

## 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 to meet the goal of maintaining financial stability. The following financial and budget policies are adopted in support of the County's Strategic Plan, to ensure stability in service delivery and promote the efficient use of public funds. *(Revised by Order No. 84-12-19-9; Effective 12.19.84; 06-5-31-1, 5.31.06; 18-05-01-06, 5.1.18)*

##### **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:

(a) The County's annual budget will be structurally balanced throughout the fiscal year with recurring expenditures at or below the level of recurring revenues. If structural imbalance occurs in any Fund, a plan will be developed and implemented to restore structural balance.

(b) The County budget will provide for an appropriate balance between operating and equipment/capital portions of the budget to ensure that equipment and facility maintenance and replacement are adequately funded and are appropriate when compared to service levels.

(c) Long-range financial plans, including financial forecasts of revenues and expenditure estimates will be completed for all operating funds to ensure financial and service stability.

(d) Allocation of funds from discretionary general fund revenue will be re-established annually, after considering other revenue sources available to fund services, the level and appropriateness of expenditures, and the consideration of all mandated and critical County services.

(e) Financial reports detailing budget expenditure status and relevant economic and financial information will be presented to the Board of Commissioners no less than bi-annually.

(f) The County will prepare and publish its Adopted Budget document in accordance with local budget law and with the goal of obtaining the Distinguished Budget Presentation Award issued by the Governmental Finance Officers Association.

(g) The County will prepare and publish a Comprehensive Annual Financial Report in accordance with state law, the principles of the Governmental Accounting Standards Board, and the Generally Accepted Accounting Principles, with the goal of obtaining the Certificate of Achievement in Excellence in Financial Reporting issued by the Government Finance Officers Association.

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

(2) Revenue Policies:

(a) One-time revenues will be used for one-time expenditures or projects and will not be used for recurring operating purposes unless specifically approved by the Board of Commissioners through the budget process.

(b) Prior to initiation of new projects, services, 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 new initiation on the County, including any commitment for additional County resources.

(c) The County will strive to diversify revenues and to develop sustainable revenue sources in order to maintain services during economic downturns and/or fluctuations of any existing revenue source.

(d) Charges for service will be reviewed annually and set by the Board of Commissioners upon recommendation from the County's Finance & Audit Committee. Analysis will take into account beneficiaries of the service, amounts charged by other agencies for similar services, the actual direct and indirect cost of providing the services, and statutory limits. Generally fees will be set to recover the cost of providing the service.

(e) 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 original purpose for developing the service.

(3) Expenditure Control Cost Recovery Policies:

(a) Personnel expenditure budgeting will take into account anticipated vacancy rates.

(b) Contracting for services provided by outside agencies or vendors will be considered when contracting out is both cost effective and consistent with County employee policies.

(c) Intergovernmental agreements to provide, receive, or cooperate in the provision of service delivery will be encouraged wherever services can be more effectively provided on a collective basis. Billing for services provided to user agencies will be sufficient to fully recover costs of operation, including depreciation of equipment, direct and indirect costs.

(d) Department expenditures may not exceed appropriations, and expenditure of discretionary general fund may not exceed the amount allocated to the department.

(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 will charge the allowable indirect cost allocation to all departments and funds in the most equitable manner possible and will recover the allowable indirect cost allocation from all grants, contracts and intergovernmental agreements. Exceptions will be made only upon Board approval. Indirect cost revenues, except for depreciation and use allowance revenues, are to be received into the General Fund to pay for the cost of central services provided. Depreciation and use revenues are to be received into the Capital Improvement Fund and assigned to general capital improvement projects as approved by the Board.

(g) All grant, contract, and other service generated revenues (e.g. fees, reimbursements) are considered fully expended prior to expending other County funds unless otherwise directed by specific grant or contract requirements.

(h) 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.

(i) General funds will not be moved to another fund for future carryover, except for approved equipment replacement payments as set by budget direction during the annual budget process or in a supplemental budget transfer appropriation.

(4) Reserve Policies:

(a) General Fund. Lane County will establish and strive to maintain a minimum 20% reserve of anticipated operating revenues, to ensure adequate cash flow, a strong standing with bond rating agencies, and protection of service levels to the community in the event of unforeseen events, revenue volatility, or economic downturns. This reserve is in addition to contingency amounts. The reserve will have two components:

(i) Emergency Reserve.

(1) Purpose. The first 17% of the reserve will be designated an emergency reserve and will be maintained to ensure adequate cash flow and a strong bond rating.

(2) Conditions for Use. The emergency reserve will be available for appropriation ordered by the Board for expenditure necessary to respond to a threat of public health or safety that involves one or more of the following: a severe revenue shortage threatening critical services; an involuntary conversion or destruction of Lane County property, a civil disturbance, a natural disaster, or other public calamity.

(ii) Service Stabilization Reserve.

(1) Purpose. The additional reserve beyond the emergency reserve amount will be designated a service stabilization reserve, which will provide the potential to achieve or maintain a very strong bond rating.

(2) Funding. Priority will be given to fund this component of the reserve when the County receives one-time discretionary general fund revenue or excess year-end lapse funds resulting from lower-than-budgeted expenditures.

(3) Conditions for Use. The reserve will be available for appropriation to reduce the impact of revenue fluctuations and drops in revenue growth due to economic downturns when continuation of existing service levels to the community are threatened. The following trends will guide the use of the service stabilization reserve.

(A) Overall General Fund operating revenue growth below 2.5% annually;

(B) Current Year Property Tax revenue growth below 2.5% annually;

(C) Local housing prices more than 10% below any time in prior 24 months;

(D) The Year-over-year Eugene/Springfield MSA unemployment rate more than two percentage points higher than any time in the prior 12 months, or an overall unemployment rate in excess of 7%.

(iii) Replacement of Reserve. In the event the total reserve falls below the 20% minimum amount, replenishment will begin as soon as feasible, preferably within the fiscal year following use, with full replenishment occurring within five fiscal years.

(iv) Additional Reserves. In the event the total reserve exceeds 25% of operating revenues, within a specific Board of Commissioner plan to do so, the Budget Officer will provide recommendation to the Board on the reserve. If a recommendation for expenditure is presented, priority will be given to one-time expenditures that result in future operating cost reductions or prepayment of debt obligations.

(b) Road Fund. Lane County will establish and strive to maintain a minimum 40% reserve based of anticipated operating revenues, to ensure adequate cash flow, protection of service levels to the community in the event of unforeseen events, revenue volatility or economic downturns and maintain Road Fund assets. This reserve is in addition to contingency amounts. The reserve will have three components:

(i) Emergency Reserve.

(1) Purpose. The first 17% of the reserve will be designated an emergency reserve and will be maintained to ensure cash flow.

(2) Conditions for Use. The emergency reserve will be available for appropriations ordered by the Board for expenditures necessary to respond to a threat to public health or safety that involves one or more of the following: a severe revenue shortage threatening critical services, an involuntary conversion or destruction of Lane County Road Fund assets, or an unexpected asset failure.

(ii) Catastrophic Reserve.

(1) Purpose. The next 15% of the reserve will be designated as a catastrophic road fund reserve. It will provide the ability to prepare and complete repairs to a road fund asset failure due to an extreme event.

(2) Conditions for Use. The catastrophic reserve will be available for appropriations ordered by the Board for expenditures necessary to respond to a Lane County Road Fund asset failure that involves one or more of the following: an involuntary conversion or destruction of Road Fund assets, a civil disturbance, a natural disaster, or other public calamity.

(iii) Service and Asset Stabilization Reserve.

(1) Purpose. The additional reserve beyond the emergency and catastrophic reserves will be designated as a service and asset stabilization reserve.

(2) Funding. Priority will be given to fund this component of the reserve when the County receives one-time discretionary road fund revenue or excess year-end funds resulting from lower-than-budgeted expenditures within road fund budgets.

(3) Use.

(A) The reserve will be available for appropriation to reduce the impact of revenue fluctuations and drops in revenue growth due to economic downturns when continuation of existing service levels to the community is threatened.

(B) The reserve will be available for appropriation to provide resources for a Lane County Road Fund asset capital improvement, preservation or construction.

(C) The following trends will guide the use of the service and asset stabilization reserve:

(a-a) Overall Road Fund operating revenue growth below 2.5% annually;

(a-b) State Highway Allocation revenue growth below 2.5% annually;

(a-c) Local housing prices more than 10% below any time in the prior 24 months;

(a-d) The Year-over-year Eugene/Springfield MSA unemployment rate more than two percentage points higher than any time in the prior 12 months, or an overall unemployment rate in excess of 7%.

(4) Replenishment of Reserves. In the event the total reserve falls below the 40% minimum amount, replenishment will begin as soon as feasible, preferably within the fiscal year following use and not later than within five years.

(5) Additional Reserves. In the event the total reserve exceeds 45% of operating revenues, without a specific Board of Commissioners plan to do so, the Budget Officer will provide recommendation to the Board on the reserve. If a recommendation for expenditure is presented, priority will be given to one-time expenditures that result in future operating cost reductions or preservation of road fund assets.

(c) Other Funds

(i) Debt Service Funds and other Funds used to process pass through payments to other entities are excluded from reserve requirements.

(ii) For all other Funds, reserve levels will be established specific to the funding source, service type and assets owned. The recommended level will be verified and reviewed for adequacy through the annual budget process.

(5) Governmental Fund Balance Policies:

To enhance the usefulness and consistency of governmental fund balance information, the following terms will be used to classify governmental fund balances:

(a) Non-spendable. Includes constrained amounts that cannot be spent such as inventories, prepaid expenditures, long-term loans and notes receivable, permanent contributions, and property held for resale.

(b) Restricted. Includes constrained amounts whose restrictions are either 1) externally imposed by creditors, grantors, contributors, or laws/regulations, or 2) internally imposed by law through constitutional provisions or enabling legislation. Enabling legislation authorizes the County to assess, levy, charge, or mandate payment of resources from outside the government, and includes a legally enforceable requirement that those resources be used only for specific purposes. All Lane County Board Ordinances/Resolutions and legislation in the Lane County Home Rule Charter and the Lane Code are considered enabling legislation. Legally enforceable means Lane County can be compelled by those outside the government to use those resources for the purposes specified in the legislation.

(c) Committed. Includes constrained amounts that can be used only for specific purposes imposed by the Lane County Board of Commissioners. Commitments can only be reversed by taking the same action employed to commit the amounts (e.g., board order). The difference between Restricted and Committed is that committed resources can be redeployed for other purposes with appropriate due process. Compliance with the commitment is not legally enforceable by those outside the government. All Lane County Board Orders and legislation in the Lane Manual are considered Committed.