Basis of Budgeting

A legally adopted budget is required by state law for all City funds. The legal level of budgetary control within each fund is at the following levels: current departmental requirements, debt service, capital projects, interfund transfers, special payments, interfund loans, and intergovernmental expenditures. Expenditures cannot legally exceed appropriations at these control levels. Council may amend the budget by adopting supplemental budgetary appropriations during the course of the year.

All funds are budgeted using the modified accrual basis of accounting. Modified accrual accounting recognizes revenues when they become measurable and available. Measurable means that the dollar value of the revenues is known. Available means that it is collectible within the current period or soon enough after the end of the current period to pay liabilities of the current period. Expenditures generally are recorded when a liability is incurred. However, debt service expenditures, as well as expenditures related to compensated absences, claims, and judgements, are recorded only when the payment is due.

Accounting Basis

The basis of accounting refers to when revenues and expenditures, or expenses, are recorded in the accounts and reported in the financial statements. The City's Comprehensive Annual Financial Report (CAFR) shows the status of the City's finances in conformance with Generally Accepted Accounting Principles (GAAP). In most cases, this conforms to the way the City prepares its budget. Exceptions are as follows:

- Compensated absences liabilities that are expected to be liquidated with available resources are accrued as earned by employees (GAAP), as opposed to being expended when paid (Budget Basis).
- Principal payments on long-term debt within the Enterprise Funds are applied to the outstanding liability on a GAAP basis, as opposed to being expended on a Budget Basis.
- Capital outlays within the Proprietary Funds are recorded as assets on a GAAP basis and expended on a Budget Basis.

Encumbrance Accounting

Encumbrance accounting is employed for administrative control in all funds. Encumbrances are established for the estimated purchase amounts prior to the release of purchase orders to suppliers and for construction contracts upon bid award. Purchase orders which would result in budgetary over-expenditures are not released until budgetary authority has been arranged, as appropriate. Encumbrances outstanding at year-end do not constitute expenditures or liabilities. Such encumbrances are cancelled and, if appropriate, are then re-encumbered against the new year's budget, based on allowable appropriations.

Financial Management

It is the responsibility of City staff, in particular the Finance Division, to monitor the City's financial status. Revenues and expenditures are monitored continually to determine whether resources are materializing as projected and to ensure that expenditures do not exceed allowable limits. Supplemental budgets are designed to facilitate the review and adjustment process necessary to ensure expenditures do not exceed legal spending limits.

City staff takes an active role in investing available cash balances. The City has an investment policy that is designed to ensure that the public's monies are invested in a manner that is safe, secure and available when they are needed, yet at the same time also yield market rates of return.

Debt Management

The City issues both short-term and long-term debt. Short-term notes, or a line of credit, are issued for construction-period financing for some capital improvements. The notes are repaid from the sale of long-term bonds or from property tax levies for general obligation bonds. The City does not borrow on a short-term basis to support ongoing operations. The Non-Departmental Debt Service Section and the Financial Summaries Section provide further details regarding the City's outstanding debt.

Policy Direction

The Financial Management Goals and Policies for the City of Eugene provide the framework and direction for financial planning and decision-making by the City Council, City Boards, Commissions and Committees, and City staff. They are designed to ensure the financial integrity of the City and a service delivery system that addresses the needs and desires of Eugene's citizens, and that policies are periodically updated to reflect changes in Council policy, legal and professional requirements, and changes in accepted industry practices. The City Council adopted the Financial Management Goals and Policies on April 8, 1996. Minor edits have occurred since initial adoption. These include approval of the Debt Issuance Guidelines on May 14, 2007, and the Unappropriated Ending Fund Balance Policy (B.7.) in July, 2007.

Prudent management of Eugene's financial resources allows for the continued ability to provide municipal services, both operating services and infrastructure maintenance and enhancement. The management of municipal resources is complex. Competent financial management is needed to make effective and efficient use of City resources and ensure the security of City assets. An important process for ensuring that financial management is both consistent and rational is through the adoption of financial management goals and policies.

NOTE: If the City Council chooses to deviate from any policy, it will propose at one meeting and adopt at a subsequent meeting a motion waiving the particular policy in question related to a specific issue and stating the reason for the waiver. Any waiver will be communicated to the Budget Committee with appropriate background material. This process was adopted by the City Council on April 8, 1996.

A. Resource Planning and Allocation Policies

Policy A.1: City Council Goals and Policies
The City budget will support City Council goals and policies, Council-adopted long-range plans and service needs of the community.

Policy A.2: Reporting and Control
The City will maintain financial systems which will develop budgets, provide control, and report revenues and expenditures at the line-item detail.

Policy A.3: Service Budgeting
The City will budget and report actual expenditures by service, as well as by fund and organizational unit.

Policy A.4: Service Priorities
Operating and Capital budgets which reflect Council adopted service levels, will be prepared by the City Manager and reviewed by the Budget Committee consistent with the following municipal service priorities:

- Service Level 1: Preserve the public safety system, which includes police, fire and emergency services, Municipal Court, and the Intergovernmental Human Services program.

- Service Level 2: Maintain and replace the City's fixed assets, which include equipment, infrastructure, and facilities so as to optimize their life.

- Service Level 3: Maintain and enhance efficiency of the administrative support and community planning systems in order to provide efficient and effective business management service and orderly community growth.

- Service Level 4: Provide affordable housing, specialized services for the less advantaged population, land use permits, and cultural, educational, and recreational services.

- Service Level 5: Address the balance of municipal services when required for the preservation of health, safety or quality of life in the community, or community demand for incremental services.

Policy A.5: Operating and Capital Budgets
The relationship between the Operating and Capital budgets will be explicitly recognized and incorporated into the budget process. Funding for the Operating and Capital budgets shall be sufficient to provide for operating services and maintenance or enhancement of fixed assets needed to support City services.

Policy A.6: Revenue and Expenditure Projections
Revenues, operating and capital expenditures, and debt service will be projected each year for at least the succeeding six years.

Policy A.7: New Program Funding
Prior to authorizing funds for a new program, Council will receive an estimate of fiscal impact from the City Manager.

B. Accounting and Financial Practices Policies

Policy B.1: Accounting and Financial Reporting System
The City will maintain an accounting and financial reporting system that allows reporting in conformance with Generally Accepted Accounting Principles (GAAP) and Oregon Local Budget Law and will issue a Comprehensive Annual Financial Report (CAFR) each fiscal year.

Policy B.2: Fund Management
The City will manage its funds as independent financial entities in accordance with legal, administrative, and Generally Accepted Accounting Principles (GAAP) and will ensure that funds are not co-mingled.

Policy B.3: Cost Allocation Plan
The City will annually prepare an internal Cost Allocation Plan (CAP). The CAP's purpose is to determine the cost of providing central business management services, or indirect costs, to the City's various funds. These indirect costs will be recovered from Non-General funds through the Central Services Allocation (CSA). This practice ensures the cost of General Fund central business management services are paid by Non-General funds receiving those services.

Policy B.4: Enterprise Funds
Whenever financially feasible, business-type activities which receive their funding principally through user charges will be established as Enterprise Funds if doing so will facilitate rate-setting for cost recovery and provide information to determine the efficiency and effectiveness of operations.

Policy B.5: Contingency Funds
Each fund, as appropriate, will maintain a contingency account to meet unanticipated requirements during the budget year.

Policy B.6: Cash Balance and Financing
Each fund will maintain an adequate cash balance, borrow internally from another City fund, or as a last resort, borrow externally to provide for cash flow requirements.

Policy B.7: Unappropriated Ending Fund Balance
In order to maintain a prudent level of reserves in the General Fund and any local option levy funds, the target amount of Unappropriated Ending Fund Balance (UEFB) to be budgeted shall be at least two months of operating expenses (excluding reserves and contingency).

Policy B.8: Replacement Accounts
The City will develop and fund replacement accounts for the City's fixed assets.

Policy B.9: Non-Dedicated Revenues
With the exception of grants or earmarked donations, the City will not normally earmark revenue for specific public purposes in general service funds such as the General Fund.

Policy B.10: Reserve Accounts, Non-Departmental
Non-Departmental Reserve accounts will be used for non-departmental resources designated for specific purposes. Appropriation by City Council is required prior to expenditure of funds.

Policy B.11: Marginal Beginning Working Capital
The highest priorities for use of Marginal Beginning Working Capital (difference between Actual Ending Working Capital in the prior year and Budgeted Beginning Working Capital

in the current year) are (not in priority order): General Capital Projects Fund; Unappropriated Ending Fund Balance (up to target amount as defined in Policy B.7); General Fund Contingency.

C. Revenue and Collection Policies

Policy C.1: Revenue Base
The City will work to diversify the supporting revenue base in the General Fund.

Policy C.2: Cost Recovery – Fee Supported Services
The City Council will establish cost recovery policies for fee-supported services which consider the relative public/private benefits received from the services being provided and/or the desirability of providing access to services for specialized populations. These policies will determine the percent range of full service costs to be recovered through fees. The level of cost recovery will be routinely adjusted to ensure that rates are current, equitable, competitive, and cover the percentage of the total cost deemed appropriate.

Policy C.3: Serial Tax Levies
To the maximum extent possible, serial tax levies will be used only for time-limited operating services or for capital improvements subject to the rate limitation for non-school governments.

Policy C.4: Dedicated Revenue – Capital Projects
To the maximum extent possible, the City will secure a dedicated revenue source to fund general and storm sewer capital projects.

Policy C.5: Foreclosure on Delinquent Accounts
Properties foreclosed under the Assessment Program, and other programs which use foreclosure as a collection device, such as the Systems Development Charges Program, will be managed and disposed of in such a manner so as to attempt to reimburse the program for all direct and indirect costs incurred, and so as not to disrupt the private real estate marketplace.

Policy C.6: Non-Recurring Revenue
Except for local option levies approved by the voters, the City will use non-recurring revenue on limited-duration services, capital projects, equipment requirements, or services that can be terminated without significant disruption to the community or City organization.

D. Capital Improvements Policies

Policy D.1: Capital Improvement Program
The City will plan for capital improvements over a multi-year period. The Capital Improvements Program (CIP) will directly relate to the long-range plans and policies of the City. Operating funds to maintain capital improvements and to fund additional staff and service needs will be estimated and identified prior to making the decision to undertake specific capital improvements.

Policy D.2: Revenue Bonds – Capital Projects
Whenever a service is an enterprise or utility-based operation, and where the ratepayer directly benefits, the City will work to finance capital improvements by using self-supporting revenue bonds, which could be General Obligation (G.O.) backed.

Policy D.3: General Obligation Bonds – Capital Projects
Use of General Obligation (G.O.) bonds will be limited to major capital construction or improvements as defined in ORS 310.140 in support of general municipal services.

Policy D.4: Assessments Bonds – Capital Projects
Financing of infrastructure improvements through use of assessment bonds will be limited to those projects where the required assessed value-to-assessment ratio is met and to the extent the City's financial position permits the use of this financing device.

Policy D.5: City's Physical Assets
To maintain the City's physical assets, a current inventory of all the City's physical assets, their condition, and maintenance costs will be maintained.

Policy D.6: Sinking Funds
Council will make a specific determination whether to establish a replacement reserve sinking fund when creating an asset with a value in excess of $1 million and a useful life in excess of 10 years.

E. Debt and Investment Management Policies

Policy E.1: Bond Rating
The City will seek to maintain, and if possible, improve its current Aa1 bond rating so its borrowing costs are minimized, and its access to credit is preserved.

Policy E.2: Debt Issuance Guidelines
The City will have a specific set of debt issuance guidelines consistent with federal, state, and local laws and policies.

Policy E.3: Investments
When making investments, the City will follow state law and local investment guidelines and shall abide by the following criteria in priority order:

- Preservation of capital
- Maintenance of a liquid position
- Maximum yield

F. Organizational Policies

Policy F.1: Organizational Structure Reviews
The City Manager will review the organizational structure at frequent intervals to ensure that it is responsive to current conditions and minimizes service duplication in the organization and with other local government jurisdictions.

Policy F.2: *City Employment Force Funding*
The City will provide adequate funding to stabilize the City employment force to minimize uncertainty about the continuity of the service delivery system.

Policy F.3: Staffing Levels
The City will match job classifications and number of positions to the service delivery system and will communicate service and staff adjustments to the public and parties affected by changes.

Policy F.4: Service Levels and Performance Standards
The City Council will adopt service levels and performance standards which reflect community expectations and requirements set by other levels of government. The City is committed to examining how it provides services so that service levels and performance standards are met, or exceeded, at the least cost to the public.

Policy F.5: Market-Based Employee Compensation
Consistent with available resources, employee compensation will be market-based, comparable to public and private sector compensation paid in the relevant recruiting area.

Policy F.6: Evaluation of Service Delivery System
The City will routinely evaluate both its administrative and direct service delivery systems, according to established efficiency and effectiveness criteria, to determine whether a service should be provided by the City, or by agreement with another provider, or eliminated due to changes in community requirements.

Policy F.7: Intergovernmental Contracts
The City will evaluate its use of intergovernmental service contracts to prevent duplication of services in overlapping jurisdictions and to ensure an effective and efficient service delivery system to the community.

Policy F.8: Multi-Agency Service Reviews
The City will participate in multi-agency reviews (including local government, public utilities, school districts, and not-for-profit agencies) to evaluate and change service systems to ensure optimal use of public funds.

G. Other Policies

Policy G.1: Compliance with Laws and Standards
The City will comply with mandatory federal, state and local laws and regulations, and when appropriate, will comply with industry and professional requirements or standards.

Policy G.2: Budget Committee
A Budget Committee will be appointed in conformance with ORS 294.335 and Eugene Code 2.013. Lay members of the Budget Committee serve for terms of three years. The Budget Committee's chief purpose is to review the City Manager's Proposed Budget and prepare a recommendation for Council consideration. The Budget Committee may consider and develop recommendations on other financial issues at the direction of City Council.

Policy G.3: Supplemental Budgets
After adoption of the City's annual budget, the Council will process supplemental budgets in compliance with ORS 294.480 as needed to keep the budget reflective of the current service environment and to ensure that the appropriations are as current as possible.

Policy G.4: Related Entities
Entities established or sanctioned by the City Council, for which the City is deemed to be 'financially accountable,' will comply with the Eugene Code and City Council-adopted policies and procedures and will be accountable for operational and financial compliance and reporting standards as established by the Council or its designee.

Debt Issuance Guidelines

(Revisions approved by City Council on May 14, 2007)

The following debt issuance guidelines apply to debt issued by the City of Eugene and the Eugene Urban Renewal Agency.

Credit Worthiness
1. The City will seek to maintain and, when feasible, improve its credit rating so its borrowing costs are minimized, and its access to credit is preserved and enhanced.
2. The City will maintain good communications about its financial condition with credit rating agencies and the credit market.
3. The City will follow a policy of full disclosure that meets or exceeds the disclosure guidelines developed by the Government Finance Officers Association and the Governmental Accounting Standards Board.

Purposes for Borrowing
1. The City will not fund current operations from externally borrowed funds, except to meet short-term cash flow requirements.
2. The City may borrow on a short-term basis for capital improvements in anticipation of issuing long-term debt or for cash flow purposes during a construction project.
3. The City will confine long-term borrowing to capital improvements or projects that cannot be fully funded from current revenues.
4. The City will encourage the use of pay-as-you-go financing for capital improvements when feasible and affordable.
5. Assessment bonds may be issued for local improvements in accordance with the City's assessment policies.
6. The City may refund existing debt according to the policies set out under "Refunding Debt" section below.
7. The City may act as a conduit issuer according to the policies set out under "Conduit Financings" section below.

Refunding Debt
1. Borrowing externally to fund the unfunded accrued liability of the Public Employees Retirement System (PERS) is considered refunding of an existing liability to PERS.

2. The City will issue advance refunding bonds (as defined by federal tax law) when advantageous, legally permissible, prudent, and when the net present value savings is a minimum of three percent of the refunding paramount, as required by state law.
3. The City will issue current refunding bonds (as defined by federal tax law) when advantageous, legally permissible, prudent, and when the net present value savings exceed $100,000.
4. Refundings may also be undertaken for other reasons when legally permissible, prudent, and when in the best interests of the City.

Security for Debt Issues

1. Approval to use the general obligation pledge will be sought from voters only for projects that cannot be self-supporting and that provide a general benefit to City residents.
2. The City's full faith and credit (i.e., the General Fund) may be pledged as a primary or secondary source of repayment of long-term debt obligations, when it is determined that this pledge is in the best interests of the City. Debt secured by the City's full faith and credit should be supported by predictable revenues. In addition, the City may require administrative measures designed to protect the City's General Fund, such as internal rate covenants and reserves. These internal administrative measures will not be pledged to bondholders.
3. Enterprise funds and other revenue-backed bond issues will maintain the highest level of debt service coverage ratios and reserves as possible, balanced against the cost of such measures the need to preserve equity, and a desire to maintain affordability in user fees.
4. Credit enhancement should be considered for debt issues where the cost of the enhancement is expected to be less than the savings in interest over the life of the issue.
5. Prior to issuing Bond Anticipation Notes, the City will have secured authority for the permanent bond financing that will be used to repay the notes.

Financing Methods

1. The City will analyze the various financing methods available for any proposed borrowing and choose the method that is most cost-effective, that is appropriate from a risk perspective, and that is legally and administratively feasible. Financing methods examined could include, but are not limited to, general obligation bonds, full faith and credit securities, revenue bonds, notes, lines of credit, commercial paper, lease or lease purchase transactions, grants, federal or state loans, intergovernmental agreements, or partnerships with the private sector.
2. Lease purchase debt, including certificates of participation, will be considered as an alternative financing method for capital projects or long-term vendor leases when cost-effective and when the City does not want to seek the General Obligation pledge from voters.

Administration of City Debt

1. The City will consider affordability prior to entering into any new borrowing program. The debt ratio guidelines contained in this policy define the affordable level of debt for the City.
2. When the City issues long-term debt, it will repay the debt within a period not to exceed the useful life of the improvements or equipment.
3. The City will repay debt rapidly to recapture its credit capacity for future use and to minimize interest costs. For major capital projects, repayment on such debt will not exceed 21 years. Assessment debt will mature over a 10-year period. Debt issued to fund a pension obligation may be for a longer period of time to match the amortization schedule used by PERS in determining the City's annual payment obligation.
4. Revenues dedicated to make bond payments are to be budgeted for debt service payments before they are appropriated for any other purpose.

5. All voter-approved general obligation debt will be sold through competitive bids. Exceptions may be made for refunding bond issues or where the City is issuing bonds with different security pledges at the same time as the general obligation debt. Non-general obligation debt may be sold on a negotiated basis if the City determines that it offers significant advantages in marketing the issue.
6. Private placement of debt may be appropriate under certain circumstances. The costs of private placement of debt will be compared to market financing before recommending this method.

Conduit Financings

1. Conduit financings are financings that the City provides for the benefit of non-governmental entities to allow those non-governmental entities to obtain low cost, tax-exempt financing. Conduit financings are not secured by any revenues or assets of the City except revenues and assets provided by the non-governmental entities that benefit from the conduit financings. The United States Internal Revenue Code substantially limits the ability of the City to provide conduit financing; conduit financings are only available for small manufacturing facilities, facilities used by qualified 501(c)(3) organizations, certain kinds of low-income housing projects, and other projects that can be financed with "qualified bonds" as defined in the Internal Revenue Code.
2. Recognizing that the City is able to issue debt for broad purposes, it may be appropriate to enter into a conduit financing on behalf of another party when the City Council determines that the proposed project will provide a general benefit to City residents and/or the City economy.
3. Conduit financing will be considered only when a project is consistent with the city's overall service and policy objectives.
4. The City should not incur any moral or financial obligation under a conduit borrowing.
5. The City will only consider conduit financings that will insulate the City from any credit risk.
6. Any financing issued through the City must qualify for an investment grade rating by one of the nationally recognized statistical rating agencies or provide alternative credit enhancement from a third-party satisfactory to the City or a corporate guaranty if the corporation carries an investment grade rating.
7. All expenses related to conduit financing will be borne by the third-party applicant for whom the debt is being issued.
8. The City will establish review procedures of the requesting party for projects, including adherence to public contracting requirements, development of a financial feasibility study of the project, and submission of annual financial statements to ensure the ability to repay the debt.

Key Debt Ratios

The City's ability to issue general obligation debt is limited by state statutes to 3% of real market value. This level of outstanding debt would be financially burdensome and not considered a prudent amount of debt by credit analysts and bond investors. There are several key debt ratios that investors and financial analysts use when reviewing a city's credit worthiness. The City of Eugene has established this set of debt ratio guidelines to be used as a measure of the affordability of a new debt program. These guidelines are periodically reviewed by the Investment Advisory Board, and are listed below.

1. Net direct debt as a percentage of real market value shall be a maximum of 1.0%.
2. A minimum of 50% of net direct debt shall be retired within 10 years.
3. Maximum annual debt service on all General Fund-backed debt shall be limited to 10% of General Fund expenditures in the year in which the debt is issued. Of this amount, long-term debt that has a primary pledge of General Fund resources shall be no more than 5% of General Fund expenditures.

The following definitions apply to the City's debt ratio guidelines:

- ***Net direct debt*** includes all debt that is repaid from taxes (excluding URA tax increment revenues), such as General Obligation bonds and bonds backed by the City's full faith and credit pledge. Debt secured solely by revenues and Urban Renewal Agency debt are excluded from the City's net direct debt.
- Debt that includes a General Obligation or full faith and credit pledge may be excluded from the calculation of net direct debt as ***self-supporting debt***, where it can be demonstrated that there are other non-tax revenues available that are sufficient to make debt service payments.
- ***Pension obligation debt*** will be excluded from the City's calculation of net direct debt in order to provide a debt statement comparable to other jurisdictions. This debt does not represent a new obligation of the City; rather, it represents replacement of an existing obligation that the City had in the form of an unfunded pension obligation that had previously been paid in installments to PERS.
- Short-term debt and leases that are subject to appropriation are not included in the statement of gross direct debt or net direct debt.
- The definition of net direct debt may change as the revenues supporting a debt issue change, or as new types of debt are added to the City's debt position. In categorizing debt on the statement of net direct debt, the City will attempt to mirror the calculation prepared by the bond rating agencies that rate the City's debt.
- ***General Fund-backed debt*** is debt that has a primary or secondary security pledge from the City's General Fund, such as limited tax assessment bonds, Library Full Faith and Credit Obligations, Broadway Place Limited Tax Bonds and Atrium Full Faith and Credit Obligations. Voter-approved General Obligation bonds and the pension obligation bonds are excluded from the definition of General Fund debt.
- The ***General Fund expenditures*** used for the purpose of measuring debt service to expenditures will be those in the main General Fund, excluding any subfunds.
- Extraordinarily high debt service on a bond issue in the first or last year (such as a long first interest payment or a balloon payment at the end) shall not be subject to the debt service to expenditures policy.