



Financial & Budget Policies Investment Policy

**Presented to the
Board of County Commissioners**

Multnomah County
May 28, 2024

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AGENDA

- What Are Policies and Why Do We Have Them?
 - *“Policies are Principles, Rules, and Guidelines Adopted by the Legislative Body to Reach Long-Term Goals”*
 - Effective policies preserve or enhance the fiscal health of government
 - Follow Best Practices in Financial Management
- Review Current Financial & Budget Policies
 - No New Policy Proposals
 - Internal Service Fund – policy clarified
 - Other revisions are mostly cosmetic (e.g. fiscal year updates)
- Overview of Investment Policy
- Other Financial Management Tools
 - Internal/External Audits
 - Accounting Standards
 - Administrative Procedures



POLICIES REFLECT BOARD DIRECTION

- Policy Goals
 - Preserve Capital Through Prudent Budgeting and Financial Management
 - Most Productive Use of Funds to Meet Goals Established by Board
 - Achieve Stable Balance Between Ongoing Commitments and Revenues
 - Leverage Local Funds w/ Federal and State Funds
 - Support Government Accountability
 - Board intends to comply with federal/state requirements, GAAP, and GASB
- Subject to Annual Review
 - Update Board on Status of Compliance w/ Adopted Policies
- 17 Policy Statements, Developed and Refined Over Time
 - Annual Review to Report on Status, Identify Changes
 - Recommend New Policy Statements When Desired or Necessary



POLICIES REFLECT BEST PRACTICES

- Policies Follow GFOA Best Practices

- Tailored to Suit Needs of the Organization
 - Promote stability and continuity
 - Provide Strategic Intent
 - Define limits
 - Manage financial risk
 - Support good bond ratings
- Framework Organized Around 4 Principles of Budget Process
 - Establish Broad Goals to Guide Decision Making
 - Develop Approaches to Achieve Goals

- Develop a Budget Consistent w/ Those Approaches
- Evaluate Performance and Adjust When Necessary

- Features of Effective Policies

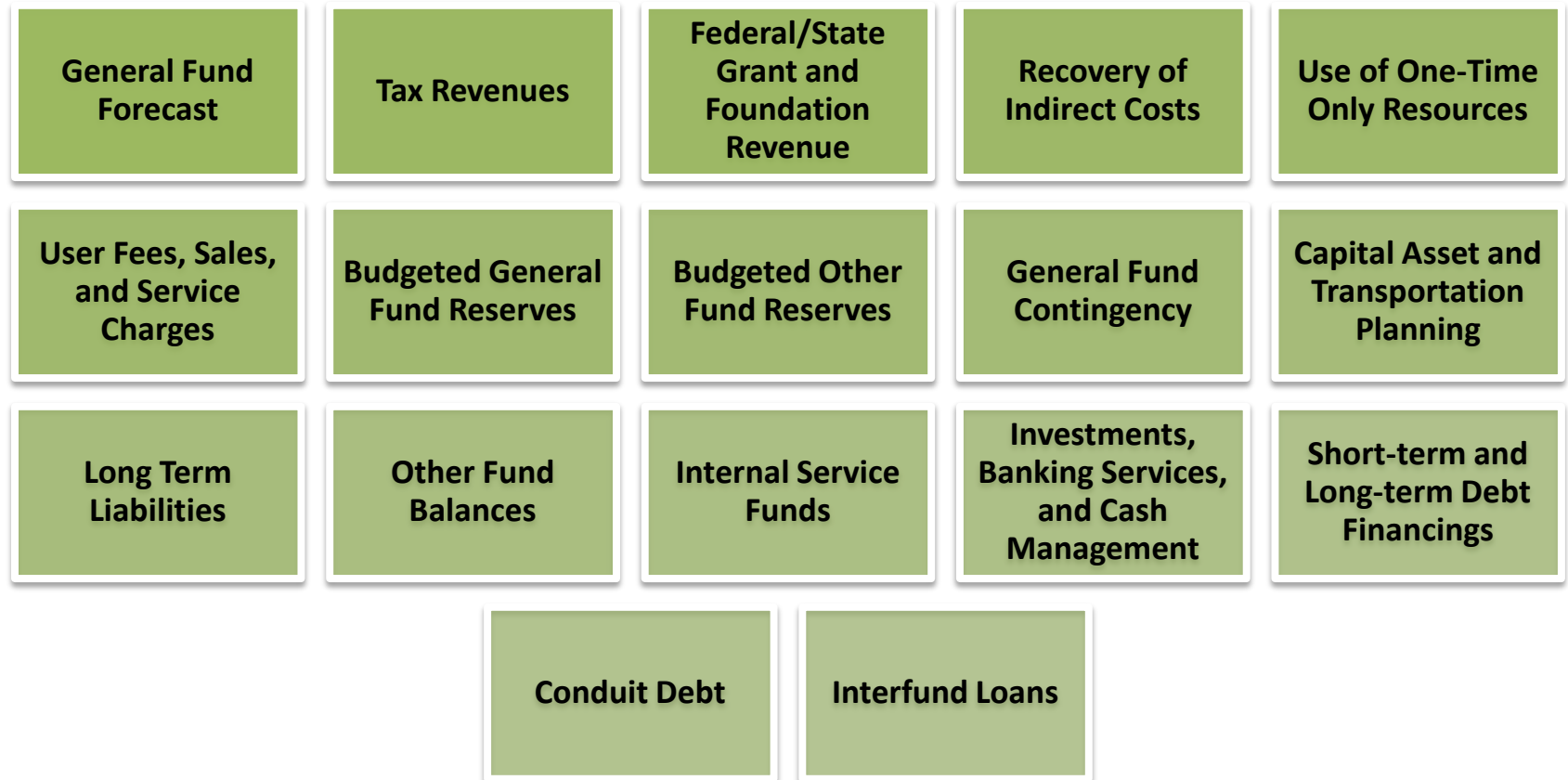
- Exist in Written Form
- Reviewed on a Regular Basis
- Establish Clear Goals

- Control v. Flexibility

- Comply w/ Applicable Laws and Regulations
- Maintain Flexibility to Respond to Changing Needs



CURRENT POLICY STATEMENTS



RECOVERY OF INDIRECT COSTS

- What are Indirect Rates?
 - Method to recover general fund overhead costs from revenue grants/contracts
- Federal Guidelines Govern Recovery Method
 - Direct Costs: direct benefit to single program. Costs are directly charged
 - Indirect Costs: benefit common or multiple programs (e.g. Administration). Costs are allocated
- Indirect Rate Calculation
 - **Indirect Costs/Direct Costs = Rate**
 - **Rate on Payroll Costs Only**
- Preparation and Timing
 - Rates revised every fiscal year
 - Actual costs from most current completed fiscal year used to prepare rates
 - Example: FY23 actuals used to develop indirect rates for FY25 budget
 - Rates prepared for each department




RECOVERY OF INDIRECT COSTS CONTINUED

- How are Indirect Rates Charges?
 - Rate is applied on all direct payroll costs charged to external funder
 - Indirect Revenue: is the revenue recovered from external funder to cover County overhead costs based on established rate
- Indirect Rate fluctuations
 - Increases/decreases in overall payroll costs
 - Increases/decreases in indirect payroll costs
 - **Reconciliation of indirect rates to actuals**
 - FY23 Actuals vs FY23 Estimates
 - **COVID Funding (e.g. ARPA, CARES) impacts on indirect rates**
 - Increases in indirect rates DOES NOT mean we get more external funding
 - The County retains more from grantor to cover overhead costs associated with supporting grant program



RECOVERY OF INDIRECT COSTS CONTINUED

- Indirect Calculation “Rate”
 - Total Indirect Costs/Total Direct Cost
 - Indirect Costs - costs that benefit common or multiple programs (e.g. departmental accounting, budgeting, human resources, procurement, contracting, etc.)
- 
- Direct Costs - costs that are readily identifiable that directly benefit a single program (e.g. physician, nurse practitioner, etc.)
 - Indirect Revenue – revenue retained (general fund revenue) to cover overhead costs associated with supporting grant program

<u>EXAMPLE</u>		
Fiscal Year	FY 2024	FY 2025
Health Dept		
Indirect Rate	10.39%	12.80%
Fund	Federal/State	Federal/State
Total Federal Grant Revenue		
	\$ 1,000,000	\$ 1,000,000
Direct Expenses		
Payroll	700,000	700,000
Material & Svcs	87,270	64,400
Internal Services	140,000	146,000
Indirect Expenses	72,730	89,600
Total Expenses	<u>\$ 1,000,000</u>	<u>\$ 1,000,000</u>
General Fund Revenue from indirect		
	\$ 72,730	\$ 89,600



INTERNAL SERVICE FUND - CONTINGENCY

- Internal Service funds are used to account for business operations and charge for goods or services provided to other departments or agencies on a cost-reimbursement basis
 - Fleet Management
 - Information Technology
 - Mail Distribution
 - Facilities Management Services
- Proposed Change: Internal Service operating contingency
 - Internal Service charges may include an operating contingency not to exceed 60 days of operating expenses or 10 percent
 - Purpose: to ensure services can be provided at constant level without interruption to departmental customers
 - Use: Unplanned (non-routine) or emergency expenses



RESERVE POLICY – GENERAL FUND AND OTHER FUNDS

- Reserves Benchmarks:
 - General Fund
 - County General Fund 12%
 - Business Income Tax Stabilization 12%
 - Other Funds
 - Preschool for All Fund 15%
 - Supportive Housing Services Fund 10%
- Purpose:
 - To protect the County against temporary fluctuations in revenues
 - Can be used when actual revenues fall below budgeted estimates “Forecasted”
- In FY 2023, the Board set a multi-year commitment to raise General Fund reserve benchmark from 10% to 15% to align with GFOA best practices



EXTERNAL AND INTERNAL DEBT LIMITS

- Statutory Limits
 - General Obligation Bonds - 2% of Real Market Value = \$4.2 Billion
 - Revenue and FFC Bonds - 1% of Real Market Value = \$2.1 Billion
 - Pension Obligation Bonds - 5% of Real Market Value = \$10.5 Billion
- County Policy
 - Annual Debt Service Can Not Exceed 5% of Ongoing General Fund Revenue
 - County Well Within Limits Established in ORS
 - Match Debt Amortization to Expected Asset Life
 - Use of One-Time-Only GF Revenue to “Buy Down” Debt
 - Refinance Debt when Net Present Value Savings Exceed 3%
- Interfund Loans (ORS 294.468)
 - Operating Cash Flow or Capital



INTERNAL DEBT CAPACITY LIMIT

FY 2025 County General Fund Debt Capacity Limit		
	As of 6/30/2024	2024-25
	Principal	Debt
	Outstanding	Service
Total Debt Subject to Financial Policy	\$218,647,953	\$23,894,539
Less Non General Fund Supported Debt		
Road Fund (Oregon Transportation Infrastructure Bank loan)	(550,580)	(291,832)
Sellwood Bridge (Series 2021 FFCO)	(72,160,000)	(8,584,173)
Burnside Bridge National Environmental Policy Act phase (Series 2019 FFCO)	(8,604,244)	(1,811,710)
Burnside Bridge Design & Right-of-Way (Series 2022 FFCO)	(21,508,129)	(3,080,795)
Total General Fund Obligation	\$115,825,000	\$10,126,029
(Less) Annual Payment From Other Sources		(802,336)
Net FY 2025 General Fund Obligation		\$9,323,693
REMAINING BORROWING CAPACITY		
Debt Capacity (Supported by General Government Fund Types Only)		
FY 2025 General Fund Revenues ¹	\$729,344,293	
Policy Limitation (5% of General Fund Revenues)	x 5.00%	
Maximum Debt Service per Policy	\$36,467,215	
(Less) Current General Fund Commitment		(9,323,693)
Annual Debt Service Payment Available	\$27,143,520	
Estimated Principal Value Available²	\$335,000,000	

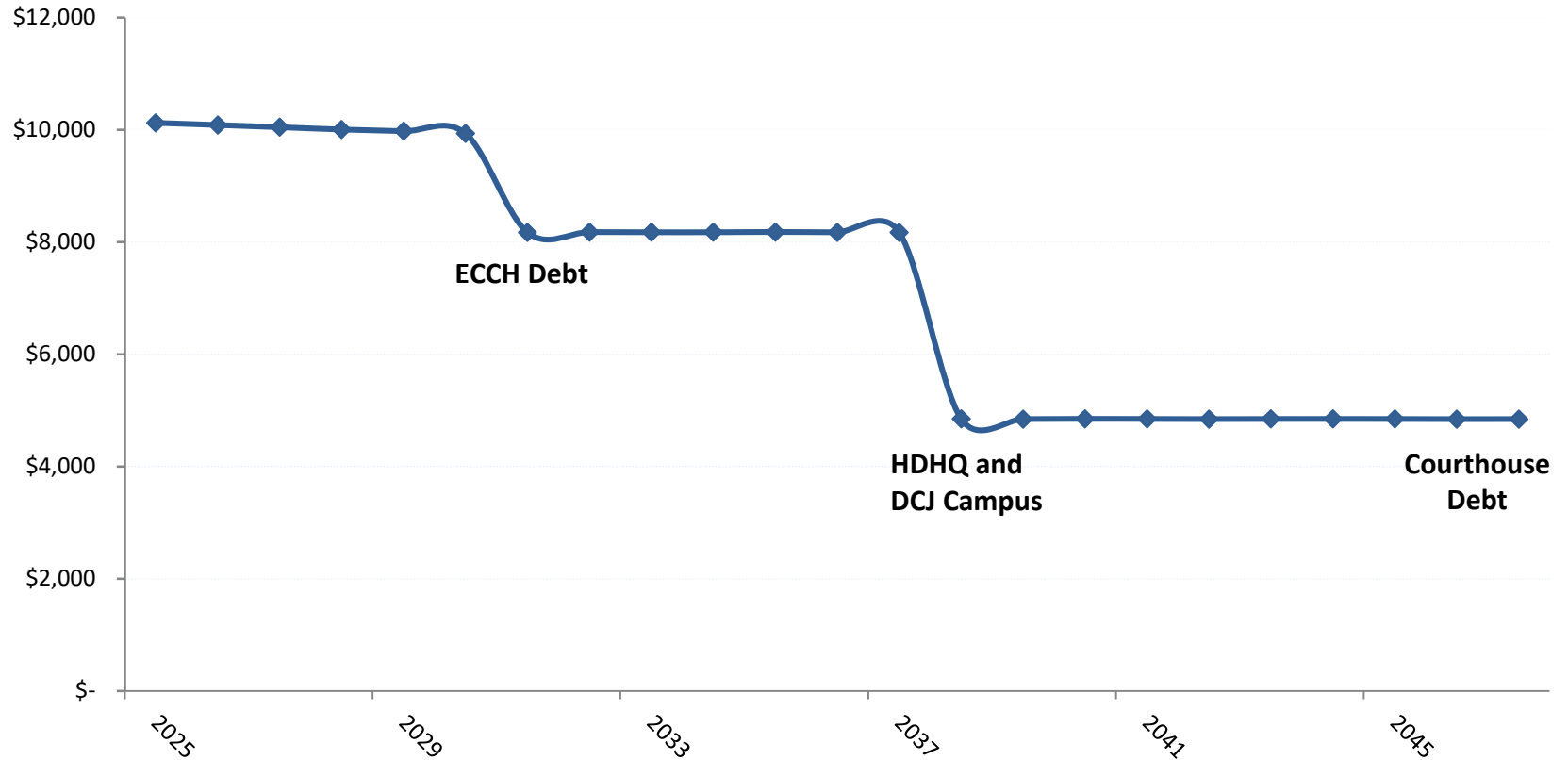
¹ General Fund Revenues for this calculation do not include Beginning Working Capital

² Estimated Principal calculated at 5.00% annual interest rate amortized over 20 years



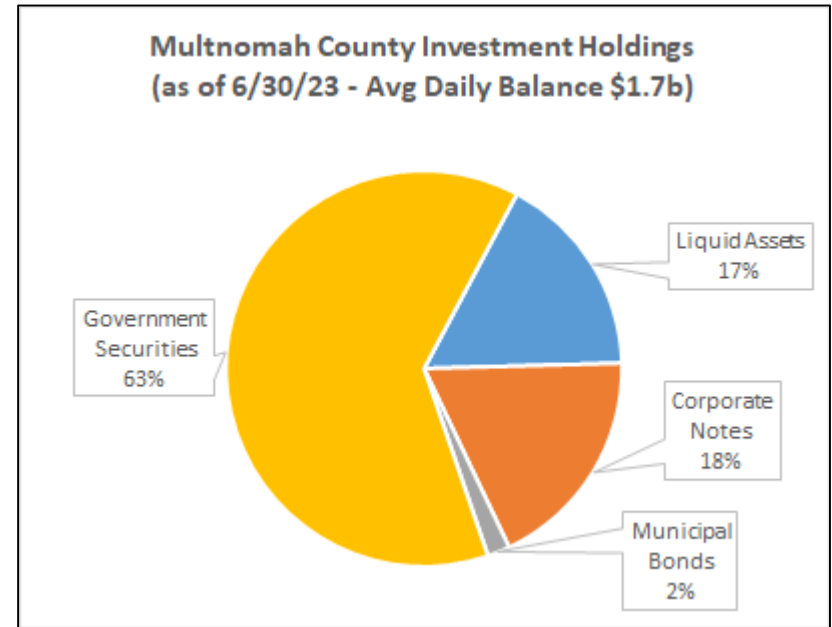
INTERNAL DEBT CAPACITY LIMIT - CONTINUED

County Debt Subject to Financial Policies (\$'s = 1,000's)



INVESTMENT POLICY OVERVIEW

- Follows State Statute
 - Portfolio Cannot Hold Equities
 - Establishes Investment Parameters
- **S**(afety), **L**(iquidity), **Y**(ield)
 - How We Evaluate Investments
 - Do Not Invest in Fossil Fuels
- Establishes Benchmarks
 - BofA Merrill 0-5 Treasury Benchmark
- Investment Strategy
 - Work w/ Investment Advisor
 - Liquidity v. Core Fund
 - Maturity Constraints
 - Up to 5.25 Years
 - Weighted Average Maturity 2.5 Years

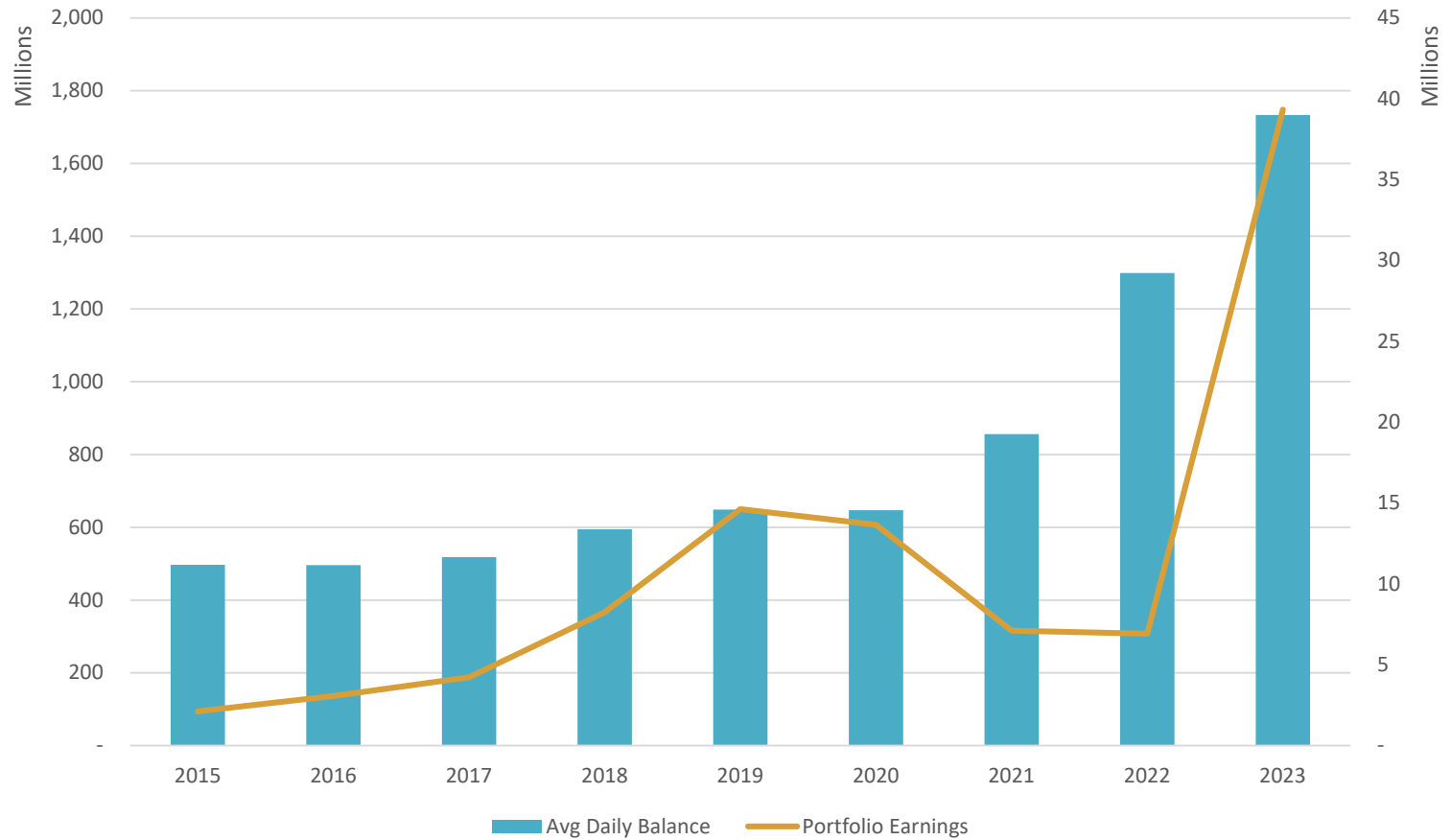


LIQUID ASSET HOLDINGS - As of 6/30/2023	
Investment Type	Amount
Demand Deposits	3,621,339
Money Market Accounts	233,628,532
LGIP	41,627,402
Certificates of Deposit	6,715,000
	285,592,273



INVESTMENT POLICY - CONTINUED

Multnomah County Investment Portfolio (Fiscal Year 2015-2023)



OTHER FINANCIAL MANAGEMENT TOOL

- Audits – Internal & External Audit Recommendations
 - Review Both Central and Departmental Processes
 - Evaluation of Financial Systems and Internal Controls
- Pronouncement – Requirement Established in Statute or Set by Standard (i.e., GASB)
 - May Lead to Development of Policy
- Procedure – Operational Directives Designed to Standardize Processes
 - FAC's, FIN's, PUR's, and RSK's
- Practice – Informal, Does Not Imply Same Level of Commitment
 - May Lead to Development of Policy



FUTURE POLICY ANALYSIS AND DEVELOPMENT

- Review Existing Policies
 - What Can We Learn From Comparable Jurisdictions?
 - Are They Still Relevant? (Lessons learned from emergency)
 - Changes from new accounting pronouncement
- Topics For Future Consideration
 - Procurement
 - Grant Making
 - Budget to Actual reporting to BCC (Level: Program Offer)
 - ESG (Environmental, Social, and Governance)
- Anything the Board Would Like Us to Consider?
- What Do Rating Agencies Want to See?



SUMMARY AND QUESTIONS

- Policies Establish Framework for Financial and Budgetary Decision Making
 - Reflect Direction of the Board
 - Align with GFOA Best Practices
 - Policies work in conjunction w/Other Financial Management Tools
 - Policy Review and Development is a Continuous Process Improvement
- Proposed Policy Changes
 - Clarification of Internal Service Fund Policy
 - Mostly cosmetic and reference updates
- Questions?



APPENDIX: OUTSTANDING COUNTY DEBT

Debt Description	Dated	Maturity Date	Avg Annual Interest	Amount Issued	Principal Outstanding 6/30/2024	Principal Outstanding 6/30/2025	2024-25 Interest	2024-25 Principal
PERS Pension Revenue Bonds:								
Limited Tax Pension Obligation Revenue Bonds	12/01/99	06/01/30	7.67%	\$ 184,548,160	\$ 27,098,142	\$ 22,323,616	\$ 28,285,474	\$ 4,774,526
General Obligation Bonds:								
Series 2021 A&B - Library Projects GO Bonds	01/26/21	06/15/29	3.14%	\$ 387,000,000	\$ 261,090,000	\$ 214,120,000	\$ 8,454,940	\$ 46,970,000
Full Faith and Credit Obligations:								
Series 2010B - Full Faith and Credit	12/14/10	06/01/30	2.74%	15,000,000	9,420,000	7,945,000	470,548	1,475,000
Series 2017 - Full Faith and Credit	12/14/17	06/01/47	3.09%	164,110,000	106,405,000	102,530,000	4,305,481	3,875,000
Series 2019 - Full Faith and Credit	09/12/19	06/01/29	1.74%	16,075,000	8,604,244	6,942,248	149,714	1,661,996
Series 2021 - Full Faith and Credit	01/21/21	06/01/33	1.33%	89,580,000	72,160,000	64,495,000	919,173	7,665,000
Series 2022 - Full Faith and Credit	09/20/22	06/01/32	3.13%	25,095,000	21,508,129	19,100,538	673,204	2,407,591
Total Full Faith and Credit				\$ 309,860,000	\$ 218,097,373	\$ 201,012,786	\$ 6,518,120	\$ 17,084,587
Loans:								
Oregon Transportation Infrastructure Bank	09/01/08	09/01/25	3.98%	\$ 3,200,000	\$ 550,580	\$ 280,661	\$ 21,913	\$ 269,919

