is due, file a Form 8038T and arrange for payment of such rebate liability.
- d. The following polices relate to the monitoring and tracking of **private use and private payments** with respect to the facilities financed with the Obligations. The Staff Designee will:
- i. Coordinate with staff to maintain records determining and tracking facilities financed with specific Obligations and in what amounts.
 - ii. Coordinate with applicable staff to maintain records, which should be consistent with those used for arbitrage purposes, to allocate the proceeds of an issue and investment earnings to expenditures, including the reimbursement of pre-issuance expenditures.
 - iii. Coordinate with applicable staff to maintain records allocating to a project financed with Obligations any funds from other sources that will be used for otherwise non-qualifying costs.
 - iv. Coordinate with Finance staff to monitor the expenditure of proceeds of an issue and investment earnings for qualifying costs.
 - v. Coordinate with applicable staff to monitor private use of financed facilities to ensure compliance with applicable percentage limitations on such use.
- e. The following policies relate to compliance with rules and regulations regarding the **reissuance of Obligations for federal law purposes**. The Staff Designee will:
- i. Identify and consult with bond counsel regarding any post-issuance changes or modifications to any terms of an issue of Obligations to determine whether such changes could be treated as a reissuance for federal tax purposes.
 - ii. Confirm with bond counsel whether any "remedial action" taken in connection with a "change in use" (as such terms are defined in the Code and Treasury Regulations) would be treated as a reissuance for tax purposes and, if so, confirm the filing of any new Form 8038G.
- f. The following polices relate to **retention of records** relating to the Bonds issued. The Staff Designee will:
- i. Coordinate with staff regarding the records to be maintained by Metro to establish and ensure that an issue remains in compliance with applicable federal tax requirements for the life of such issue.
 - ii. Coordinate with staff to comply with provisions imposing specific recordkeeping requirements and cause compliance with such provisions, where applicable.
 - iii. Coordinate with staff to generally maintain the following:
 - 1. Basic records relating to the transaction (e.g., any non-arbitrage

- certificate, net revenue estimates and the bond counsel opinion);
2. Documentation evidencing expenditure of proceeds of the issue;
 3. Documentation regarding the types of facilities financed with the proceeds of an issue, including, but not limited to, whether such facilities are land, buildings or equipment, economic life calculations and information regarding depreciation.
 4. Documentation evidencing use of financed property by public and private entities (e.g., copies of management contracts and research agreements);
 5. Documentation evidencing all sources of payment or security for the issue; and
 6. Documentation pertaining to any investment of proceeds of the issue (including the purchase and sale of securities, SLGs subscriptions, yield calculations for each class of investments, actual investment income received by the investment of proceeds, guaranteed investment contracts, and rebate calculations).
- iv. Coordinate the retention of all records in a manner that ensures their complete access to the IRS. While this is typically accomplished through the maintenance of hard copies, records may be kept in electronic format so long as applicable requirements, such as Revenue Procedure 97-22, are satisfied.
 - v. Electronic media will be the preferred method for storage of all documents and other records maintained by Finance and Regulatory Services. In maintaining such electronic storage, the Staff Designee will comply with applicable Internal Revenue Service (the "IRS") requirements, such as those contained in Revenue Procedure 9722.
 - vi. Keep all material records for so long as the issue is outstanding (including any refunding), plus five years.
- g. The following policies related to the issuance of each specific issue of Bonds that is required by **SEC Rule 15c2-12 to include an Undertaking**. The Staff Designee will:
- i. Review the Undertaking to determine if new or additional information is required to be filed, compared with Metro's existing Undertakings.
 - ii. Update the master spreadsheet of disclosure requirements to reflect additional changes.
 - iii. At least twice a year (at budget preparation and during audit), review the various Undertakings' requirements to ensure they have been met. The first review is internal only. The second review is always with the Financial Auditors.
 - iv. The Controller, responsible for the ACFR, will coordinate with the Financial Planning Director to ensure the filing requirements are met, particularly if any changes are proposed for supplemental materials included in the ACFR.
 - v. During this time, the Controller will review the filing requirements under all Undertakings and begin collecting information that is not presented in the ACFR or budget.
 - vi. Once the ACFR is presented to and approved by the Metro Council, it is posted on EMMA, which in no case will be later than the filing deadlines under all Undertakings.
 - vii. The annual budget is adopted no later than June 30th each fiscal year.
 - viii. The budget document is posted on EMMA soon after it is filed with the TSCC and counties by August 31st of each year and no later than the filing deadlines under all Undertakings.

- ix. Supplementary information not presented in the ACFR or budget is posted on EMMA with the posting of the ACFR or budget, but in no case later than the filing deadlines under the applicable Undertakings.
 - x. If a Material Event (as defined by SEC Rule 15c2-12, as amended from time to time) happens, the Staff Designee will cause the appropriate notices to be filed within 10 business days of the event.
- h. The following policies relate to each issuance of Bonds on and after February 27, 2019 that is required by SEC Rule 15c2-12 to include an Undertaking. Metro is obligated to disclose, within 10 business days after the occurrence of the following events:
- i. Incurrence of a financial obligation, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation of the obligated person, any of which affect security holders, if material.
 - ii. Default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a financial obligation of the obligated person, any of which reflect financial difficulties.
 - iii. To ensure Metro's compliance with any disclosure obligations arising as a result of the occurrence of these events, the Staff Designee will:
 - 1. Review the incurrence of any Metro "financial obligation" and any agreement of Metro to covenants, events of default, remedies, priority rights, or similar terms of a financial obligations, to determine whether it might be material and, therefore, subject to disclosure on EMMA.
 - a. The term "financial obligation" is defined by Rule 15c2-12 and in Metro's Undertakings to have the following meaning: "financial obligation" means a: debt obligation; derivative instrument entered into in connection with, or pledged as security or source of payment for, an existing or planned debt obligation; or a guaranty of such debt obligations or derivatives.
 - b. Under Rule 15c2-12 and in Metro's Undertakings, the term "financial obligation" does not include Bonds as to which a final official statement has been provided to the Municipal Securities Rulemaking Board (e.g., filed on EMMA) consistent with Rule 15c2-12.
 - c. Examples of "financial obligations" include debt or debt-like obligations, such as loan agreements, bank direct purchases, lease-purchase agreements, letters of credit and lines of credit.
 - d. "Derivative instruments" include swaps, futures contracts, forward contracts, options, or similar instruments related to an existing or planned debt obligation. For the purposes of this section, derivatives do not include fuel hedges, energy hedges or other similar instruments not related to debt obligations. Leases that are not vehicles to borrow money (real estate leases, office equipment leases, etc.) are *not* financial obligations.
 - e. To determine the materiality of a financial obligation, the Staff Designee, in consultation with Metro Counsel and Bond Counsel, as needed, will assess the obligation considering Metro's operations and debt structure. An event is "material" under federal securities laws if a reasonable investor would consider it important in making an investment decision.
 - f. Materiality is affected by a variety of factors, including the size of a financial obligation compared to Metro's overall balance sheet and debt

outstanding, the security for repayment pledged to the financial obligation (versus that pledged to bondholders), the financial obligation's seniority position versus Metro bonds, covenants, and remedies to the lender in the event of a default. Generally, if information about a financial obligation would be included in an Official Statement for Metro Bonds, it would be material for purposes of filing a material event notice on EMMA.

2. Review any default, acceleration, termination, modification, or similar event reflecting financial difficulties on a financial obligation, regardless of when Metro entered into the financial obligation, to determine whether such event is material.
 3. Make an EMMA filing disclosing the existence of a material financial obligation, a material agreement to terms of a financial obligation, or a default, acceleration, termination, modification, or similar event reflecting financial difficulties on a financial obligation, each within 10 business days of its "incurrence." For the purposes of this section, "incurrence" means the date on which the financial obligation becomes enforceable against Metro or on which the default, acceleration, termination, modification, or similar event occurs. Any filing disclosing the existence of a material financial obligation will include a summary of the key terms of such financial obligation (which may be satisfied by filing pertinent financing documents, subject to any redactions of information requested by Metro's lender)
- i. The following policies relate to each issuance of Obligations/Bonds and the periodic post-issuance compliance review. The Staff Designee will:
 - i. Review and document the amount of existing private use or private payment on a periodic basis, but not less than annually, and consult with bond counsel as to any possible private use of or private payment on financed facilities that could cause an issue to exceed the limitations on private use/private payment; and
 - ii. Identify, review and document in advance any new sale, lease or license, management contract, sponsored research arrangement, or other arrangement involving private use of financed facilities and for obtaining copies of any sale agreement, lease, license, management contract, research arrangement or other arrangement for review by bond counsel.
 - iii. Consult with bond counsel to remedy any change in use or excess private use/private payment through an appropriate "remedial action" (described in section 1.141-12 of the Treasury Regulations) or the Voluntary Closing Agreement Program (VCAP) described in IRS Notice 2008-31 (or successor guidance).
 - iv. Review, assess and document that other periodic requirements (continuing disclosure obligations, arbitrage rebate review, etc.) have been completed.
 - v. In connection with preparation of the Annual Comprehensive Financial Report and filing of annual financial information required to be filed on EMMA pursuant to Metro's Undertakings, review debt and debt-like agreements that may qualify as "financial obligations" (as defined herein) in connection with required event filings under Metro's Undertakings entered into on and after February 27, 2019.
 - vi. The Staff Designee may use a standardized checklist to guide its review and documentation as required in this Section.

FINANCIAL AND BUDGET POLICIES

General Budget Compliance with Best Practices, Law Regulations and Agency Expectations

1. As prescribed in Oregon budget law, total resources shall equal total requirements in each fund, including contingencies and fund balances.

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 narrower than the overall purpose of the fund established by Council.
 - 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. 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 the Office of the Chief Operating Officer at least quarterly on how they compare 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.

Budget Development

Central Budget Office (CBO) annually will update two sets of budget instructions for the Agency that address technical requirements and system processes, Oregon budget law compliance and leadership direction. They will be issued to the Agency in the fall of each year separately. These instructions provide policy and process guidance for:

1. Five-year forecast for each major operating fund and bond fund.
2. Base budget revenues, expenditures, capital outlay, transfers, personnel costs and fund balance/contingencies.
3. The five-year Capital Improvement Plan responsibilities (This is also addressed in a later section of the policy document).
4. Requirements for requests on budget changes and needs.

5. Specific department and fund requirements (if necessary).
6. Budget deliverable expectations and deadlines.
7. Agency-wide budget objectives that are new, updated and/or emphasized.

Reserve Requirements for General Fund and all major Operating and Capital funds

Annual Finance staff update the fund balance reserve policy annually in the spring, after the proposed budget has been submitted to the CBO. This policy is organized first for the general fund and then by external departmental funds. One exception is the Planning, Development and Research Department, who uses a sub-fund in the General Fund. General Fund reserve policy includes all the sub-funds.

This policy addresses:

1. Operational purpose of the fund.
2. Fund risks and other considerations.
3. Funding of the reserves.
4. Reserve targets.
5. Annual assessment of the reserve target.
6. Replenishment and maintenance of reserves.
7. Current forecast reserve balances.

After the year-end close of the fiscal year, the Budget Director reviews audited ending fund balances and checks them against forecasted assumptions. The policy is then completed and cataloged.

Financial Capital Planning, Resources and Reporting (see Capital Asset Management in a later section)

The management of capital needs, financial resources, reporting and maintenance responsibilities are spread across the Agency and require coordination, communication and transparency. This policy is specific to the financial management of capital budgeting, capital planning and establishment of resources to pay for both new capital and large-scale repair and maintenance work. This work falls on the financial staff, in coordination with department staff, creating financial plans that are adopted through the budget process, reporting to the right stakeholders and mitigating financial risks to the funds and the department. The following is managed by Finance:

1. Per Capital Asset Management Policy, Metro shall prepare, adopt, and update at least annually a five-year Capital Improvement Plan (CIP). Finance staff will help develop this plan by providing resource information in making decisions on what the department and/or fund can afford based on reserve policies. Finance staff will prepare the budget documents for the CBO for budget and CIP adoption and amendments during the year.
2. All capital projects over \$100,000 must be approved as part of the annual budget process. Project requests must comply with any other applicable Metro program or process requirements.
 - a. This includes large scale capital maintenance projects for repair and maintenance for alterations, ordinary and routine repair, or effort necessary to preserve or repair an asset due to normal wear and tear so that it achieves its initial planned useful life. While not capitalized for GAAP purposes, significant capital maintenance projects (those with costs equal to or greater than \$100,000) must be included in the CIP and obtain Council authorization.
 - b. The Capital Asset Management policy allows departments to update their CIP at any point during the fiscal year. For regulatory budgetary purposes, any project that has an *increase* of 20% if under \$1,000,000 or 10% if over \$1,000,000 in the current year's first year of the adopted CIP must be amended and adopted by Council. Finance staff must work with departments and the Construction Project Management Office to get this information to the CBO for one of the three annual pre-planned budget supplementals.
 - c. 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.

- d. The Council's previously adopted policies governing capital asset management are incorporated by reference into these policies.

3. Reporting
4. Long-term fiscal planning
5. Reserve considerations – bond covenants, resource designations, etc.

Solid Waste Fund Policies

1. The solid waste fee structure should not negatively impact Metro's credit rating.
2. Metro should ensure that it has the legal ability to implement and enforce the solid waste fee structure; or, if such authority is not already held, evaluate the relative difficulty of obtaining the authority.
3. Solid waste fees should be sufficient to generate revenues that fund the full cost of the solid waste system and provide fund balance reserves that are necessary for fee stabilization, policy compliance, and unexpected disruptions.
4. Metro will maintain separate fund balance reserves for transfer station operations and Regional System Fee-funded activities.
 - a. Uses of transfer station operations and Regional System Fee fund balance reserves will be restricted to uses within the same sub-fund. Any exceptions to this will require Council approval.

CAPITAL ASSET MANAGEMENT POLICIES

Managed by Capital Asset Management Department

Section 1: Purpose

1. The Capital Asset Management 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. Metro's 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.
2. The capital asset planning process applies to projects of \$100,000 or more and having a useful life of at least five years. These projects include capital maintenance tasks that increase the life of the asset on assets with values of \$100,000 or more. In addition, the planning process includes information technology items over \$100,000 that may have a useful life of less than five years.
3. Metro's Capital Asset Management Policy shall be governed by the following principles:
 - a. 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.
 - b. Metro shall prepare, adopt, and update at least annually a five-year Capital Improvement Plan (CIP). The CIP will identify and set priorities for all major capital assets to be acquired or constructed by Metro.
 - c. Metro shall establish a Renewal and Replacement Reserve account for each operating fund responsible for major capital assets. Renewal and Replacement includes any activity that serves to extend the useful life or increase the efficiency of an existing asset, while retaining its original use. Ensuring that the public receives the maximum benefit for its investments in major facilities and equipment requires an ongoing financial commitment.
 - d. Capital and renewal and replacement projects shall support Metro's equity in contracting procurement goals, including the Subcontractor Equity Program and Construction Career Pathway Program.
 - e. 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. Debt financing should be utilized only for new projects or complete replacement of major capital assets.
 - f. Capital and renewal and replacement projects should support implementation of Metro's Sustainability Plan and built in accordance with Metro's Sustainable Building and Sites Policy.
 - g. Projects shall be analyzed considering environmental, regulatory, economic, historical, and cultural perspectives, as well as the capacity of the infrastructure and the availability of resources for ongoing maintenance needs.
 - h. All approved capital projects shall be consistent with relevant goals and strategic plans as adopted by departments, the Metropolitan Exposition-Recreation Commission ("MERC"), or the Metro Council.
 - i. A financial feasibility analysis shall be performed before any capital project, regardless of cost, is submitted to the Metro Council, MERC Commission, Chief Operating Officer, or General Manager of Visitor Venues for approval as part of the annual CIP process.

- j. In the capital project planning and review process, the Metro Council, MERC Commission, Chief Operating Officer, and General Manager shall be guided by the following financing principles:
 - i. Funds shall be expended only on capital projects that meet identified strategic priorities.
 - ii. Funds shall be expended only on new projects that have identified maintenance and lifecycle replacement costs.
 - iii. Funds shall be expended only on projects for which a funding source for operational requirements has been identified.
 - iv. Metro's Adopted Budget should include undesignated contingency funds to permit MERC and other departments with capital project responsibilities to respond to unexpected events or opportunities.

Section 2: Definitions

1. *Capital Improvement Plan – (CIP)* A five-year plan that lays out capital improvement projects, including construction of new capital assets and asset upgrades and maintenance, detailing the location, schedule, and budget and financing for each project.
2. *Capital asset* – An item permanent in nature with future service capacity and used in operations, having an initial useful life of over one year, tangible or intangible, and held for purposes other than investment or resale with a cost (or fair market value if donated) equal to or greater than the capitalization threshold established for the asset category included later in this policy.
3. *Capital maintenance* – Expenditures for repair and maintenance services not provided directly by Metro personnel. These costs are relatively minor alterations, ordinary and routine repair, or effort necessary to preserve or repair an asset due to normal wear and tear so that it achieves its initial planned useful life. While not capitalized, significant capital maintenance projects (those with costs equal to or greater than \$100,000) must be included in the CIP and obtain Council authorization.
4. *Total project cost* – the total cost of direct planning, design, and construction of a capital project, inclusive of contingency.
5. *Total cost accounting* – An analysis that includes the total initial acquisition cost of an asset as well as all operating costs for the expected useful life of the asset.
6. *Renewal and replacement* – Construction, reconstruction, or major renovation on capital assets. Renewal and replacement does not include relatively minor alteration, ordinary repair or maintenance necessary to preserve or repair an asset.
7. *Return on investment (ROI)* – A calculation of the financial gains or benefits that can be expected from a project. ROI is represented as a ratio of the expected financial gains (benefits) of a project divided by its total costs.

Section 3: New Capital Projects

1. All new capital projects over \$100,000 must be approved as part of the annual budget process. New project requests must comply with any other applicable Metro program or process requirements, including all Construction Project Management Office requirements and Metro's Sustainable Buildings and Sites Policy.
2. New projects over \$100,000 identified during the fiscal year require approval as detailed in the financial policies above and:
 - a. The project must be approved by the Metro Council and added to the CIP.
 - b. For Capital projects with a total anticipated cost of less than \$100,000 at the MERC venues, the General Manager of Visitor Venues may approve the project if sufficient budgetary authority is available; MERC venue projects of \$100,000 or more also require approval by the MERC Commission.

3. Emergency capital projects may be approved as follows:
 - a. The Chief Operating Officer or their designee may approve capital projects with a total anticipated cost of \$50,000 or more.
 - b. The MERC Commission delegates to the General Manager or their designee the authority to approve capital projects with a total anticipated cost of \$100,000 or more.
 - c. In the event an emergency capital project is approved, that approval shall be reported as follows:
 - i. The Chief Operating Officer shall report the approval to the Metro Council.
 - ii. The General Manager shall report the approval to the MERC Commission at the next regular Commission Meeting.

Section 4: Renewal and Replacement

1. The intent of Renewal and Replacement reserves is to ensure that sufficient resources are available for capital maintenance or replacement so that Metro's capital assets meet or exceed their estimated useful life. The Renewal and Replacement Reserve for each operating fund with major capital assets should initially be established based on the value of the asset and consideration of known best asset management practices.
2. General Guidelines – Renewal and replacement reserves and projects should be managed according to the following guidelines:
 - a. Renewal and replacement reserves are not intended to fund major capital assets such as building replacements or significant structural upgrades.
 - b. Renewal and replacement reserves are not intended to fund routine maintenance activities. Routine maintenance should be included in facility operating budgets. If routine maintenance costs for an asset are increasing, renewal and replacement projects may be moved forward in the schedule if the project can be shown to reduce operating and/or maintenance costs.
 - c. Facility managers should perform regular facility assessments to review renewal and replacement schedules, the basis of which shall be determined by the Capital Asset Management Director.
 - d. All renewal and replacement projects should incorporate sustainability features that support Metro's sustainability goals, support adopted policies such as the Sustainable Buildings and Sites Policy and Sustainable Procurement Policy and be evaluated on a total cost accounting basis relative to less sustainable options.
 - e. New assets created as a result of capital projects should be formally documented upon entry into service in the Asset Management system of record with asset life and asset lifecycle replacement costs, condition, and criticality.
 - f. For General Fund assets, the renewal and replacement reserves should be managed to ensure sufficient funding is available to complete all projects for the next 10 years. Enterprise fund renewal and replacement accounts should be managed to ensure that annual contributions are sufficient to fund renewal and replacement projects on an ongoing basis.
3. Budget Process – During the annual budget process, Department Directors shall submit a list of proposed renewal and replacement projects as part of the annual budget process as outlined in the CIP development procedures.
4. Renewal and replacement projects shall be included in aggregate in the Capital Improvement Plan for the Proposed Budget for Council Review.

Section 5: Capital Improvement Plan (CIP)

1. Metro will 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 CIP includes all Capital and Renewal and Replacement projects with a budget of \$100,000 or more.
2. The CIP will undergo the following process for development, approval, and adoption of capital projects:
 - a. Each department shall prepare a five-year CIP in collaboration with their Capital Project Oversight Committee (CPOC).
 - b. The CIP shall be reviewed by Finance to ensure financial feasibility and receive approval from the CPOC and department director prior to its submission to Capital Asset Management (CAM).
 - c. All submitted CIP project scopes, schedules, and budgets will be reviewed and preliminarily approved by the CAM director.
 - d. Once the preliminary CIP is approved, it shall be provided to the CIP Executive Committee for review and submission as part of the requested budget.
 - e. Metro Council shall review and approve the CIP as part of Metro's annual budget process.
3. Changes to the five-year CIP outside of the annual budget process must be adopted by the Council through the budget amendment process (as described earlier under Capital Financial Planning Section 2.b) and submitted for review and final approval by the CAM Director. Updates to the CIP are required by CAM under the following circumstances:
 - a. New projects (over \$100,000) that are identified during the fiscal year must be approved by the Metro Council and added to the five-year CIP;
 - b. Total Project Cost (TPC) increases more than 20% above the original project budget if the original budget amount is less than or equal to \$1,000,000, or 10% if the original budget amount is greater than \$1,000,000, regardless of whether it exceeds the budget amendment threshold of \$100,000 within a single fiscal year.

Section 6: Reporting

1. Capital project budget and actual reporting and status reports shall be provided as follows:
 - a. The Chief Operating Officer, or designee, shall receive a capital project status report quarterly.
 - b. The General Manager shall report to the MERC Commission quarterly.
 - c. Metro Council shall receive a report.