

## **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. In 2009 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.
7. The Council's previously-adopted policies governing debt management (resolution 16-4689) are incorporated by reference into these policies.

## **Revenues**

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

## **CAPITAL ASSET MANAGEMENT POLICIES**

### **Section 1: Purpose**

- 1.1 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 an improvement in bond ratings and to a lower cost of capital.
- 1.2 The capital asset planning process applies to projects of \$50,000 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 \$50,000 or more. In addition, the planning process includes information technology items over \$50,000 that may have a useful life of less than five years.
- 1.3 Metro's Capital Asset Management Policy shall be governed by the following principles:
  - 1.3.1 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.
  - 1.3.2 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.
  - 1.3.3 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.

- 1.3.4 Capital and renewal and replacement projects shall support Metro's MWESB procurement goals, including the Sheltered Market and FOTA program and the goals of Metro's Diversity Action Plan.
- 1.3.5 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.
- 1.3.6 Capital and renewal and replacement projects should support implementation of Metro's Sustainability Plan.
- 1.3.7 Projects shall be analyzed in light of environmental, regulatory, economic, historical and cultural perspectives, as well as the capacity of the infrastructure and the availability of resources for ongoing maintenance needs.
- 1.3.8 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.
- 1.3.9 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. The financial feasibility analysis shall include an analysis of the financial impact on the operating fund balance, return on investment, the availability and feasibility of funding sources, and cost estimates for the capital project. The analysis shall also identify the financial impact of the following requirements:
  - 1.3.9.1 Any public art funding requirements imposed by the Metro Code, the facility's owner, or any other applicable law;
  - 1.3.9.2 All required licenses, permits, certificates, design approval documents, and similar documents required by any authority; and
  - 1.3.9.3 Any contractual or legal requirements that apply to the proposed capital project.
- 1.3.10 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:
  - 1.3.10.1 Funds shall be expended only on capital projects that meet identified strategic priorities.
  - 1.3.10.2 Funds shall be expended only on capital projects for which an analysis of funding options has been conducted. This analysis shall include evaluation of all funding options (donations, revenue generation by the project, intrafund transfers, proposed borrowing), and an analysis of the capital project's strategic priority, useful life, revenue sources, and repayment options.
  - 1.3.10.3 Funds shall be expended only on new projects that include identified and protected funding sources for a renewal and replacement reserve to ensure that the value of the capital asset can be maintained.
  - 1.3.10.4 Funds shall be expended only on projects for which a funding source for operational requirements has been identified.
  - 1.3.10.5 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**

- 2.1 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.

2.2 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 \$50,000) must be included in the CIP and obtain Council authorization.

2.3 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.

2.4 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.

2.5 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**

3.1 All new capital projects over \$50,000 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 Green Building Policy.

3.2 New projects over \$50,000 identified during the course of the fiscal year require approval as follows:

3.2.1 If the project does not require additional budgetary authority, the project may be approved by the Chief Operating Officer, or their designee.

3.2.2 If the project requires additional budgetary authority, the project must be approved by the Metro Council.

3.2.3 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.

3.2.4 Any capital project at the MERC venues with a total anticipated cost of \$100,000 or more also requires approval by the MERC Commission.

3.3 Emergency capital projects may be approved as follows:

3.3.1 The Chief Operating Office or their designee may approve capital projects with a total anticipated cost of \$50,000 or more.

3.3.2 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.

3.3.3 In the event an emergency capital project is approved, that approval shall be reported as follows:

3.3.3.1 The Chief Operating Officer shall report the approval to the Metro Council.

3.3.3.2 The General Manager shall report the approval to the MERC Commission at the next regular Commission Meeting.

### **Section 4: Renewal and Replacement**

4.1 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.

4.2 General Guidelines – Renewal and replacement reserves and projects should be managed according to the following guidelines:

- 4.2.1 Renewal and replacement reserves are not intended to fund major capital assets such as building replacements or significant structural upgrades.
- 4.2.2 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.
- 4.2.3 Facility managers should perform annual facility assessments to review renewal and replacement schedules.
- 4.2.4 All renewal and replacement projects should incorporate sustainability features that support Metro's sustainability goals, support adopted policies such as the Green Building Policy and Sustainable Procurement Policy and be evaluated on a total cost accounting basis relative to less sustainable options.
- 4.2.5 New capital projects should be added to renewal and replacement lists upon completion. Asset replacement costs shall initially be based on original asset costs. In future revisions, replacement costs shall be based on acquiring a new asset of equal utility. Increased sustainability features such as efficiency improvements or design changes (e.g. green roof vs. traditional roof design) are not increases in asset utility. Increased estimated replacement costs based on new or improved sustainability features shall be considered in the budget process.
- 4.2.6 On an annual basis, the Finance and Regulatory Services Director shall determine the minimum asset value for projects to be included in renewal and replacement reserves.
- 4.2.7 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.

4.3 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. The renewal and replacement project lists shall include:

- 4.3.1 Cost estimates for all renewal and replacement projects (including projects carried forward from the prior year) that can be reasonably expected to be completed in the following fiscal year.
- 4.3.2 Cost estimates for design and/or engineering work necessary to develop the scope and cost of construction project estimates for future renewal and replacement projects.
- 4.3.3 Any projects with cost estimates above previous replacement cost estimates based on the inclusion of sustainability features in the project design that increase the initial cost of the project.

4.4 Renewal and replacement projects shall be included in aggregate in the Capital Improvement Plan for the Proposed Budget for Council Review.

4.5 Capital Asset Advisory Committee

- 4.5.1 The Capital Asset Advisory Committee is responsible for providing recommendations to the Director of Finance and Regulatory Services and the Financial Planning Division on the ongoing management of the renewal and replacement reserves for each major fund. The Advisory Committee shall be composed of the following positions (or Designee):

- Capital Budget Coordinator, Finance and Regulatory Services (Chair)

- Finance Manager, Oregon Zoo
- Finance Manager, MERC Venues
- Finance Manager, Parks and Environmental Services (PES)/Sustainability Center
- Program Director, Parks and Property Stewardship (PES)
- Program Director, Solid Waste Operations (PES)
- Program Director, Natural Areas Program (Sustainability Center)
- Deputy Director, Oregon Zoo Operations
- cPMO Manager, Agency Construction Projects
- Director, Information Services Department

4.5.2 The Committee's responsibilities shall include:

- 4.5.2.1 Reviewing project lists, changes to project lists and requests for unfunded sustainability improvements to existing projects not already approved by a Budget Committee or other formal advisory group.
- 4.5.2.2 Providing a recommended renewal and replacement list to the Finance and Regulatory Services Director for inclusion in the Proposed Budget.
- 4.5.2.3 Providing an annual recommendation to the Finance and Regulatory Services Director for the minimum asset value for the following year.
- 4.5.2.4 Reviewing the Capital Asset Management Policies annually.

## **Section 5: Capital Improvement Plan (CIP)**

- 5.1 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.
- 5.2 Updates to the CIP may be made at any point during the fiscal year. Updates are required under the following circumstances:
- 5.2.1 New projects (over \$100,000) that are identified during the fiscal year and need to be initiated prior to the next fiscal year.
  - 5.2.2 Actual or anticipated expenses for projects included in the current year adopted budget increase 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.
  - 5.2.3 Actual or anticipated expenses for projects included in the current year adopted budget require an increase in budget appropriation, regardless of the amount of increase above the original project budget.

## **Section 6: Sustainability**

- 6.1 All project proposals for new capital projects and renewal and replacement projects shall describe how the project supports Metro's Sustainability Plan in its efforts to reduce the environmental impact of Metro operations. When assessing capital or renewal and replacement projects for funding or prioritization, the following sustainability criteria should be applied:
- 6.1.1 Use total cost of ownership to create project budget projections that consider the costs of operating the asset for its entire useful life, not just the initial costs.

- 6.1.2 Utilize the prioritization criteria in Metro's Sustainability Plan:
  - 6.1.2.1 Strong impacts on Metro's sustainability goals (greenhouse gas emissions, toxics, waste, water quality and habitat).
  - 6.1.2.2 Provide a strong foundation for future sustainable operations work.
  - 6.1.2.3 Leverage other investments (internal or external).
  - 6.1.2.4 Present a strong return on investment (ROI).
  - 6.1.2.5 Reduce operations and maintenance costs over time.
  - 6.1.2.6 Provide strong public visibility and/or public education opportunity.
  - 6.1.2.7 Support the region's economy.
- 6.1.3 Support the requirements and preferred qualifications of Metro's Green Building and Sustainable Procurement administrative procedures.
- 6.1.4 Prioritize projects that, through their implementation, support Metro's MWESB procurement goals, including the Sheltered Market and FOTA programs and related goals of Metro's Diversity Action Plan.
- 6.1.5 Consider economic benefits or return on investment (i.e. simple payback) on projects that have a financial benefit to Metro over the life of the investment.
- 6.2 Capital and renewal and replacement projects should be incorporated into the site-specific work plans developed for each facility that indicate how the Sustainability Plan will be implemented.

## **Section 7: Reporting**

- 7.1 Capital project budget and actual reporting and status reports shall be provided as follows:
  - 7.1.1 Departments shall report to the Chief Operating Officer or designee quarterly.
  - 7.1.2 The General Manager shall report to the MERC Commission quarterly.
  - 7.1.3 The Director of Finance and Regulatory Services shall report to the Metro Council twice annually.