

## **FIN-2.02 - Comprehensive Financial Management Policy**

### **COMPREHENSIVE FINANCIAL MANAGEMENT POLICY**

*Binding City Policy*

BCP-FIN-2.02

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#### **RELATION TO OVERALL CITY GOALS AND OBJECTIVES**

The City's development of a mission statement and conforming goals and objectives are critical elements in the successful development, maintenance and operation of a Comprehensive Financial Management Policy (CFMP). Rather than driving the goals and objectives of the City, the finances are simply tools which are used to accomplish the City's mission.

The Comprehensive Financial Management Policy is a mechanism to ensure that the City is financially able to meet its immediate and long term service objectives. These policies also enhance financial planning and internal financial management of the City.

In addition, the City as an institution has multiple partners, including citizens, taxpayers, businesses, employees and other governments. As a major institutional, economic and service force in the region, it is important that the City strengthen its relationships with its partners by adopting clear and comprehensive financial policies.

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#### **PURPOSE**

The City of Portland is accountable to its citizens for the use of public dollars. Municipal resources should be used wisely to ensure adequate funding for the services, public facilities, and infrastructure necessary to meet the community's present and future needs. The CFMP is intended to serve as a blueprint to achieve the fiscal stability required to achieve the City's policy goals and objectives.

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#### **OBJECTIVES**

In order to achieve the above purpose, the Comprehensive Financial Management Policy has the following objectives for the City's fiscal performance.

1. To guide Council and management policy decisions that have significant fiscal impact.
2. To set forth operating principles that minimize the cost of government and reduce financial risk.
3. To employ balanced and fair revenue policies that provide adequate funding for desired programs.

4. To maintain appropriate financial capacity for present and future needs.
5. To promote sound financial management by providing accurate and timely information on financial condition.
6. To protect and enhance the City's credit rating and prevent default on any municipal debts.
7. To ensure the legal use of financial resources through an effective system of internal controls.
8. To promote cooperation and coordination with other governments and the private sector in financing and delivery of services.

To achieve these objectives, the Comprehensive Financial Management Policy consists of twelve major sections:

[I. FINANCIAL PLANNING POLICIES](#)

[II. BUDGET POLICIES](#)

[III. ACCOUNTING, AUDITING AND FINANCIAL REPORTING POLICIES](#)

[IV. REVENUE POLICIES](#)

[V. OPERATING POLICIES](#)

[VI. EMPLOYEE COMPENSATION AND SUPPORT POLICIES](#)

[VII. CAPITAL PLANNING AND FINANCING POLICIES](#)

[VIII. INTERGOVERNMENTAL REVENUES AND RELATIONS POLICIES](#)

[IX. ACCOUNTING STRUCTURE POLICIES](#)

[X. AFFILIATED AGENCIES](#)

[XI. OTHER FINANCIAL POLICIES](#)

[XII. APPENDICES](#)

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**I. FINANCIAL PLANNING POLICIES**

INTRODUCTION: A long range plan that estimates revenue and expenditure behavior of the City and regional and national economies is necessary to support the Council and community

in decisions that they make about City services. This planning must recognize the effects of economic cycles on the demand for services and the City's revenues.

City financial planning should ensure the delivery of needed services (many of which become more critical during economic downturns) by increasing reserves during periods of a strong economy in order to support continued City services during economic downturns.

The City is a major force in a complex regional economic system. The City must understand how it affects and is affected by that system in order to maximize its positive contributions. The City must have the capacity to understand and anticipate changes in both regional and national economic systems in order to engage in strategic financial and management planning.

#### GENERAL FUND:

1. The City will prepare annually a five year financial plan for General Fund operations based on current service levels and current funding sources. If appropriate, needed additional resources to continue current service levels or identified service adjustments will be made.
2. The City will constantly test both its planning methodology and use of planning tools in order to provide information that is timely, accurate and widely disseminated to users throughout the City.
3. General Fund Bureaus will forecast and monitor their own revenues and expenditures. OF&A will assist bureaus in developing appropriate systems for such monitoring. OF&A will retain overall fiscal oversight responsibility for the General Fund.
4. The Office of Finance and Administration will publish regular General fund status reports on revenues and expenditures during the course of each budget year.

ENTERPRISE FUNDS: Just as a forecasting effort is made for the City's General Fund, similar efforts will be made for Enterprise and major Special Revenue activities. Examples of such operations are Water, Environmental Services, and Transportation. The purpose of these forecasts will be to allow the Council and Citizens to evaluate the impact of the financial needs of these programs on both the local and metropolitan regional economies; and to coordinate funding needs with those of the General Fund.

1. Enterprise/ Special Revenue activities will prepare annually, a five year financial forecast for operations and capital needs based on current service levels and current revenue sources.
2. The forecasts should rely on the same basic economic assumptions as the General Fund forecast. These forecasts will also identify other assumptions used in their preparation and the risks associated with them.
3. The forecasts must identify how they will impact rate structures.
4. The forecasts will discuss how standards for debt service coverage and operating

reserves are established.

5. Enterprise and major Special Revenue activities will coordinate periodic status reports on expenditures and revenues within a fiscal year with the Office of Finance & Administration.

ALL FUNDS: The financial planning and subsequent budgeting for all funds will be based on the following principles:

1. Revenue estimates should be prepared on a conservative basis to minimize the possibility that economic fluctuations could imperil ongoing service programs during the upcoming budget year.
  2. Expenditure estimates should anticipate contingencies that are reasonably predictable.
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## II. BUDGET POLICIES

INTRODUCTION: The Bureau of Financial Planning under the Office of Finance and Administration is responsible for coordinating the overall preparation and administration of the City's annual budget. This function is fulfilled in compliance with applicable State of Oregon Statutes governing local government budgeting practices.

1. BUDGET PREPARATION: Each year the Mayor will provide direction to the Office of Finance and Administration on the process for the development of the annual budget. The Office of Finance and Administration translates this direction into guidelines and rules for the preparation and review of bureau budget request. The budget request format will be designed to identify major financial and service issues. It will include detailed budget and performance information for all City organizations, including the Portland Development Commission. This information will be compiled from Bureau submittal by the Office of Finance and Administration for inclusion in the budget document. The City will prepare and present its budget consistent with the criteria developed by GFOA for distinguished budget presentations.

Unless otherwise directed by the Mayor, the annual budget process will consist of the following phases:

- Issuance of budget preparation guidelines and schedules. The budget process will provide for the full participation of the City's budget advisory committees and ensure opportunities for public testimony and participation.
- Presentation to Council of five-year financial forecasts for the General and other major City funds.
- Presentation of bureau budget requests in a manner consistent with budget directives.
- The issuance of OFA reviews, summarizing each budget request and as necessary

identifying related issues for Council consideration.

- Development of a proposed budget as required by ORS for presentation to the Council, sitting as the budget committee.
- Council budget hearings for the purpose of receiving public testimony and reaching final decisions necessary to balance the City's budget.
- Submission of the Council approved budget to the Multnomah County Tax Supervising and Conservation Commission for review.
- Adoption of the budget in accordance with Council directives, and Local Budget Law, and certification from the Tax Supervising and Conservation Commission.

2. BUDGET MONITORING: The Office of Finance and Administration will maintain a system for monitoring the City's budget during the fiscal year. This system will provide the Council with quarterly information on expenditures and performance at both the bureau and fund level. Included will be provisions for amending the budget during the year in order to address unanticipated needs, emergencies, or compliance with State of Oregon budgetary statutes. Budget adjustments requiring Council approval will occur through a process coordinated by the Bureau of Financial Planning.

3. REVIEW OF COUNCIL ACTIONS: The Office of Finance and Administration will review ordinances and significant administrative decisions submitted for Council actions. The objective of these reviews will be to ensure compliance with the budget and to identify for the Council financial and service issues. The Bureau of Financial Planning will distribute procedures and guidelines for the submission of fiscal impact statements on proposed ordinances.

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### **III. ACCOUNTING, AUDITING AND FINANCIAL REPORTING POLICIES**

INTRODUCTION: The City must maintain a system of financial monitoring, control and reporting for all operations, funds and agencies in order to provide effective means of ensuring that overall City goals and objectives will be met and to assure the City's partners and investors that the City is well managed and fiscally sound.

The City will maintain its accounting records and report on its financial condition and results of operations in accordance with state and federal law and regulations. And Generally Accepted Accounting Principles (GAAP). And standards established by the Governmental Accounting Standard Board (GASB). Budgetary reporting will be in accordance with the State Local Budget Law.

An independent firm of certified public accountants will annually perform a financial and compliance audit of the City's financial statements. Their opinions will be contained in the City's Comprehensive Annual Financial Report (CAFR), and the Report on Compliance with the Single Audit Act of 1984.

As an additional independent confirmation of the quality of the City's financial reporting, the City will annually seek to obtain the Government Finance Officers Association Certificate of Achievement for Excellence in Financial Reporting. The CAFR will be presented in a way designed to communicate with citizens about the financial affairs of the City.

The City's elected Auditor will supervise and conduct a full range of performance and financial audits of City programs. In addition, the City's elected Auditor will prepare an annual report on service efforts and accomplishments.

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## **IV. REVENUE POLICY**

**INTRODUCTION:** The City must consider its General Fund discretionary revenues as defined in operating policies on page 7 as a group rather than in isolation. Both individual revenues and the total package must be viewed in the context of broader City goals. The City must be sensitive to the balance between the need for services and the City's ability to raise fees, charges and taxes to support City services. As much as is possible and feasible, City services that provide private benefits should be paid by fees and charges in order to provide maximum flexibility in use of general City taxes to meet the cost of services of broader public benefit.

1. Charges for services that benefit specific users should recover full costs, including all direct costs and bureau overhead, loss of interest, depreciation on capital plant and equipment, and general fund overhead. Bureaus that impose fees or services charges should prepare and periodically update cost-of-service studies for such service. When consistent with legal requirements, other City interest such as remaining competitive within the region or meeting other City objectives, may dictate a subsidy of a portion of the costs of such services. However, all services will be presumed to be 100% cost reimbursable unless the Council makes a specific exception in the ordinance adopting the charge. In some cases, with Council approval, it will be appropriate to meet this test on a program-wide basis in order to achieve administrative efficiencies and service equity. Current charges not meeting this standard will be reviewed within two years of the adoption of this policy.

2. The City should strive to diversify its revenues in order to maintain needed services during periods of declining economic activity. A base of property taxes and other stable revenues provide a reliable base of revenues during periods of economic downturn. Elastic revenues will allow the building of reserves during periods of strong economic performance. If the proportion of elastic City revenues increases, adjustments to reserve policies may be necessary as greater "swings" in resources may occur from year to year.

3. The City's overall revenue structure should be designed to recapture for the City some of the financial benefits resulting from City economic and community development investments.

4. The City will observe the following priorities in utilizing existing and obtaining additional resources:

- a. The City will use as efficiently as possible the resources that it already collects.
- b. The City will collect as efficiently as possible the resources to which it is already entitled.
- c. The City will seek new resources, consistent with the policies in this document and other City goals.

5. The City will strive to keep a total revenue mix that encourages growth and keeps Portland competitive in the metropolitan area.

- a. As part of the annual Financial Forecast or budget process, the revenue mix will be analyzed with an evaluation of the impact on the competitiveness of Portland within the metropolitan area, including Clark County. This comparison of costs for services will be used as baseline data for Council budget discussions.
- b. The evaluation should include all local taxation and fees including those of overlapping jurisdictions.

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## **V. OPERATING POLICIES**

**INTRODUCTION:** The City should accommodate both one-time and on-going expenditures to current revenues, establish and adequately fund reserves, regularly monitor and report on budget performance, evaluate the fiscal impact of new proposals, operate as efficiently as possible, and constantly review City services for appropriateness and effectiveness. For purposes of this document, the City's General Fund "discretionary revenues" are defined as the property taxes within the tax base as may be compressed, 5 percentage points of lodging taxes, business license fees, utility license fees, interest income, state shared revenues, and beginning cash balances.

1. On-going revenues should be equal to or exceed on-going expenditures. Each City fund budget must identify on-going resources that at least match expected on-going annual requirements. One-time cash transfers and non-recurring ending balances will be applied to reserves or to fund one-time expenditures; they will not be used to fund on-going programs. Each year OF&A will provide Council with the amount of ending balance that is estimated to be non-recurring for the General Fund.

2. Unless otherwise stated explicitly by the Council, the City will not earmark discretionary

revenues for specific purposes in the General Fund. This will preserve the ability of the Council to determine the best use of available revenues to meet changing service requirements.

3. The City will maintain a system of financial monitoring and control. The major components of this system include:

a. Financial Accounting System and periodic Status Reports: Each Accounting Period the Office of Finance and Administration will publish a General Fund financial status report on the revenues and expenditures to date and estimated year end balance.

b. Quarterly budget review: Each quarter the Office of Finance and Administration will review all City financial operations, report to Council on financial results, and recommend financial management actions necessary to meet the adopted budget's financial planning goals.

4. The City will seek to optimize the efficiency and effectiveness of its services to reduce costs and improve service quality.

5. City operations will be run on an enterprise basis if doing so will increase efficiency of service delivery or recover the cost of providing the service by a user fee or charge.

6. The City will attempt to maintain cash reserves in order to reduce borrowing needed for General Fund operating purposes.

7. The City will not increase accruals and non-cash enhancements to revenues as a means to influence fund balances at year end.

8. All city agencies will maintain accurate inventories of physical assets, their condition, lifespan and cost. The Office of Finance and Administration will coordinate the master inventory of assets for the city.

9. The Treasury Division in the Office of Finance and Administration will develop, maintain and constantly seek to improve cash management systems which ensure the accurate and timely accounting, investment, and security to all cash assets. All cash received by City agencies will be deposited to Treasury accounts within twenty-four hours of receipt.

10. The City shall endeavor to reduce needless competition with other public and private providers and to ensure the most cost-effective and efficient provision of services.

11. General Fund overhead costs will be allocated according to consistent methodology developed in consultation between the Office of Finance and Administration and other fund managing bureaus.



12. The City will strive to ensure that the City service priorities keep pace with the dynamic needs of the community by incorporating a service needs review as part of the budget process.

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## **VI. EMPLOYEE COMPENSATION AND SUPPORT**

**INTRODUCTION:** Personal services costs comprise a significant percentage of the City's Operating Funds budget. The City of Portland is fortunate to have employees who are dedicated to the City and to public service. These employees are vital to the City's ability to meet its services demands. The City expects its workers to be highly productive. In return, the City must fairly compensate, train and equip its employees in order to attract and keep high quality, productive employees. Subject to collective bargaining law, as appropriate, it is the City's "Total Compensation Policy" that

1. Direct and indirect compensation (wages, premiums, health benefits, vacations, holidays, and other leaves, pensions, etc.) are to be considered collectively in determining appropriate levels of compensation for employees.
  2. Wage and benefits packages are considered "externally competitive" if they approximate the average of the total compensation offered in applicable labor markets for similar work.
  3. Other factors such as compression between classes and the ease or difficulty of recruitment of qualified employees may also be considered in establishing wages and benefits.
  4. Annual adjustment to the compensation plan may be based upon a formula that considers the consumer price index and that is consistent with the cost of living formulas found in collective bargaining agreements.
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## **VII. CAPITAL PLANNING AND FINANCING POLICIES**

**INTRODUCTION:** The City must preserve its current physical assets and plan in an orderly manner for future capital investments, including the operating costs associated with new capital improvements or major equipment budgeted as part of the CIP process.

The City must make the capital investment needed to support and enhance the delivery of basic services. This commitment is important because the demands for basic services (police officers on the street and fire fighters in the stations) often receive priority over infrastructure improvements (streets and fire stations and apparatus).

1. The City will maintain a strong bond rating that is consistent with other City goals.
2. Each bureau with major capital assets will develop and maintain five year capital plans. The actual bureau planning horizon for capital programs should relate to the useful life of capital assets, the term of financing, and industry standards for the particular type of asset. Since adopted citywide plans contain capital expenditure needs, bureaus will include projects from such plans in their capital plans. Capital plans will display proposed projects in a map format that can be included in the annual CIP.
3. The City will prepare, adopt and update annually a City five year Capital Improvement Plan that includes and prioritizes bureau needs for capital replacement and additions. The plan will include estimated projects costs and identify funding sources.
4. The City will prepare an annual Capital Budget which will include current year capital expenditures based on the first year of the current Capital Improvement Plan.
5. As part of the annual Capital Budget, the City will identify and include full costs of future maintenance needs and operating costs of new capital improvements and equipment prior to funding as part of the annual Capital Budget.
6. In general, all assets will be maintained at a level that protects capital investment and minimizes future maintenance and replacement costs. The City will maintain accurate information on the condition, lifespan and estimated replacement cost of its major physical assets to assist in long term planning.
7. The budget will provide sufficient funding for adequate operations, maintenance and scheduled replacement and enhancements of capital plant and equipment. Whenever bureaus identify that there is a significant discrepancy between the need to maintain / modernize City infrastructure or facilities and the funds available for such improvements, the fund manager will prepare and present to Council a strategy for meeting such needs.
8. In general, maintenance and operations of capital facilities should be given priority over acquisition of new facilities, unless a cost/benefit analysis indicates to the contrary. In addition, State or federal mandates or new service demands may require acquisition of new facilities even when maintenance needs are not fully met.
9. A high priority should be placed on maintenance where deferring maintenance will result in greater costs to restore or replace neglected facilities.
10. The City may finance the improvement of transportation, water, wastewater, and other public improvements through creation of Local Improvements Districts (LIDs). Unless otherwise directed by Council, LID assessments will include all costs associated with the

project, including but not limited to financing, and administrative costs. The City will take actions to ensure that financial risk to the City is minimized.

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## **VIII. INTERGOVERNMENTAL REVENUES AND RELATIONS**

INTRODUCTION: Many service costs of the City are influenced by other governments, either because of service overlap or service mandates imposed by State and Federal governments. The City must take advantage of opportunities to enhance service delivery through intergovernmental cooperation, shared revenues and grants while aggressively opposing mandates that distort local service priorities.

1. The City will avoid using grants to meet on-going service delivery needs. In the City's financial planning, grants will be treated in the same manner as all temporary and uncertain resources and should not fund on-going, basic service needs.
  2. All grant applications will be reviewed by the Grants Division of OF&A to ensure compliance with State, Federal and City regulations. This review must occur before a grant application submittal, or acceptance in cases of no application.
  3. The City will budget expenditures for grant-funded programs only after grant award or letter of commitment, and only for the amount of grant award. Entitlement programs will be budgeted based on expected revenues. City overhead or indirect costs for grant-funded programs will be included in all grant proposals, where permitted.
  4. The City will aggressively oppose State or Federal actions that mandate expenditures which the Council considers unnecessary. The City will pursue intergovernmental funding to support the incremental cost of those mandates.
  5. The City will work with other governments to identify the jurisdiction most capable and appropriate to provide specific public services. When the City cannot simply transfer responsibility for service deliver, it will consider intergovernmental agreements and contract for service delivery.
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## **IX. ACCOUNTING STRUCTURE POLICIES**

INTRODUCTION: The City is a complex financial and service organization. Its financial operations are organized into three types of funds (Governmental, Proprietary, and Fiduciary). All funds and City operations must work to achieve the City's mission and goals.

1. The City manages all funds to meet the objectives of a single comprehensive long range financial plan.

## 2. Funds

- a. The City will minimize the number of funds. The funds will be categorized by standard GAAP functional classifications but may also be referred to by City of Portland fund types.
- b. Appendix A of this policy lists current Funds and their standard GAAP functional classification as well as their City fund type.

## 3. Purpose Statement for Funds

- a. Each fund in the City will have a Statement of Purpose which includes the following items:

- Purpose(s) of the fund
- Source(s) of revenues to the fund
- A method of establishing annual contributions to the fund, if any.
- The Bureau responsible for managing the fund.
- Size and use of contingency, if any. Contingency levels will be based on the uncertainties associated with the purposes of the fund
- Size, purpose and alternative means of meeting required reserves, if any. Required reserve levels will be based on long term operating needs of the fund and prudent management requirements.

- b. The Internal Service funds will include additional information in the Statement of Purpose, as follows, if appropriate:

- For purchase of capital items, a method for periodically testing the cost-effectiveness of pre-funding capital replacement vs. leasing or lease purchasing. Each fund statement will indicate what level of purchases are suitable for either direct cash payment or financing.
- Clear equipment replacement policies and identifiable equipment reserves, where appropriate.

A method of clearly accounting for equipment reserves from and purchases for each bureau.

- A policy and procedure for protecting capital reserves from being used for operating purposes.
- A method for periodically testing the cost-effectiveness of internal provision of services vs. contacting out or direct purchase of all or part of the services provided by the fund. For insurance type funds this will mean a method for periodically testing the cost-effectiveness of self-insurance vs. purchase of all or part of the City's insurance needs; and internal or contracted claims and loss control services.

c. Funds that receive a General Fund subsidy in addition to fees and charges or dedicated revenues will include a rationale for General Fund subsidy and a means for determining the annual level of that subsidy or conditions under which the subsidy should be eliminated.

d. Enterprise Funds will include:

- Required level of debt service coverage for the fund.
- Relationship between operating and construction funds.

e. Existing funds will be so described by fund managers, and adopted by Council resolution, within one year of the adoption of this policy.

4. The Office of Finance and Administration will do annual review of all funds to determine if each is still serving a useful purpose and is needed.

5. New funds must be created by resolution of Council containing the above required descriptions. A review and report by OF&A will be required precedent to Council action.

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## **X. AFFILIATED AGENCIES**

INTRODUCTION: City Charter, Council action, inter-governmental agreements and state and federal laws have created a number of agencies which are affiliated with the City and which can have an adverse effect on the City if not managed to the same financial standards as direct City agencies. It is necessary to spell out standards on financial operations for these organizations in order to protect the City's fiscal status.

1. Affiliated Agencies will be accountable for financial compliance and reporting standards as

established in this document.

2. The Criteria for defining Affiliated Agencies will include any of the following:

- a. Created by City Charter or Council action
- b. Leadership appointed by the City Council
- c. A majority of funds are received from the City

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## **XI. OTHER FINANCIAL POLICIES**

INTRODUCTION: The City has adopted several other financial policies that guide City operations. It is necessary to recognize them as elements of this Comprehensive Financial Management Policy. The following City financial policies are incorporated as part of this policy:

1. Investment Policy
2. Debt Management Policy
3. Urban Services Policy
4. Transportation Funding Policy
5. Revenue Allocation Policy
6. Interagency Agreement Policy
7. Local Improvement District Financing Policy
8. Reserve Policy

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## **HISTORY**

Resolution No. 35005

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