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Sponsor: Kathy Lambert

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Proposed No.: 2014-0095

1 **AMENDMENT TO PROPOSED SUBSTITUTE MOTION 2014-0095, VERSION 2**

- 2 Delete Attachment A. King County Comprehensive Financial Management Policies,
3 dated April 1, 2014 and insert Attachment A. King County Comprehensive Financial
4 Management Policies, dated April 14, 2014

EFFECT: This amendment would make three changes to the policies:

(1) On the title page, change the date of the report from April 1, 2014 to *April 14, 2014* to distinguish between different versions of the document

(2) On page 5, item 6, after "income to the County.", the amendment would reinsert a sentence that was in the original transmittal regarding measuring the cost of government. The reinserted sentence is:

"The analysis should also measure the cost of government in the County's unincorporated and incorporated areas."

(3) On page 18, under User Fees and Service Charges, item 1, amend the reasons the county could consider subsidizing a portion of the costs of providing service by inserting....."*County local government services*"..... to the list that already includes equity and social justice goals, environmental concerns, or economic development.



King County

**Comprehensive Financial
Management Policies**

Office of Performance, Strategy and Budget

April 14, 2014

Comprehensive Financial Management Policies

Table of Contents

Comprehensive Financial Management Policies Introduction.....	2
Operating Budget Policies	4
Capital Asset Management Policies	8
Expenditure Policies	12
Revenue Policies	16
Fund Balance Policies	20
Glossary	23

Comprehensive Financial Management Policies Introduction

I. Introduction

King County is a complex organization with many different services, customers, stakeholders, and risks. The County's financial management systems support the delivery of services through interdepartmental business operations, revenue collections, internal services, and accounting structures. These financial management policies provide a common language and policy framework for King County finance professionals and decision makers to manage the fiduciary responsibilities of the County while remaining responsive to the needs of county residents and the changing regional economy.

These policies are expected to be applied consistently throughout the County and are based on best practices in public financial management. Greater consistency and standardization of practices enhances the transparency of County financial management by providing a clear policy basis and explanation of why certain financial management practices are being followed along with the anticipated outcome. These financial practices are a standard that current practices can be tested against; in order for these practices to be fully used and institutionalized within King County consistent review and scrutiny of the financial management of King County programs is necessary. By institutionalizing good financial management practices, the County will continue to maintain strong bond ratings, sustainable services, and be a model for the region. These policies can guide decision makers to consider equity impacts in decisions around resource allocation and fiscal policy. Ultimately the combination of sustainable services helps to maintain a strong economic and social foundation for the region.

II. Policy Areas

These policies will address the following areas:

- Operating budgets
- Capital asset management
- Expenditures
- Revenues
- Fund balance

III. Policy Design and Maintenance

The Comprehensive Financial Management Policies (CFMP) have been developed by the Office of Performance, Strategy and Budget (PSB) by reviewing best practices from across the country and a framework endorsed by the Government Finance Officers Association (GFOA). Stakeholder input, including from Council and county agencies, has been incorporated into each policy.

The CFMP will be used to build and amend budgets and to manage finances on an ongoing basis. These policies are intended to be followed countywide. In many cases, implementation will be a multi-year process. These policies will be updated periodically to: 1) clarify the intent of the King County Council and the King County Executive; and 2) to make adjustments for specific challenges that are revealed as

policies are implemented. These updates are essential to supporting a culture of learning and continuous improvement.

The Director of PSB is responsible for maintenance of these policies in a manner consistent with the Financial Stewardship goal of the King County Strategic Plan. PSB will work with the King County Executive and King County Council to ensure that policies are regularly updated and with department directors and County finance professionals to make sure they are implemented in a consistent manner.

Operating Budget Policies

I. Introduction

The budget process is an organized and collaborative series of steps and discussions that allows for policy development, service level planning within a financial context, and internal and external communications. The budget document serves as the signature policy document in which governments establish key priorities and policies for funding services. The budget is also used to develop short and long term service level plans within a financially constrained structure. Finally, and perhaps most importantly, the budget process creates a communication tool for decision makers to communicate changes and priorities to the public and within the organization.

Operating Budget Policies provide general budgeting principles that will support an informed discussion of these policy choices. It is anticipated that this policy, and periodic future amendments, will be adopted by the King County Council.

II. Policy Goals

Operating budgets will be developed to provide a planning tool for policy and financial decision makers. Specifically, the policies are intended to achieve the following objectives:

- Deliver budgets that address short-term and long-term programmatic and financial issues,
- Support a budget process that is transparent while not being administratively burdensome,
- Allow for mid-cycle budget changes when policy and financial issues necessitate,
- Create tools for benchmarking and comparing against other budgets within the County and other jurisdictions across the country,
- Enable budget development to align with the King County Strategic Plan and the Equity and Social Justice Ordinance, and
- Meet legal and existing policy requirements.

III. Principles of Budgeting

General Principles

1. The County budget and its processes will adhere to the guiding principles laid forth in the King County Strategic Plan and the Equity and Social Justice Ordinance.
2. The County will adopt a state mandated balanced budget, which is achieved when the estimated amounts available from revenue resources, fund balance, and reserves equal or exceeds the total estimated expenditures (appropriations offset for underexpenditure expectations) over the budget cycle. Long-term debt will not be used for funding current operating expenditures.
3. The County will work toward a structurally balanced long-term forecast, where the anticipated long-term expenditure growth equals the anticipated long-term revenue growth, and does not rely on fund

balance or reserves to sustain operations. The County will work towards achieving this by addressing both expenditure and revenue issues.

4. The County will focus resources on preserving essential services. Essential services are those that are prioritized by the County Executive and County Council with input from residents and customers.
5. The County will avoid balancing budgets by deferring or postponing ongoing expenditures into future years or by budgeting revenue in an improper year.

IV. Budget Profile and Process

Key Budget Features

1. The County budget is comprised of all funds managed by the County.
2. The County will adopt budget appropriations on a biennial basis. Appropriations will reflect a single figure for the biennial cycle. The County will review the adopted biennial budget at the mid-point to assure assumptions, policies and financial forecasts remain relevant for the remaining portion of the adopted budget. When necessary, budget adjustments will be made during the mid-biennial review and supplemental legislation processes. Mid-biennial changes to the adopted budget should be minimized.
3. The County Council will adopt budgets at the appropriation unit level, rounded to the nearest \$1,000. Budgets will include estimated expenses for positions, supplies, services, central rates and internal services, and capital investments.
4. Budgets will be based on a planning model using historical expenditure and revenue data and documented assumptions.
5. Fund managers and agency financial managers will make a good-faith effort to budget expenditures in the account and account class in which they are anticipated to occur. During budget development, agencies will evaluate historical spending patterns for labor and non-labor budgets and make net-zero changes to align budget with expenditures at the account level.
6. To help the County benchmark and compare service delivery against other jurisdictions and identify efficiency opportunities, the County will create measurements for the cost of government and update those measurements for each biennial budget. Such measurements are intended to be broad in nature, such as: total revenues per capita per year, the number of County FTEs per person in the County, and the total expenditures of the County compared to the total income in the County. The analysis should also measure the cost of government in the County's unincorporated and incorporated areas.
7. In order to clearly identify long term sustainability issues, the budget will include a multi-year financial plan for each operating fund. The Office of Performance, Strategy and Budget (PSB) will maintain a collection of fund profiles for each fund. Fund profiles will be designed as quick reference

documents that describe major revenue sources and expenditures, programs supported, and legal constraints.

Budget Process

1. The preliminary economic and revenue forecast adopted by the forecast council shall be used as the basis for the Executive's preliminary budget preparation of the status quo budget, budget instructions to departments and preliminary review of departmental submittals to the executive.
2. All agencies of County government shall submit to the County Executive information necessary to prepare the next biennial budget.
3. The County Executive shall present to the County Council a complete budget and budget message, proposed operating and capital budget appropriation ordinances, and proposed tax and revenue ordinances necessary to raise sufficient revenues to balance the next biennial budget.
4. The County Executive Proposed budget and the Council Adopted budget documents will be made publicly available.
5. The County will hold multiple public meetings to allow citizens to influence budget decisions and to allow the County Council to identify special priorities before the Council makes a final budget vote. The public hearing locations will be chosen with particular consideration for providing all King County residents with an opportunity to participate in and influence government.
6. Roles and responsibilities in the budget process:
 - Agencies will provide budget options in their respective budget proposals. Agencies are encouraged to work collaboratively with other agencies to find systemic budget proposals to improve the quality, efficiency and effectiveness of County services.
 - Agencies will send their budget proposals to the County Executive. PSB will analyze proposals and make budget recommendations to the County Executive.
 - The County Executive will submit the budget to County Council.
 - County Council will review and analyze the Executive Proposed Budget, conduct public hearings, amend the proposed budget, and vote on the budget.
 - The County Executive will then approve, veto in part, or veto the legislation.
 - In the event of a veto by the Executive, the County Council will have the opportunity to override the veto.

Monitoring and Amending Budgets

1. Agency fund managers will adhere to the adopted budget. The County will maintain an internal control structure which includes financial monitoring for each fund and ongoing risk assessments for the County's major funds.

2. Amending an agency's budget occurs when the County Council adopts additional appropriation, disappropriates funds, adds additional position authority, or removes position authority that results in a change to the appropriation unit's budgeted authority.
3. The County Executive will plan to propose three omnibus ordinances to the County Council over the course of the biennial budget cycle, including a mid-biennial update that includes technical adjustments based on updated inflationary assumptions. Stand alone appropriation ordinances may be proposed as necessary.
4. Requests to amend appropriations will be accompanied by a fiscal note and, if the expenditure impact results in a positive or negative change of five percent or more, a proposed update to the current financial plan.
5. All operating appropriations will lapse at the end of the budget cycle. In order to maintain services and obligations, operating program appropriations not spent during the budget cycle may be reappropriated for specific purposes into the next budget cycle with the approval of the King County Council. There will not be an automatic carryover process for outstanding purchase orders.
6. Adopted budget changes will be recorded in the budget system.
7. The County uses both the accrual basis and modified accrual basis of accounting depending upon the fund type.

Capital Asset Management Policies

I. Introduction

King County has made significant investments in capital infrastructure and property assets. The County must manage and invest in its capital infrastructure and assets to provide services to the people of King County in a cost effective and timely manner. The County's goal is to preserve its current physical assets and plan in an orderly process for future capital investments, including the operating and maintenance costs associated with new or additional capital improvements or major equipment.

The Capital Improvement Program (CIP) serves as a planning and appropriations guide for the construction of general purpose and utility facilities in the County. The CIP is designed to balance the need for public facilities and infrastructure with the fiscal capacity of the County to meet those needs. The CIP process provides a framework for careful development of reliable capital expenditure and revenue estimates and the timely scheduling of short and long-term debt issues.

II. Prioritization of Capital Projects

The purpose of this policy is to ensure that prioritization of capital projects reflect established priorities as outlined in the Strategic Plan and that the County maintains its existing infrastructure investments.

Capital projects will be prioritized based on standards established for each program's service delivery. Each program shall make available the prioritization criteria used to develop the proposed budget with emphasis on maintenance projects which maximize the useful life of the capital asset.

The following criteria shall be considered when developing capital projects to be funded in the Capital Improvement Program:

- **Legal Mandates:** Projects necessary to conform to state or federal laws or court rulings,
- **Safety:** Projects that correct a condition dangerous to public health or safety,
- **Maintenance and Replacement:** Projects that cost effectively maximize the useful life of a capital asset or replaces the asset,
- **Cost/Benefit Results:** Projects which reduce future operating costs, improve efficiency of service delivery, or reduce energy consumption,
- **Leveraging County Resources:** Projects awarded matching grants or lead to partnerships to provide services consistent with the goals in the Strategic Plan,
- **Alignment with Strategic Plan and Comprehensive Plan:** Projects that cost-effectively achieve the goals within the County's Strategic and Comprehensive plans,
- **Improved Service Delivery:** Projects to improve service delivery including capital investments to be more responsive to community needs, and
- **Likelihood of Project Success:** Projects that have a relative likelihood of achieving proposed scope, schedule and budget.

III. Capital Appropriations

Process Elements

1. Capital projects are typically multi-biennial projects implemented in six phases with automatic carryover of budget from one biennium to the next.
2. Project budgets and expenditures will be allocated to the following six phases: planning, pre-design, final design, implementation, acquisition, and close-out.
3. The county will adopt CIP appropriations only if the revenue to support the appropriations has been verified.
4. To maximize effective use of limited resources the County shall establish performance measures and provide quarterly performance reports with emphasis on high cost and high risk projects. The basis for monitoring project scope, schedule and budget will be the baseline estimate typically available at the end of the pre-design phase.
5. Agency submittals will follow the instructions provided by the Office of Performance, Strategy and Budget.

Sub-Projects

1. A capital project may include the use of subprojects.
2. Agency use of sub-projects must be approved by the Office of Performance, Strategy and Budget.
3. Sub-projects could be recommended in the following instances:
 - When a project adopted in ordinance is actually a collection of similar sub-projects with most of the following common characteristics: relatively small in scope and budget, a relatively short duration, and require immediate attention.
 - When project implementation, monitoring and oversight is reasonably expected to improve if the ordinance project is divided into sub-projects that have different scope, schedule or staffing.

Project Contingency and Emergent Needs Projects

1. In order to mitigate project level risks, contingent appropriation authority should be included at the project level to ensure on-schedule completion of projects. The amount of proposed contingency should be reduced as the risk factors are assessed in the planning, pre-design and final design project phases. Project contingencies are appropriated.
2. An emergent need contingency project could be included in each capital fund to address unanticipated costs that could not have been identified in projects at the time of budget approval. The reserve

should be kept as low as possible, should not duplicate the purpose of the project contingency and should be subject to a continuum of agency, executive and council controls and reporting. Management reserves are not appropriated until needed.

Operating Impact of Capital Projects

The near and long term operating and maintenance costs associated with a capital project proposal should be estimated and included in a project proposal in order to fully evaluate the life cycle costs of an investment. The capital project approval process should consider whether the necessary funds can reasonably be assumed to be available for operating and maintenance costs predicted to increase when the project is completed.

IV. Capital Project Financing

1. The County will fund minor projects and on-going maintenance on a pay-as-you-go method, thereby avoiding borrowing costs for routine project work. The County will allocate a share of General Fund revenues and the County's unrestricted enterprise fund revenues sufficient to provide pay-as-you-go funding for minor projects and on-going major maintenance of existing assets.
2. Revenue backed bonds can be issued to support ongoing maintenance with Council and Executive approval.
3. The County's debt will be managed with an overall philosophy of taking a long-term approach to borrowing funds at the lowest possible cost, consistent with acceptable levels of risk. Debt financing will not be used to finance current operations, with the understanding that exceptions may be made for certain large non-recurring operating expenses.
4. Debt funding is the preferred option for financing the acquisition and construction of the County's capital assets. A capital asset must have an expected useful life of at least three years to be considered for debt financing. Alternative financing methods such as 63-20 leases can be considered.
5. Debt financing offers three benefits over the pay-as-you-go financing of capital assets: (1) the County is not forced to postpone capital expenditures until it has accumulated sufficient funds; (2) the repayment of debt over an extended period allows for the cost of assets to be spread over current and future years of those assets; and (3) maximizes the federal government benefit of issuing municipal debt on a tax-exempt basis.
6. Short-term or long-term financing for capital projects will be based on anticipated cash requirement so as to borrow only when funds are needed, and to fully comply with federal tax code in regard to arbitrage rebates. At the time of any bond issuance, the County must reasonably expect to spend at least 85 percent of all sale proceeds within three (3) years after issuance to remain in compliance with federal regulations.
7. Until an accurate project cost can be determined, the County will employ the use of bond anticipation

notes (BANs), pay-as-you-go financing, or interfund borrowing.

8. Each County agency that has a project funded by bond proceeds shall designate a fund manager to be responsible for monitoring the application of bond proceeds to the financed projects. The designated fund manager shall be responsible for periodic reporting and compliance with the County's post-bond issuance procedures.

V. Capital Fund Financial Management

The following financial management policies help maximize the use of County financial resources and ensure timely use of available capital fund resources.

1. Financial plans should be updated annually to ensure continued available resources to fund projects with budget carried over from the prior biennium.
2. Capital funds reliant upon volatile revenue types should include a minimum fund balance reserve based on a risk assessment.
3. Budget authority will be canceled for any projects that have been completed or have not had any expenditure activity for 36 consecutive months.
4. Capital funds established for a temporary purpose should be evaluated annually for potential closure. Any remaining balance will be used to fund other projects, to retire debt, or will fall into fund balance with council notification.
5. Reallocation of excess bond proceeds and related interest earnings shall be reviewed by the Office of Performance, Strategy, and Budget and the Finance and Business Operations Division for compliance with bond covenants and post issuance bond policies.

Expenditure Policies

I. Introduction

In conjunction with the King County Strategic Plan and the Equity and Social Justice Ordinance, the following policies are used to guide the County's expenditure decisions. The County expenditure policies are expected to help manage costs by standardizing processes, developing sustainable targets, and improving predictability of the largest cost drivers in the County. These policies affect both the budget process and ongoing expenditure management. Particular emphasis is placed on topics that affect all County services, such as personnel costs and overhead allocation.

This document does not replace any existing fund specific policies or countywide policies required elsewhere. It is anticipated that this policy, and future amendments, will be adopted by the King County Council.

II. Policy Goals

Expenditures will be managed in a way that keeps the County's cost of doing business sustainable and minimizes service cuts and layoffs. Specifically, the policies are intended to achieve the following objectives:

- Ensure that personnel budgets and the compensation structures to attract and retain a talented workforce are sustainable,
- Provide guidelines and targets for non-labor costs,
- Allow for expenditures to be forecast in the short-term and long-term, and
- Create a framework for evaluating new and current programs that takes into account cost and performance.

III. Expenditure Management and Administration

Expenditure Management

1. Actual expenditures will be incurred in a way consistent with adopted operating and capital budgets.
2. Any legislation that has a fiscal impact will be accompanied by a fiscal note and, if the expenditure impact results in a positive or negative change of five percent or more, a proposed update to the current financial plan. The financial plan or fiscal note will clearly identify how the proposed legislation will impact current budgets, as well as highlight any long term fiscal impacts.

Personnel

1. The County will seek to provide employee compensation for job classifications that attracts and retains a quality workforce and provides livable wages and benefits for its employees. From time to time, the Human Resources Division will conduct analysis to determine competitive pay rates.

2. Recognizing that compensation costs are the primary cost driver in King County government, the County will strive to limit the growth rate of compensation costs. The County's long-term goal is to have the cost of compensation increase at a rate of no more than Seattle's consumer price index as measured by Seattle CPI-W. Compensation costs could grow at a rate faster than Seattle CPI-W commensurate with measurable labor productivity increases. Compensation costs include salary, benefits, accrued liabilities, special pays, ongoing training and development, and taxes. The Executive, County Council, separately elected officials, and the Office of Labor Relations will work with labor unions to make this achievable.
3. Total compensation costs may grow at a higher rate than the Seattle CPI-W in order to meet an increase in service demand and population growth.
4. Recognizing that adding positions creates a long-term commitment for the County, prior to adding new positions, emphasis should be placed on repurposing current or vacant positions, increasing efficiencies to create capacity, or implementing technological improvements that can delay expanding staff.
5. The County will strive to avoid layoffs of full time employees to balance the budget. The County will primarily use attrition as a means to reduce costs associated with positions.
6. The County places high importance on employee health and well-being. As such, the County will contribute to health care benefits and provide an incentive program to foster a healthy work environment and productive employees.

Overhead Cost Allocation

1. Internal services and county overhead functions support the delivery of direct services and the allocation of internal service resources should create the highest value for customers.
2. Central rate charges and overhead allocations are a means to spread the cost of centralized services across County agencies using a methodology that aligns services provided with the costs charged.
3. The following policies will guide the development and implementation of the County's overhead and central rate plans for allocating costs to other County funds and agencies:
 - The full cost of central services will be spread through central rates or allocation models.
 - The cost to be allocated will approximate the benefit received by the County fund receiving the charge.
 - Recognizing that many services are indirect and not easily quantifiable, overhead and central rate charges may be estimated, where the law and accounting standards allow.
 - Overhead and central rate charges will be calculated in a fair and consistent manner without requiring overly burdensome cost accounting.
 - An agency will charge costs to other County funds and agencies consistent with the adopted budget.

Expenditure Administration

1. Expenditures will be accounted for in accordance with GASB standards and monitored on a quarterly basis to ensure timely and periodic reporting of costs. The use of negative expenditures will be minimized.
2. To ensure accurate forecasting, predictable costs, and a streamlined process, budgeted interagency transfers and charges (such as central rates) will occur quarterly at a minimum, unless the transfers are for reimbursable costs or an exception has been discussed and approved.
3. In order to clearly track and contain labor costs, County agencies may loan out labor for specific tasks to other agencies only if adopted with the budget.
4. Principal and interest payments will be budgeted and accounted for in operating funds or dedicated debt service funds.
5. Transfers to capital projects or capital funds from operating funds will be budgeted in a distinct appropriation unit or cost center within each fund. Exceptions may be made based on a documented business case.

IV. Program Management and Business Planning

Programs and projects will be managed in a way that takes into account strategic plan integration, the County management model, performance, and resource constraints. The budget process is part of an overall program management process.

Current Programs

1. Current programs should strive to make efficient use of taxpayer/ratepayer dollars. Agencies will be asked to continuously create efficiencies that result in better products for customers, reduced costs for customers, more timely service, or other measures of efficiency.
2. Programs will undergo reviews for achieving desired outcomes and cost effectiveness, alignment with the King County Strategic Plan and promoting the equity and social justice and energy efficiency initiatives. Resources for programs that are determined to fall outside the scope or are determined to be ineffective will be reallocated and repurposed.
3. All programs will be evaluated on a periodic basis. Programs that do not deliver a high quality service with an effective outcome will be recommended for modification or elimination.
4. Expenditures will be budgeted and accounted for in the following areas: accounts, cost center, appropriation unit, and fund.

New Operating Program Criteria

1. For the purposes of this document, a new operating program is defined as a new service or significant change to an existing service for which additional funding is requested.
2. Proposals for programs must justify the program's necessity and how it increases the value for customers or mitigates a reduction in value for customers. New program proposals must also rule out alternative programs that may have a different operational or cost profile.
3. New on-going operating program proposals will be considered using a multi-year time horizon for expenditures and revenues.
4. New operating program proposals will include analysis for alignment with the King County Strategic Plan, King County Energy Plan, the impact on equity and social justice within King County, and compliance with legal mandates.
5. New operating program proposals will be evaluated based on available research, theory, or similar programs elsewhere.
6. New operating program proposals will identify anticipated benefits and will be measured against those on an annual basis.
7. When possible and appropriate, the County will pursue partnerships with other governments, non-profit organizations and private entities to help fund new programs.

Revenue Policies

I. Introduction

In conjunction with the King County Strategic Plan and the Equity and Social Justice Ordinance, the following policies are used to guide the County's decisions regarding revenue generation. The objective of these revenue policies is to ensure that King County's funding is derived from a fair, equitable and adequate resource base, while minimizing differential tax burdens. County decision makers shall strive to maintain a revenue base that is diverse, stable and efficiently collected to ensure the County's long-term financial stability, avoid service cuts and layoffs while providing high quality services to customers.

This document does not replace any existing fund specific policies or countywide policies required elsewhere. It is anticipated that this policy, and periodic future amendments, will be adopted by the King County Council. The King County Forecast Council will work in collaboration with the Executive and King County Council to further establish prudent revenue policies.

II. Policy Goals

Revenues will be managed in way that maximizes and diversifies collections to support the long-term sustainability of County services. Specifically, the policies are intended to achieve the following objectives:

- Maintain services during periods of economic decline,
- Spread and administer the King County tax, rate and fee burden equitably to residents, businesses, and other organizations,
- Support maintenance of the highest possible bond ratings, and
- Forecast revenues in a consistent and objective manner.

III. Revenue Profile

Revenue Purpose

1. Within the limitations imposed by State law, King County will maximize and diversify its revenue base to raise sufficient revenue, in a fair and equitable manner, to support essential County services and to maintain services during periods of declining economic activity.
2. King County will spread the tax burden throughout the County's tax base by evaluating all available tax sources and mitigating inequities and hardships where possible and appropriate. The County will pursue legislative agendas that promote a more equitable and progressive tax structure.
3. The County will strive to keep a total revenue mix that encourages growth and keeps the County economically competitive and a location of choice for people to live and do business.
4. County services providing private benefits should be paid for by fees and charges as much as legally allowed.

5. The Office of Performance, Strategy and Budget (PSB), in conjunction with the Office of Economic and Financial Analysis (OEFA), will maintain a "Revenue Manual" that documents important characteristics and background of each revenue source, including historical collections, forecasting methodology and an assessment of risks to revenue collections.

Tax Revenue Generation and Collection

1. Taxes should be selected for balance, applicability, and probable economic impact. The following factors will be considered when the County's taxes are changed:
 - State law,
 - Consistency with the County's financial policies and the King County Strategic Plan,
 - Stability of the tax source over its expected life,
 - Suitability for a pledge against future debt, and
 - The effect of the tax on all county residents, businesses, and other organizations.
2. The County will collect the resources to which it is entitled as efficiently as possible. King County will aim to collect all revenues owed to it. The County will enforce its authority to collect revenue due the County.

Diversification

1. The County will strive to maintain a balanced and diversified revenue structure to protect the County from fluctuations in any one source due to changes in local economic conditions that adversely impact that source. This includes sales tax, property tax, user fees, utility service charges, contract revenue, grants, and all other means available under state law.
2. The County will strive to maintain a diversified mix of revenues in order to provide ongoing stability and predictability and to spread the tax burden in an equitable manner.
3. Agencies are encouraged to actively seek out new sources of revenue to diversify the agency's revenue base for increased stability.
4. Agencies are encouraged to contract with local governments, municipalities and community-based organizations to provide services to residents on a full cost recovery basis. Pricing should consider the marginal costs of providing the service, indirect and overhead costs, and revenue stability.
5. Agencies and programs that primarily or exclusively operate with non-General Fund revenue will minimize reliance on General Fund support.

One-time and Volatile Revenue

1. One-time revenues should not be used to finance ongoing operations.

2. Recognizing that revenues fluctuate with economic cycles and in order to ensure sustainable services, the County will strive to build reserves in times of economic prosperity to offset times of declining revenue.

IV. Fees and Grants

User Fees and Service Charges

1. County services that provide private benefit should be supported by fees and charges borne by the direct beneficiary. The County can consider subsidizing a portion of the cost of service or implementing variable pricing to support equity and social justice goals, County local government services, environmental concerns, or economic development.
2. Charges for services that benefit specific users should recover the cost of the service to the County within legal constraints. This shall include direct and indirect costs, associated capital costs, department and countywide overhead, and the cost of risk. Departments that impose fees or service charges should prepare and periodically review the cost-of-service in order to ensure adequate cost recovery and that revenues are meeting intended program goals.
3. Consideration of fee and user charges will take the following into account:
 - The true or comprehensive cost of providing a service, including the cost of fee collection and administration,
 - Consistency with the County's financial policies and the King County Strategic Plan,
 - Stability of the revenue source over its expected life,
 - The degree to which a service provides a positive regional benefit in addition to the direct private benefit provided to a specific business, property or individual,
 - The economic impact of new or expanded fees, especially in comparison with other governments within the metropolitan area, and
 - The impact of increasing or imposing the fees and user charges on all residents, especially on economically at-risk populations, businesses, and other organizations.

Grants

1. Many grant funded programs are demonstration or research projects and are not expected to become long-term programs. Continuing these programs with other revenue sources must be approved in the budget process.
2. In some cases, the County depends on a variety of state and federal grants in order meet ongoing service delivery needs. This often creates future expenditure obligations for which revenues have not been identified. The County will work toward establishing a more-sustainable revenue stream for ongoing services that are prioritized.
3. Federal aid, state aid, gifts, and grants will be accepted only after an assessment is made of potential long-term cost implications including both dollar and level of effort matching requirements.

4. County agencies accepting grant awards will ensure compliance with grant requirements including annual reporting of grant related expenses.

V. Revenue Administration and Management

Administration

1. Revenues will be accounted for in accordance with GASB standards and monitored on a quarterly basis.
2. In order to maintain transparency and clarity, negative revenues will not be used.
3. To ensure accurate forecasting, predictable revenue streams, and to monitor cash flow levels, revenues will be collected on a regular basis when available. Agencies should not wait until the end of the fiscal year to collect revenues.

VI. Revenue Estimates

Forecasting

1. The Forecast Council is the official forecasting body for King County. Where the Forecast Council has adopted an official forecast, agencies shall not use different figures or assumptions for budget development.
2. To support revenue monitoring, the County will strive to budget revenues in the accounts and cost centers in which they are received.
3. Forecasts will be developed in a transparent and repeatable manner. All assumptions and data sources will be documented. Forecasts should consider and note significant economic, legal, operational, and other applicable risks.
4. The County will forecast fund revenues using the following guidance:
 - Office of Economic and Financial Analysis (OEFA) forecasts per the King County Charter,
 - Expenditure assumptions provided by PSB to support contract revenue, and
 - Revenue assumptions developed by the state and federal governments should be used where appropriate.
5. Revenue estimates for the budget process will be based upon historic analysis of past revenues, economic conditions, and forecasted demand for the agency's product, and will be consistent with budget development guidance. Estimates will be reviewed by PSB, the Executive and the County Council. The County will monitor actual revenue collections and compare to revenue estimates in order to better understand the health of the fund.
6. PSB and the Council will review financial plans as part of the budget process, including revenue assumptions. Financial plans shall state all significant revenue forecast assumptions.

Fund Balance Policies

I. Introduction

The County believes that sound financial management principles require that sufficient funds be retained to provide a stable financial base at all times. To attain this stable financial base, the County maintains reserves in the General Fund and other operating funds to plan for future expenditures, provide working capital, meet mandated reserve levels, and offset unexpected revenue or expenditure fluctuations.

This document sets forth specific policies regarding reserves and fund balances for King County. This document does not replace existing fund specific policies or mandated reserve levels required elsewhere. It is intended that this policy, and periodic future amendments, will be adopted by the King County Council.

II. Policy Goals

County fund balances will be managed in a way to provide a prudent level of financial resources to meet specific purposes. The purpose of these policies is to establish criteria for determining how financial resources will be set aside. Specifically, the policies are intended to achieve the following objectives:

- Prudently plan for and fund future expected costs
- Establish fund amounts for anticipated mismatches between revenues and expenditures
- Meet legal, contractual or existing policy requirements
- Clarify fund level decision-making around uncertainty

III. General Reserve Policies

General

1. The County's fund-specific financial policies identify the various funds that have policies on maintaining reserves, set-asides and other fund balances. These include approved motions and code requirements and shall determine acceptable reserve levels if conflicting with the policies herein.
2. For all funds, sub-funds and accounts, the Office of Performance, Strategy and Budget (PSB) in consultation with departments and the Council shall periodically review fund balance accumulations and the uses thereof. Reserves will be reviewed on an ongoing basis for sufficiency and relevance.
3. Financial planning for reserves and fund balance shall comply with written guidance provided by PSB unless otherwise approved by PSB.
4. Financial planning for all King County operating funds should aim to establish an ending undesignated fund balance of zero unless stipulated elsewhere.
5. Where fund balance deficits exist, a gradual correction of the problem over a multi-year period may be preferable to a large one-time increase.

6. Factors to consider in establishing reserves include:
 - Future expenditures including equipment reserves
 - Cash flow requirements to support operating expenses
 - Legal or regulatory requirements affecting revenues, disbursements, and fund reserves
 - Credit worthiness and capacity to support debt service requirements for enterprise funds
 - Relative rate stability from year to year
 - Susceptibility to financial risks, revenue shortfalls or emergency or unanticipated expenditures
 - Redundancy of reserves in other funds

Fund Reserves

1. In the majority of funds, reserves will be identified as Expenditure Reserves, Cash Flow Reserves, Mandated or Rate Stabilization Reserves, or Rainy Day Reserves.
2. The majority of operating funds, including Enterprise Funds and Special Revenue Funds, should maintain a Rainy Day Reserve equal to 30-60 days of expenditures.
3. For Internal Service Funds, only the Benefits, Safety and Claims, Facilities Management, and Risk funds may have Rainy Day Reserves.
4. Special levy funds (funds whose major revenues are based on voter approved levies) should plan for a rainy day reserve at the end of the levy period equal to 90 days of expenditures.
5. The reserves in the County's Safety and Claims and Risk funds shall reflect 100% of the actuarial determined amounts for those funds, unless otherwise directed by an auditor or risk management committee. If the reserve is more or less than this value, the financial plan shall reflect a multi-year plan to match the actuarial or recommended amount.
6. In order to maintain a sustainable employee benefits program, the Incurred But Not Reported (IBNR) reserve in the Employee Benefits Fund shall be maintained at 100% of the actuarial projection.
7. In order to support cost fluctuations in building maintenance and services and to minimize the impact on other County funds, the Rainy Day Reserve for the Facilities Management Division internal service fund shall be maintained at three percent of revenues, as reflected in the financial plan adopted by the Council in the annual budget process.
8. Expenditure reserves such as equipment replacement reserves, reserves for future activities and labor reserves shall be based on an analysis of need.
9. Labor liabilities such as compensated absences are typically funded on a pay as you go basis. Expenditure reserves for labor liabilities may be used if a fund is expected to close and the reserve is to ensure sufficient funding for close out labor costs or if a large increase is anticipated due to contract negotiations or other cost drivers.

10. Cash flow reserves for operating funds shall be maintained at levels so the timing lags between revenues and expenditures are normally covered without any fund incurring negative cash balances.
11. The size of any rate stabilization fund balance shall depend on a specific analysis and legal requirements.
12. Funds should plan for future pension liabilities if they are expected to increase significantly. This may include the establishment of a reserve for the purpose of meeting this expected liability.

Unassigned Fund Balance

King County's financial planning should provide for an anticipated year-end unplanned unassigned General Fund Balance between six percent and eight percent of estimated annual revenues less intergovernmental receipts and interfund transfers, in order to: maintain the County's credit rating, meet seasonal cash flow shortfalls, help maintain services during short periods of economic decline, and meet emergency conditions.

Should the estimated balance fall below six percent of revenues, a plan for expenditure reductions and/or revenue increases shall be submitted to the Council.

In the event the anticipated balance is above eight percent, the difference may be used to fund the following activities, in order of preference: (1) one-time capital expenditures that do not increase ongoing county costs; (2) other one-time costs; and (3) ongoing or new County programs, provided that such action be considered in the context of a multi-year projection of revenues and expenditures.

If the actual year-end unassigned fund balance falls below six percent of annual revenues, the County should rebuild the balance to at least six percent within one year.

Glossary

Accrual Basis: Transactions are recognized when the economic event occurs, regardless of whether or not cash is received or paid. Proprietary funds, which encompass the enterprise funds, use the accrual basis of accounting. These funds have an income measurement/capital maintenance focus. The accrual basis of accounting is used by private enterprises as well.

Accrued Time Off: The vacation, sick leave and other benefits that are added to an employee's time off balance each pay period.

Assigned fund balance: The portion of fund balance that has intended uses. The uses can be established by the governing body itself or established by a body or an official designated by the governing body.

Bond Anticipation Notes (BANs): A short-term interest bearing financing agreement issued in advance and in anticipation of a long-term bond issue.

Capital Asset: Tangible or intangible assets that meet all three of the following: a) it must have an initial useful life that extends beyond a single reporting period, i.e., one year; b) it must be used in operations of the entity; and, c) it must not be specifically excluded by policy, e.g., capitalization threshold.

Capital Improvement Program (CIP): The forecast of major capital projects and acquisitions over a selected period of time, typically four years beyond the biennial capital budget.

Capital Budget: The biennial appropriation for capital projects and acquisitions with identified funding sources. The capital budget is usually included in a CIP proposed by an Executive and approved by the County Council.

Capital Budgeting Financial Management: The policies and processes that are used in preparing, adopting, implementing and financing the capital budget.

Capital Expenditure: An outlay of significant value that results in the acquisition of or addition to a capital asset, which is held or used for more than one year. Significant value is variable by local government but is defined as a capitalization threshold above which assets are depreciable over its estimated useful life.

Capital Project: A project with a scope that includes one or more of the following elements, all related to a capital asset: acquisition of either a site or existing structure, or both; program or site master planning; design and environmental analysis; construction; major equipment acquisition; reconstruction; demolition; or major alteration. A capital project includes a project program plan, scope, budget by phase, and schedule. The project budget and phases of a project shall be prepared or managed by the implementing agency.

Capital Project Funds: A governmental fund that is used to account for financial resources that are restricted, committed, or assigned to expenditures for the acquisition and construction of major capital facilities.

Cash Flow Reserves: Fund balance set aside to offset anticipated imbalances between the timing of expenditures and the timing of revenues.

Committed Fund Balance: The portion of fund balance whose use is constrained by limitations that the County imposes upon itself. Limitations are imposed at the highest level of decision making that requires formal action at the same level to remove.

Comprehensive Financial Management Policies (CFMP): An assemblage of all the County's financial policies in one document. These are the tools used to ensure that the County is financially able to meet its immediate and long-term service objectives.

Debt Financing: Borrowing money through issuing bonds or other debt vehicles in order to fund expenditures. The principal and interest on the bonds is paid over an extended time horizon.

Debt Service Funds: A governmental fund that is used to account for the accumulation of resources that are restricted, committed or assigned for, and the payment of, general long-term debt principal and interest.

Direct Costs: The costs attributed directly to a specific agency or project.

Emergent Need Contingency Project: An emergent need contingency project is a project appropriated in a capital fund to address unanticipated costs that could not have been identified in projects at the time of budget approval

Enterprise Funds: A fund that is used to account for any activity for which a fee is charged to external users for goods or services.

Expenditure Reserves: Reserves set aside to pay for specific activities or future costs including replacement of equipment, capital expenditures, facility moves, prepaid expenditures, and new debt service.

Financial Plan: A summary of a fund's financial standing, anticipated revenues, adopted or expected expenditures, reserves, and undesignated fund balance for the current biennium, the prior year or biennium, and for the two subsequent biennia.

Fiscal Notes: A report identifying the incremental fiscal impact of a motion or ordinance that would directly or indirectly increase or decrease revenues or expenditures incurred by the county. Fiscal notes will include the estimated revenue and expenditure impact of any legislation for the current biennium, the prior year or biennium, and for the two subsequent biennia. In addition, fiscal notes will provide an explanation of how the revenue and expenditure impacts were developed.

Forecast Council: The King County Forecast Council (KCFC) is composed of two representatives from the executive branch and two representatives from the Metropolitan King County Council. The KCFC oversees the Office of Economic and Financial Analysis (OEFA) and the work of the King County Chief Economist. The KCFC meets several times a year to review the work of the OEFA, to review or adopt forecasts or to propose special studies for the OEFA.

General Fund: The County's primary governmental fund that is used to account for all financial resources of the County not required to be accounted for in some other fund.

Generally Accepted Accounting Principles (GAAP): The standard framework of guidelines for accounting practices.

Government Finance Officers Association (GFOA): The organization that enhances and promotes the professional management of governments for the public benefit.

Governmental Accounting Standards Board (GASB): the board that resolves accounting disputes and sets the generally accepted accounting principles for governments.

Indirect Costs: Indirect costs are defined as the costs that are the necessary to provide service but not directly attributable to the direct service. Indirect costs include agency overhead and central rates.

Infrastructure: Assets that are available for public use, are stationary, and generally have useful lives over an extended period of time. Local infrastructure includes buildings, streets, roads, sidewalks, bridges, runways, tunnels, storm-water and drainage systems, dams, water supply and sanitary sewer systems, parks, and open space.

Internal Service Funds: A fund that is used to account for the provision of goods or services by one department or agency to other departments or agencies of the county on a cost-reimbursement basis.

Mandated Reserves: Fund balance set aside to meet contractual or legal requirements or to stabilize rates.

Modified Accrual Basis: Expenditure transactions are recognized when incurred. Revenues are recognized when they are both measurable and available to finance the expenditures of the current period. Governmental funds, including general, special revenue, debt service, and capital projects, use the modified accrual basis of accounting. For a revenue to be recognized in a governmental fund, it must be "measurable" (the amount must be known or be reasonably estimated), and it must be "available" to finance the expenditures of the same fiscal period for which the revenue is recorded. "Available," in this case, means collectible in the current period or soon enough thereafter to be used to pay liabilities of the current period.

Overhead Cost Allocation: the process of spreading costs associated with assisting direct service provision (overhead) to the parts of the organization that provide the direct service.

Pay-as-you-Go (PayGo) Method: Financing (a portion of) capital projects once the money is available. This method does not rely on financing tools, such as bond financing.

Progressive Tax Structure: a tax structure that increases vertical equity, i.e., those at the higher incomes pay a larger percentage of their income in taxes than those at lower incomes.

Project Baseline: The scope, schedule and budget set at the conclusion of the preliminary design phase when the preferred alternative has been selected and design has progressed adequately to make reasonable and informed commitments, typically at thirty to forty percent design. Project baseline is used as a basis for variance reporting and performance measurement.

Rate Stabilization Reserves: Cash reserves to manage or moderate the pattern of future increases in rates or fees charged.

Rainy Day Reserves: Fund balance set aside to meet unexpected changes in revenues or expenditures.

Restricted Fund Balance: The portion of fund balance that has externally enforceable limitations on use. Limitations are imposed by creditors, grantors, contributors, or laws and regulations of other governments.

Special Revenue Funds: A governmental fund that is used to account for the proceeds of specific revenue sources that are restricted or committed to expenditures for specified purposes other than debt service or capital projects.

Unassigned Fund Balance: The excess portion of fund balance over nonspendable, restricted, committed and assigned components. A positive unassigned balance is only allowed in the general fund.

Undesignated Fund Balance: Fund balance remaining after all other reserves are funded.

Unplanned Unassigned Fund Balance: The portion of general fund unassigned balance that is not planned to be maintained in a reserve as identified on the general fund financial plan.

Unrestricted Fund Balance: The combined balances of committed, assigned and unassigned fund balance.