

W.5.F.1.

Memorandum Date: June, 16 2010
Order Date: July 7, 2010

TO: Board of County Commissioners

DEPARTMENT: Management Services

PRESENTED BY: Mike Barnhart, Interim Financial Services Manager

AGENDA ITEM TITLE: IN THE MATTER OF AMENDING CHAPTER 4 OF THE LANE MANUAL TO REQUIRE INDIRECT REVENUES BE PLACED INTO THE GENERAL FUND AND INDIRECT DEPRECIATION AND USE ALLOWANCE REVENUES BE PLACED INTO THE GENERAL CAPITAL PROJECTS FUND AND DIRECT THE COUNTY ADMINISTRATOR TO DEVELOP POLICIES AND PROCEDURES FOR THE PREPARATION AND APPROVAL OF COUNTY-WIDE INDIRECT COST PLANS (LM 4.010)

I. MOTION

Move approval of order 10-07-07-XX amending Chapter 4 of the Lane Manual to document the current, established practice that indirect revenues be placed into the general fund and indirect depreciation and use allowance revenues be placed into the general capital projects fund, and to direct the County Administrator to develop policies and procedures for the preparation and approval of county-wide indirect cost plans.

II. AGENDA ITEM SUMMARY

Centralized functions of the County are housed in the General Fund and funded in part by charging the costs of common/shared services to other County funds based on statistical use measures (e.g. square footage, FTE, etc.). The current version of the Lane Manual is silent regarding what accounting fund(s) are to receive the indirect revenues and depreciation and use allowance revenues generated. The Board is being asked to approve an amendment to Lane Manual to document the current, established practice regarding the receipt of these revenues. Furthermore, many of the operating policies and procedures used in developing the indirect cost plan have not been formally documented and approved by the County Administrator. The board order also calls for administrative policies and procedures be developed for the preparation and approval of any county-wide indirect cost plans.

III. BACKGROUND/IMPLICATIONS OF ACTION

A. Board Action and Other History

Lane Manual 4.010(4) (e) permits the County to charge allowable indirect costs to all departments and funds in an equitable manner.

B. Policy Issues

Lane Manual 4.010(4) denotes "Expenditure Control Cost Recovery Policies" of Lane County, the goal of which is to deliver maximum services in a cost effective and efficient manner. The policy should be expanded to include allowable uses of indirect revenues and depreciation and use allowance revenues received.

C. Board Goals

This item supports the goal of providing efficient and effective financial and administrative support and systems to direct-service departments.

D. Financial and/or Resource Considerations

There is no direct financial impact resulting from the Lane Manual amendment. Adoption of the amendment will formalize the current practice.

E. Analysis

The Governmental Accounting Standards Board (GASB) sets the accounting rules for how local governments report their financial information to the public. Because of the nationwide disparity in how local governments use accounting funds, the GASB issued Statement No. 54 in February of 2009 to provide additional guidance for the use of special revenue funds, debt service funds, and capital projects funds. In 2009, the Financial Services Division began a project to analyze the major revenue streams of each accounting fund at the County and whether or not it is operating in accordance with the new standard. After a thorough review, it was determined that the Capital Improvement Fund (Fund 435) did not meet the new definition of a Capital Projects fund.

One of the main sources of income to the Capital Improvement Fund is a depreciation and use charge developed in accordance with the Office of Management and Budget's Circular A-87. Depreciation and use allowances are means of allocating the cost of fixed assets to periods benefitting from asset use and are a federally endorsed accounting mechanism that allocates the cost or use of shared facilities to all affected departments based on square footage used. The annual depreciation and use charge is computed as a percentage of the total

construction, improvement, and acquisition costs of County owned buildings. Revenue from these depreciation and use charges are received into the Capital Improvement Fund 435 for major repair and maintenance of general capital assets at the County. The use of these resources is guided by a Facilities Committee whose function is to provide recommendations to the Board per Lane Manual 3.515.

The new accounting standards require Lane County to formally document the established policy that revenue from depreciation and use charges be used to fund the Capital Improvement Fund. This Board Order does that, as well as set into policy that all other indirect revenues be placed into the General Fund.

The additional language is underlined below:

Lane Manual 4.010(4)(e) The County will charge the allowable indirect to all departments and funds in the most equitable manner possible and will recover the allowable indirect from all grants, contracts and intergovernmental agreements. Any exceptions will be made only upon Board approval. Indirect revenues, except for depreciation and use allowance revenues, are to be received into the General Fund to pay for the cost of central services provided. Depreciation and use revenues are to be received into the Capital Improvement Fund and assigned to general capital improvement projects as approved by the Board of County Commissioners.

On May 20, 2010, an agenda item was taken to the Finance and Audit Committee for review and discussion. The Committee unanimously approved the proposed amendment be forwarded to the full board for approval.

F. Alternatives/Options

1. Approve the proposed Lane Manual amendment and give direction to the County Administrator for policy and procedure development. If approved, this option will allow the Capital Improvement Fund 435 to continue to be accounted for as a Capital Projects Fund for financial reporting purposes.
2. Do not approve the proposed Lane Manual amendment, nor direct the County Administrator to develop policies and procedures. This option will require the County to report the Capital Improvement Fund in the General Fund for financial reporting purposes.

IV. RECOMMENDATION

The Interim Financial Services Manager recommends approval of the proposed amendment to Lane Manual and positive direction to the County Administrator for

development of indirect cost plan preparation and approval policies and procedures.

V. TIMING/IMPLEMENTATION

The new accounting rules are effective July 1, 2010, so direction within the next few months is preferable.

VI. FOLLOW-UP

None.

VII. ATTACHMENTS

Order No 10-07-07-XX

IN THE BOARD OF COUNTY COMMISSIONERS OF LANE COUNTY, OREGON

ORDER NO.

IN THE MATTER OF AMENDING CHAPTER 4
OF THE LANE MANUAL TO REQUIRE
INDIRECT REVENUES BE PLACED INTO THE
GENERAL FUND AND INDIRECT
DEPRECIATION AND USE ALLOWANCE
REVENUES BE PLACED INTO THE GENERAL
CAPITAL PROJECTS FUND AND DIRECT THE
COUNTY ADMINISTRATOR TO DEVELOP
POLICIES AND PROCEDURES FOR THE
PREPARATION AND APPROVAL OF COUNTY-
WIDE INDIRECT COST PLANS (LM 4.010)

The Board of County Commissioners of Lane County orders as follows:

Lane Manual Chapter 4 is hereby amended by deleting, substituting, and adding the following section:

DELETE THIS SECTION

4.010
as located on pages 4-1 through 4-3
(a total of 3 pages)

INSERT THIS SECTION

4.010
as located on pages 4-1 through 4-3
(a total of 3 pages)

Said section is attached hereto and incorporated herein by reference. The purpose of this substitution and addition is to amend Lane Manual Chapter 4 to require indirect revenues be placed into the general fund and indirect depreciation and use allowance revenues be placed into the general capital projects fund and direct the county administrator to develop policies and procedures for the preparation and approval of County-Wide indirect cost plans (LM4.010).

Effective this _____ day of _____ 2010.

William A. Fleenor, Chair
Lane County Board of Commissioners

APPROVED AS TO FORM
Date 6/21/16 Lane County

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OFFICE OF LEGAL COUNSEL

4.010 Policies.

Departments will use the following policies in administering their budgets, developing long-range goals and plans, and dealing with the public and other governments.

(1) Budget and Management Policies:

Goal: To provide an accountable form of government to the citizens of Lane County.

(a) The County budget will provide information concerning program service delivery and will integrate performance measures and productivity indicators, where possible.

(b) The County budget will provide for an appropriate balance between the operating and capital portions of the budget to insure that equipment and facility maintenance and replacement are adequately funded and occur in a timely cost-effective manner.

(c) Long-range financial plans and revenues and expenditure estimates will be developed in order to contribute to financial and program stability.

(d) The County will endeavor to prepare and publish a comprehensive annual disclosure of its financial affairs in a format intelligible to the interested public, with the goal of obtaining the Certificate of Excellence in Financial Reporting (issued by the Governmental Finance Officers Association).

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

(2) Revenue Policies:

Goal: To develop and maintain balanced sources of revenue sufficient to meet the ongoing financial commitments of Lane County.

(a) To the extent feasible, one-time revenues will be used for one-time capital expenditures or projects and will not be used for recurring operating purposes.

(b) Prior to initiating new projects, whether service programs, grants, or capital improvement projects, financial impact analyses will be completed and considered. The analysis will identify the short term and long-range effects of such programs on the County along with any commitment for additional County resources.

(c) The County will strive to diversity revenues and develop controllable revenue sources in order to maintain services during times of economic downturn.

(d) Charges for services will be set by the Board of Commissioners and based on an analysis of who benefits from the service, amounts charged by other agencies for similar services, the actual direct and indirect cost of providing the services, and statutory limits. It is the general policy that fees will be set to recover the cost of providing the service.

(e) Fees and charges for internal service funds will be set at a cost recovery level. For replacement reserves, the charges will be established at a level to fund the replacement over the expected useful life of the equipment. Internal service charges will be reviewed annually for appropriateness.

(f) The County may sell or lease services that were developed to meet a County need, but the sale or lease will be secondary to the purpose of meeting the identified need.

(3) Reserve Policies:

Goal: To maintain adequate reserves to provide a cushion against unforeseen events and economic downturns, thus providing for stability in planning and service delivery, and to maintain a reserve level sufficient to maintain a favorable bond rating.

(a) The County will establish reserve funds that can be used to reduce the impact of revenue fluctuations and provide for more stable delivery of services to Lane County citizens.

(b) The County will strive to maintain a minimum of a 5% Prudent Person Reserve for all funds except the General Fund. The reserve in each fund will be reviewed annually during the budget process by the designated fund manager and associated committee.

(c) The County will establish operational reserves within the General Fund and strive to maintain a reserve balance of at least 10% of General Fund operating revenues. Refer to General Fund Reserve Policy at LM 4.011 below.

(d) The County will establish and budget adequate contingency reserves for all operating funds to meet unanticipated requirements during the budget year.

(4) Expenditure Control Cost Recovery Policies:

Goal: To delivery maximum services in a cost effective and efficient manner.

(a) The County will increase efforts to review programs effectiveness to insure maximum return from extremely limited resources. One major effort will be an expanded performance audit capability.

(b) Contracting for services with outside agencies/vendors will be considered when cost efficient and consistent with County labor policies.

(c) Intergovernmental services agreements shall be encouraged wherever services used by several departments can be more effectively provided on a collective basis. Service billings to user agencies will be sufficient to fully recover costs of operation, including depreciation of equipment, direct and indirect costs.

(d) Department expenditures shall not exceed appropriations, and expenditures of discretionary General Fund dollars will not exceed the amount approved in the department budget, except upon written authorization by the Board of Commissioners.

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

(f) It is County policy to fully expend all grant, contract, and other program generated revenues (e.g. fees, reimbursements) prior to expending county funds unless otherwise directed by specific grant or contract requirements.

(g) Any services or programs that are largely or wholly supported by time-limited grant or contract funds will be considered to automatically sunset at the expiration of the grantor contract

(5) Lapse Policy:

Goal: To maintain the integrity of financial planning models, provide accountability, and maintain reserve levels.

(a) Each department utilizing General Fund resources is expected to lapse 2% of net General Fund use. The lapse generally results from expenditures less than the total appropriated amount. However, revenues in excess of the budgeted amount can be used to offset expenditures for the net lapse calculation.

(b) If a department fails to meet the 2% lapse target by more than \$5,000, the department is expected to repay the shortfall to the General Fund within one

year. At year-end, an interfund loan will be executed to cover the shortfall, which is subject to approval by the Board of Commissioners for approval. (Refer to Lane Manual 4.034-4.040).

(c) Under extraordinary circumstances, the Board of Commissioners may waive the lapse expectation for one or more departments. *(Revised by Order No. 02-1-30-1; Effective 1.30.02; 06-5-31-1, 5.31.06)*

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