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November 1, 2011

11/9/11 Council Mtg.

Sponsor: _____

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Proposed No.: 2011-0397

*JP Moved
PASSED 9-0*

1 **AMENDMENT TO PROPOSED MOTION 2011-0397, VERSION 1**

2 On page 3, beginning on line 39, strike lines 39 through 40, and insert:

3 "The Road Services Division Financial Policies and Practices, Attachment A to this
4 motion, are hereby approved."

5 Delete Attachment A, 2012-2013 Road Services Division Financial Policies and
6 Practices, and replace with Attachment A, Road Services Division Financial Policies and
7 Practices, dated November 1, 2011.

8 **EFFECT: Modifies the motion to refer to a different Attachment A. Replaces the**
9 **Attachment A with a new version that modifies the financial policies and practices.**

Road Services Division Financial Policies and Practices

I. General Financial Practices

Road Services financial practices will be consistent with the policies outlined in this document. The focus of this policy statement is the Road Services Division (RSD) financial plan which will include the following components: budget and cash flow projection of six years or more, estimated revenues, operating expenses, capital projects, impacts associated with anticipated annexations, claims, reserves and debt service for all funds.

II. Revenue and Emergency Expenditure Reserves and Fund Balance

RSD's revenues are cyclical in nature, with the significant share of revenues being received in the fourth quarter of each year. As such, reserves and fund balance targets are necessary to ensure that funding is available to support reimbursable and non-reimbursable work, as well as emergency events without the need for frequent supplemental budget requests.

A. Revenue and Emergency Expenditure Reserve

The RSD operating fund will establish and maintain a Revenue and Emergency Expenditure Reserve to be used in instances when variable revenues do not match expectations in a given year, and feasible and practical mitigation activities are insufficient to overcome revenue loss; or where there are non-reimbursable storm expenses that cannot be accommodated with available resources. The amount of this reserve will be determined based on RSD revenue variability and predictability, the ability to identify and mitigate revenue shortfalls, and historic spending on non-reimbursable storm work compared to appropriated storm costs.

The target reserve is \$2 million. Given RSD's current financial situation, this reserve will be established based on the following schedule:

2012	\$0
2013	\$500,000
2014	\$1,000,000
2015	\$1,500,000
2016 and beyond	\$2,000,000

B. Undesignated Fund Balance

The RSD operating fund will establish an undesignated fund balance to provide working capital to mitigate periodic variances between revenue collections and expenditures, and to provide funding for work associated with storms, pending receipt of reimbursement. As such, the undesignated fund balance reduces the level of funding needed for cyclical interfund borrowing.

The target undesignated fund balance is 6.5 percent of the operating fund less any transfers to capital. This percentage target is approximately equal to a 21 day operating expenditure period; and when combined with the revenue and emergency expenditure reserve this represents approximately 30 days of operating expenditures. Given RSD's current financial situation, this fund balance will be established according to the following goals anticipated to be achieved to the extent possible using planned property sales or other one-time financial plan benefits:

2012	3.5%
2013	3.5%
2014	4.0%
2015	5.0%
2016	6.0%
2017 and beyond	6.5%

III. Debt Policy

The goal of this section is to ensure availability of cash to cover debt payments and limit debt financing to appropriate uses.

- A. RSD debt service coverage is calculated as follows:

$$\frac{(\text{CIP Contribution} - \text{Pay As You Go Projects})}{\text{Total Debt Payments}}$$

"Pay-as-you-go" projects are a category of capital improvement projects that typically have less than a 20 year anticipated life and are not recommended for bond financing. This category includes projects such as drainage, safety, ADA, overlay, short span bridges and other projects with a similar anticipated life. When debt service coverage is calculated and reported, the specific projects will be reported as supporting information to the calculation. This category does not include projects with a long anticipated life such as bridges, capacity, new road construction or new buildings.

- B. By the earlier of 2017 or annexation or incorporation of 90 percent of the remaining potential annexation areas, RSD revenue contribution to the Road Capital fund will be considered a stable revenue source suitable for a 1.25 debt service coverage ratio.

It is important to retain sufficient flexibility in the amount of "pay-as-you-go" funding to be able to add projects necessitated by unexpected events such as floods, storms, and earthquakes. Any debt service payments made from other sources, including other County funds or regional sources, will not be considered in the debt ratio calculation. Debt will not be used to finance current operations or short-term assets.

IV. Facility Major Maintenance

The goal of this section is to ensure prioritization, planning, and funding of RSD's' facility infrastructure needs, as well as to minimize deferral of infrastructure needs. This planning will be preceded by a facilities master plan completed in the 2012-2013 biennium.

- A. RSD will prepare a 20-year plan to identify and prioritize needed facility infrastructure improvements at RSD-owned facilities. This plan will address the following categories: roof, HVAC, lighting, security, sidewalks, painting, flooring, and other elements as identified.
- B. Each six-year budget plan for the Facility Maintenance Fund (3850) will be based on the 20-year plan or updates to the 20-year plan. The supporting revenue will be budgeted as a transfer from the operating fund, except in instances of grants or property sales where supporting revenue is deposited directly into the capital fund.

V. Annexation Financial Planning

The goal of this section is to minimize capital spending in potential annexation areas.

- A. Except for projects for which a postponement is not advisable (e.g., safety or life-cycle inefficiency), the capital program will not include design or construction budget for projects in potential annexation areas forecast to be annexed within the next three years.

VI. Interfund Borrowing

The goal of this section is to ensure proactive identification of, and request for, interfund borrowing and to ensure borrowing is cost-neutral over the course of a year, as well as to limit project design work prior to project approval and debt issuance.

- A. Operating Fund

At a minimum, the operating fund balance will be maintained at a level sufficient to achieve net positive interest earnings in each year. Subject to Executive Finance Committee policies, interfund borrowing requests will be made in the first quarter of a year. Transfers from operating to capital may be timed to follow the October property tax collections, but may not be postponed beyond the end of the calendar year.
- B. Capital Fund
 1. The Roads Capital Improvement Fund (3860) is dependent upon reimbursable revenues and October property tax collections, which can result in cash flow shortfalls. This may require interfund borrowing subject to Executive Finance Committee policies.
 2. Receipt of Bond Anticipation Notes or Permanent Bond financing will be scheduled in a manner to reduce the likelihood of project expenditures occurring prior to debt issuance for projects planned with debt financing. Exceptions to this the bond timing will be proposed to the Executive Finance Committee in the first

quarter, and the Executive Finance Committee will determine whether or not to approve an interfund loan until bond financing is scheduled to be received.

VII. Real Estate Transactions in Financial Planning

The goal of this section is to prevent premature reliance on property sale revenue and minimize revenue shortfalls, as well as to align one-time revenues with one-time expenditures.

- A. RSD will routinely identify property surplus to its needs to sell as one-time revenues suitable for one-time costs. The projected one-time revenue will be allocated to one-time costs such as the establishment and restoration of operating fund reserve/undesignated fund balance targets, one-time operating costs, and capital projects other than road overlay projects or other routine high-priority asset maintenance projects. Revenues from a real estate transaction in a given financial period will not be programmed or expended against until the next biennium. In no case will revenue from a proposed real estate transaction be appropriated prior to the close of the sale, and the County receiving the sale proceeds.

VIII. Periodic Review and Exceptions

The RSD financial policies and reserve targets will be reviewed regularly in advance of budget proposals. At a minimum, this regular review will take into account changes in operating conditions significant revenue variability (e.g. new revenue sources or significant revenue annexation impacts), or if there are major changes in the amount of non-reimbursable storm work activity (e.g. greater than ten percent change).

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November 1, 2011

11/9/11 Council Mtg.

Sponsor: _____

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Proposed No.: 2011-0397

Approved

PASSED: 9-0

1 **AMENDMENT TO PROPOSED MOTION 2011-0397, VERSION 1**

2 On page 1, beginning on line 1, strike lines 1 through 2, and insert:

3 "A MOTION approving the road services division financial policies and practices."

4 **EFFECT: Amends the title to reflect the title of the revised Attachment A.**