



KING COUNTY
Signature Report
November 14, 2018
Motion 15250

1200 King County Courthouse
516 Third Avenue
Seattle, WA 98104

Proposed No. 2018-0483.1

Sponsors Upthegrove

1 A MOTION adopting revised comprehensive financial
2 management policies for King County; and rescinding
3 Motion 14803.

4 WHEREAS, King County has a responsibility to manage its finances in an
5 accountable, appropriate and sustainable manner, and

6 WHEREAS, the county recognizes that having and updating formalized policies
7 around financial management to provide guidance on developing operating budgets,
8 capital asset management, expenditure management, revenue generation and collection
9 and the use of fund balance, and

10 WHEREAS, institutionalizing good financial management practices support
11 strong bond ratings and sustainable service and reduces fiscal risk, and

12 WHEREAS, the adopted revised comprehensive financial management policies
13 address interfund management, intergovernmental service charges and the use of reserves
14 and fund balance, and

15 WHEREAS, Motion 14803 established the previous version of comprehensive
16 financial management policies;

17 NOW, THEREFORE, BE IT MOVED by the Council of King County:

18 A. King County Comprehensive Financial Management Policies, Attachment A to

19 this motion, is hereby adopted.

20 B. Motion 14803 is hereby rescinded.

21

Motion 15250 was introduced on 10/1/2018 and passed by the Metropolitan King County Council on 11/13/2018, by the following vote:

Yes: 9 - Mr. von Reichbauer, Mr. Gossett, Ms. Lambert, Mr. Dunn,
Mr. McDermott, Mr. Dembowski, Mr. Upthegrove, Ms. Kohl-Welles
and Ms. Balducci

No: 0

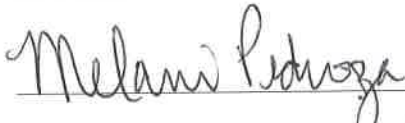
Excused: 0

KING COUNTY COUNCIL
KING COUNTY, WASHINGTON



J. Joseph McDermott, Chair

ATTEST:



Melani Pedroza, Clerk of the Council



Attachments: A. Comprehensive Financial Management Policies



King County

**Comprehensive Financial
Management Policies**

Office of Performance, Strategy and Budget

Updated September 2018

Comprehensive Financial Management Policies

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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 enhance 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. Sustainable services help to maintain a strong economic and social foundation for the region. These policies are adopted by motion and are superseded by any policies in King County Code or fund specific policies adopted by ordinance.

II. Policy Areas

These policies address the following areas:

- Operating budgets
- Capital asset management
- Discount rates
- 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 with a framework endorsed by the Government Finance Officers Association (GFOA). Additionally, stakeholder input, including from Council and county agencies, has been incorporated into each policy.

The CFMP are used to develop 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 are 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 support 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 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,
- Integrate budget planning with strategic planning, business planning, and monitoring,
- 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 exceed 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 except as outlined in the General Reserve Policies section below. 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 operating 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 government accounting funds managed by the County. Funds are appropriate to use when distinct revenue sources need to be tracked for legal or monitoring purposes. PSB will review and propose funds for closure every two years through a central process.
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, internal services, and capital investments.
4. Budgets will be based on a planning model using historical expenditure and revenue data and documented assumptions. Budget proposals will be informed by the mission of the specific business unit, an analysis of products and services, an understanding of customer demand, six to ten year forecast of demand and capacity to deliver services, revenue constraints, a thorough review of alternatives, and a multi-year implementation plan.
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. Internal Service Fund managers will work with their client agencies to ensure that central rates are budgeted and charged in the appropriate accounts and cost centers.

6. In order to clearly identify long term sustainability issues, the budget will include a multi-year financial plan for each operating fund. PSB will maintain a fund profile for each fund. Fund profiles will be designed as quick reference documents that describe major revenue sources and expenditures, programs supported, and legal constraints.
7. Expenditures and revenues will be budgeted and accounted for in the following areas: accounts, cost center, appropriation unit, and fund.

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 public comment on the proposed budget 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 review alternatives when considering a budget proposal. Agencies are encouraged to work collaboratively with PSB, the Executive, and other agencies to develop 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 Executive Proposed Budget to the County Council.
 - The 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 that includes financial monitoring for each fund and ongoing risk assessments for the County's major funds.
2. PSB will work in collaboration with agency fund managers to review the financial status of every operating and capital fund each year (at a minimum) and to implement mitigating strategies in the cases of distressed funds.
3. For all funds, PSB will work in collaboration with agency fund managers to conduct regular, on-going financial monitoring, including financial plan review and variance analysis (budget-to-actual analysis of revenues and expenditures). Financial monitoring should promote collaboration between PSB and agency fund managers to implement mitigating strategies for distressed funds.
4. Each quarter, PSB will send to the Council a summary of financial monitoring efforts, including select financial plans for large, complex, or distressed funds reviewed during that quarter.
5. 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.
6. The County Executive will plan to propose three omnibus ordinances to the County Council over the course of the biennial budget cycle, including an update mid-biennium that includes technical adjustments based on updated assumptions. Standalone appropriation ordinances may be proposed as necessary.
7. 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 from the currently adopted budget, including all supplemental or stand-alone ordinance adjustments, a proposed update to the current financial plan.
8. 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. Budget authority for outstanding purchase orders will be granted through the reappropriation process and not through an automated carryover process.
9. Adopted budget changes will be recorded in the budget system.
10. The County uses both the accrual basis and modified accrual basis of accounting depending upon the fund type. Expenditures incurred that are based purely upon Generally Accepted Accounting Principles (GAAP) for the financial statements (e.g. depreciation, accrued post-retirement obligations, refinancing transactions, etc.) are not subject to the fund's appropriated expenditure limit.

11. Agencies are responsible for responding to provisos and meeting expenditure restrictions adopted in ordinance. Agencies should coordinate with PSB on responses to ensure transmittals are responsive to the proviso and meet relevant due dates.

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 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.

Capital projects include asset replacement, major maintenance, and standalone projects or programmatic projects that result in an asset. Routine maintenance that does not result in a capital asset or does not meet the capitalization threshold established by the Finance and Business Operations Division (FBOD) is classified as an operational expense.

II. Prioritization of Capital Projects

The purpose of this policy is to ensure that prioritization of capital projects reflect established priorities as outlined in King County strategic plans, 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 that 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 (listed in no particular order):

- **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 and/or replacement of 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 that lead to partnerships which 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 Plan, Comprehensive plans, and are consistent with Executive initiatives such as the Equity and Social Justice Initiative,

- **Improved Service Delivery:** Projects that improve service delivery including capital investments that are more responsive to community needs and meet demand.

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, preliminary design, final design, implementation, acquisition, and close-out.
3. Any projects considering a General Contractor Construction Manager (GCCM), or 63-20 building delivery method, need approval from PSB during the planning or preliminary design phase.
4. The county will adopt CIP appropriations only if the revenue to support the appropriations is documented in the financial plan.
5. 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 or at 30% of the design phase.
6. To assist in monitoring, technology projects with the total estimated cost of \$100,000 or more and funded out of the agency's operating budget shall be set up as discrete projects in the county's accounting system. Technology projects with total estimated costs of \$250,000 or more shall be appropriated in the capital budget.
7. Agency submittals will follow the instructions provided by PSB.

Programmatic Projects

1. A Programmatic Project implements a program of work through the use of subprojects. The adopted budget is at the Programmatic level.
2. Agency use of sub-projects must be approved by PSB.
3. Sub-projects could be recommended in the following instances:
 - When a project adopted in ordinance is actually a collection of sub-projects with most of the following common characteristics: similar in scope, support the Programmatic project, relatively small budget, and short duration.

- Agencies may propose alternative use of sub-projects based on a documented business need. Exception requests will be reviewed and approved by PSB.

Managing Capital Project Risk

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 to cover known risks that are uncertain to occur.
2. Each CIP Program should document and provide to PSB the methodology for budgeting contingency by project.
3. 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 and should not duplicate the purpose of the project contingency. The use of any fund level contingency will be reported to the County Council on a quarterly basis.

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 ensure 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 or cash basis, 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. In the event financial limitations preclude providing adequate funding for major maintenance, the budget will document such a decision.
2. Revenue backed bonds can be issued to support ongoing maintenance with Council and Executive approval.
3. Revenue sources that back bonds should be compared to the projected debt service costs to ensure sufficient funds are available.
4. 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.

5. Debt funding is an appropriate option for financing the acquisition and construction of the County's long-term 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 implemented only after approval by PSB.
6. In order to minimize complexity and risk and to ensure predictable debt service costs, level debt service is the preferred debt structure for all financed projects. Alternatives can be considered with approval of PSB.
7. 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.
8. In order to reduce the risk to the General Fund due to revenue volatility, debt service in Real Estate Excise Tax Funds shall not exceed twenty-five percent of annual revenues.
9. The General Fund will collect fees from agencies that issue debt using the full faith and credit of the General Fund and build a reserve in the General Fund to support the County's bond rating. The reserve in the General Fund will be approximately one percent of total outstanding principal backed by the General Fund.
10. Until a baseline project cost can be determined, the County can employ the use of bond anticipation notes (BANs), pay-as-you-go financing, or inter-fund borrowing.
11. 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.
12. General Fund transfers to capital funds for capital projects will be made on a reimbursable basis.

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. At a minimum, financial plans should be updated annually to ensure continued available resources to fund projects with budget carried over from the prior biennium.
2. Each appropriated project and fund will maintain a forecast of capital expenditures in the current biennium to make sure that there is cash on hand to meet expenditure needs and to monitor project

delivery.

3. Capital funds reliant upon economically-sensitive revenue sources, such as sales tax or Real Estate Excise Tax (REET), should include a minimum fund balance reserve based on a risk assessment.
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 PSB and FBOD for compliance with bond covenants and post-issuance bond policies.

Discount Rate Policy

I. Introduction

King County engages in cost-benefit analysis to support county decision making. When estimating costs and benefits, it is necessary to understand the impact of time on the value of these estimates. The discount rate is applied to adjust the future value of costs and benefits to current value. Discounting future values into present values allows policy makers to understand the costs and benefits of a project in today's value, as well as allowing for policy makers to evaluate and compare multiple projects.

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

The discount rate policy will be used as a planning and evaluative tool for policy and financial decision makers. Specifically, the policy is intended to achieve the following objectives:

- Provide a rate or rates for analysis that allows for evaluation of the costs and benefits of a project or investment.
- Support a transparent decision making process that accounts for the discounted costs and benefits associated with an investment.
- Support sound fiduciary decision making of investments by the County on behalf of County residents.
- Support consistent analysis across County agencies.

III. Discount Rate Policy

1. The County discount rate represents an approximation of the rate at which society is willing to trade off present for future consumption, known as the social rate of time preference. The County's discount rate is based on the long term cost of borrowing money as an estimate of the social rate of time preference.
2. The County will publish two discount rates: The "Nominal" rate and the "Real" rate. The nominal discount rate is approximated by the yield on the County's long term general obligation bonds or suitable proxy. This rate is affected by current debt market conditions and bond ratings. The real discount rate is based on the nominal rate adjusted by the forecasted consumer price index for Seattle – urban wage earners and clerical workers (CPI-W Seattle – Tacoma – Bremerton).
3. The Office of Economic and Financial Analysis (OEFA) shall update and publish both the real and nominal discount rates on a biennial basis. These rates will be adopted by the Forecast Council.

4. The County discount rate will be used in cost-benefit analysis of capital projects and lease agreements to provide a consistent basis for project comparisons.
5. The County discount rate is not intended to reflect uncertainty in future inflation, in capturing future benefits, or in the volatility of future costs. Alternative discount rates may be used to account for uncertainty if accompanied by clear and documented assumptions for the alternative rate.
6. Inflation should be consistently included or excluded (but never mixed) in values used in analysis. This also applies to the selection of the discount rate:
 - a. Nominal discount rate: A nominal rate should be used to discount cost and benefits that include the effect of inflation.
 - b. Real discount rate: A real discount rate should be used to discount costs and benefits that exclude the effect of inflation.
 - c. Real summary: An analysis should generally restate results in both real and nominal terms.
7. The above described discount rates are the basic rates that must be used for analysis. Alternate rates may be more applicable and therefore may be used in a comparative analysis as long as the analysis is supported with valid reasoning.

IV. Cost Analysis Policy

King County will use a standard process when evaluating cost analysis of alternatives, including technical components of analysis, definitions, and sources.

1. Cost analyses will include specific criteria for the cost-benefit or life-cycle analysis, thresholds that signal when analysis should occur or be updated (specific project phases or decision points), and the level of detail that is appropriate at each of the thresholds.
2. The minimum steps in the analysis should include:
 - Defining a set of feasible alternatives including a “status quo” alternative,
 - Defining the project completion date and estimate of useful life,
 - Developing cash flow estimates of operating and capital costs including financing for each alternative,
 - Documenting major economic assumptions and any additional subject matter assumptions,
 - Performing risk, uncertainty, and sensitivity analyses,
 - Comparing alternatives, and
 - Selecting a preferred alternative, with documented reasons, to be recommended to decision-makers.
3. Cost analyses will follow specific principles:
 - Analysis should include all of the estimated cash flows associated with each alternative over the estimated useful lives of the alternatives.

- If the alternatives require full or partial financing, the model inputs should include the cash flows related to financing costs and debt service, including a sensitivity analysis showing model outputs assuming financing as well as out-of-pocket payment scenarios.
- Cash flows for future years must be discounted to reflect the time-value of money.
- The time-value of when benefits are achieved should also be taken into account.
- When summing net present values that have been calculated in different years, the net present values should be expressed in same year or current year dollars by adjusting them by inflation, not by the discount rate.
- If the alternatives analyzed have different expected useful lives, a suitable methodology must be used for making a fair comparison.
- If costs and benefits are subject to different inflation rates, the analysis should be based on inflated cash flows and use the nominal discount rate.
- If analysis or analytical models are constructed using the real discount rate, analysis should also be done using the nominal discount rate.
- Reporting the outcome of the analysis should show the results of conducting sensitivity analysis on all major assumptions, including key economic and financial assumptions, such as the discount rate, inflation rate, and useful life, as well as estimates of costs and benefits.

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 accounted for consistently with adopted or revised operating and capital budgets.

Personnel

1. The County will seek to provide employee compensation 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 minimize layoffs of full time employees to balance the budget. The County will initially 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.

Internal Service Fund and Central Rate Management

1. 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. Allocation models should ensure that central rates are predictable, replicable, transparent, and relatively stable over time. Allocation models should use simple methods to help ensure stable and predictable rates.
 - In order to maintain the financial sustainability of providing county services, Internal Service Funds (ISFs) should:
 - a. Work to keep the costs of their services transparent to customers through on-going communication about the value and the cost of the services.
 - b. Customize service levels for different customers as is reasonable and cost-effective for the ISF and the customer agency while maintaining administrative simplicity and transparency.
 - Allocation models should be considered fair and the cost to be allocated will approximate the benefit received by the County fund receiving the charge or the fund's contribution to the cost.
 - Recognizing that many services are indirect and not easily quantifiable, central rate charges may be estimated, where the law and accounting standards allow.

- An agency will charge costs to other County funds and agencies consistent with the adopted budget and on a regular basis (e.g. quarterly). Changes to central rates from the budgeted amount should be clearly quantified and communicated to customer agencies.
 - If the cost of providing an internal service is higher or lower than expected, then a true-up should be calculated or estimated by Internal Service Funds at least biennially.
2. Departmental and division overhead costs must be allocated based on a documented methodology determined by each department. PSB will work to ensure that standard methodologies and distinct department overhead funds are implemented across departments over time where appropriate. Overhead charges may be estimated, where the law and accounting standards allow.

Cost of Revenue Ballot Measures

1. Ordinances authorizing ballot propositions shall be drafted in such a way to allow for the cost of new or renewing revenue ballot measures (property tax or sales tax) to be paid back to the General Fund by the new or renewing revenue source, if approved.
2. In the event a ballot measure is not approved, the cost will be covered by the discretionary revenue of the department that proposed the legislation. If there is no discretionary revenue available, the cost will be absorbed by the General Fund to the extent allowed by law.

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. Except for overhead cost allocations within the same fund, 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 by the fund managers. One-time transfers between County funds can occur in lump sums with the agreement of both fund managers.
3. In order to clearly track and contain labor costs, County agencies may loan out labor or allocate the costs 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. Transfers should generally be done on a reimbursable basis.

6. Transfers between sub-funds (i.e. operating, capital, debt) of the major enterprise funds (e.g. Transit and Wastewater Treatment) do not need to be appropriated. Revenue within these funds can be distributed to the sub-funds as long as it meets the appropriation needs, documented reserve levels, and legal requirements. With Council or PSB approval, enterprises may have alternative policies or practices in place that require appropriations.

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 should regularly review existing and proposed programs for opportunities to 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 of King County enterprise-wide strategic plans. Resources for programs that are determined not to align with these priorities will be reallocated and repurposed.
3. Programs will be evaluated on a periodic basis, including comparisons to similar or related programs. Programs that do not deliver a high quality service with an effective outcome will be recommended for modification or elimination.

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. New operating program proposals must justify the necessity of the program and how it increases the value for customers or mitigates a reduction in value for customers. New operating program proposals must also rule out alternative programs that may have a different approach.
3. When possible, new programs should be considered within the regular biennial budget process. New programs will require the approval of PSB, the County Executive, and the County Council through the budget process. New on-going operating proposals will:
 - a. Be considered using a multi-year time horizon for expenditures and revenues.
 - b. Include analysis for alignment with King County enterprise-wide strategic plans and legal mandates.

- c. Be evaluated based on available research, theory, or similar programs elsewhere. Where appropriate, new programs will be compared to similar existing programs to determine if existing resources could be shifted instead of allocating new resources.
 - d. Identify anticipated benefits and will include a measurement plan to measure those benefits.
4. When possible and appropriate, the County will pursue partnerships with other governments, non-profit organizations, and private entities to help fund new programs or evaluate new or existing 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 while minimizing service cuts and layoffs and 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. PSB, in conjunction with 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.
3. The County will collect revenue on a regular basis and will build penalties into contracts to prevent payments from happening only at the end of the year or biennium. County finance managers will regularly review large contract revenue streams to determine whether revenues are collected on a regular basis.
4. To the extent possible agencies should strive to take delivery of services or products in the unincorporated area of King County in order to maximize County sales tax collections.

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 local, State, and Federal 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 revenue or subsidies.

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. In determining whether to subsidize a service, 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 full 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. Charges for space or real estate should be consistent with either the County's streamlined rate or comparable market leases.
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.
4. Any charges for services or fees that do not recover County costs or real estate assets that are charged out below market should maintain documentation on the policy rationale for the exception.

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 to 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. Agencies and programs should ensure that existing grant programs recover costs as expected and that grant-backed expenditures do not extend beyond the duration of the grant timeline, unless separate funding has been explicitly identified and allocated. Agencies and programs should also maintain a roster of grants and associated expenditures, including grant-funded County positions. The roster should also include the grant source, timeline, and any expenditure restrictions or limitations. Agencies and programs should regularly review the grant roster to identify programs with funding sunsets and determine the impact on contracts and grant-funded County positions.
4. Agencies should have an internal process to review grant applications before submittal to ensure the agency is taking into account the workload requirements, local match needs, need for grant-funded county staff, incremental administrative costs, and specific programmatic factors.
5. Agencies should only accept Federal aid, state aid, gifts, and grants after an assessment is made of potential long-term cost implications including both dollar and level of effort matching requirements.
6. 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 except where explicitly required by accounting standards.
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:
 - 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 all County funds.
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.

Operating 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 out-year revenues and expenditures,
- Meet legal, contractual or existing policy requirements,
- Clarify fund level decision-making around uncertainty, and
- Standardize approach to calculating budgetary fund balance.

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, 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, emergency or unanticipated expenditures, and
 - 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 Reserves, Rate Stabilization Reserves, or Rainy Day Reserves.
2. Expenditure reserves set aside fund balance to pay for specific activities and program costs, replacement of specific equipment critical to ongoing operations, or for known capital expenditures that are going to be funded either partially or fully by fund balance. The use of this type of reserve is expected to occur after the current budget cycle and to fund operating costs that are not appropriated in a given year. The size of the reserve is based on the expected cost of the activity and the supporting funding. The underlying assumptions should be presented in the financial plan.
3. 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 other cost drivers.
4. 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.
5. The Cash Flow Reserve is fund balance set aside to offset anticipated fluctuations in revenue or expenditures in a given year or over a period of years to maintain current level of services. Certain lump sum revenues, such as property taxes, cause fund balance fluctuations requiring a cash flow reserve to cover typical expenditures and prevent a negative cash balance. This reserve reduces the risk that cash balances will be depleted requiring inter-fund borrowing which can result in an unanticipated expense of interest for repayment. Inter-fund borrowing is intended to be used as a source of one-time and short-term financing rather than an ongoing source of fund balance. Cash flow reserves for operating funds shall be maintained at levels so the timing lag between revenues and expenditures are normally covered without any fund incurring a negative cash balance.
6. Mandated reserves set aside fund balance to pay for mandated requirements. This includes legally or contractually required actuarial liabilities, debt reserves required by debt covenants, and rate stabilization reserves with mandated requirements.

7. Rate stabilization reserves set aside fund balance to minimize rate, fee, or revenue increases needed in future years to provide the current level of service. The size of any rate stabilization fund balance shall depend on a specific analysis and legal requirements.
8. 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.
9. 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.
10. Rainy Day Reserves are designed to offset unknown and known risks, variable costs, and unanticipated revenue fluctuations. 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. Requests for drawing down require the approval of PSB prior to an appropriation request being transmitted to Council.
11. For Internal Service Funds, only the Benefits, Safety and Claims, Facilities Management, and Risk funds may have Rainy Day Reserves.
12. 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.
13. 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.

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 inter-fund 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.

IV. Budgetary Fund Balance

General

1. For all funds and sub-funds, PSB, in consultation with FBOD, will calculate and provide beginning fund balance figures to all fund managers. These figures will be used in county financial plans, unless alternative calculations have been approved by PSB. Budgetary fund balance represents the total resources available in the near term for budget decision making.
2. For Governmental funds, budgetary fund balance will be the sum of non-spendable, restricted, committed, assigned, and unassigned fund balance as reported in the County's year-end financial statements.
3. For Proprietary funds (enterprise funds and internal services funds), budgetary fund balance will be the difference between current assets and current liabilities, also called working capital.

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.

Appropriation Unit: Budgeting mechanism established for a specific purpose that can be comprised of multiple cost centers and is approved by the County Council.

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 the 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 varies among 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 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 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 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 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 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 non-spendable, 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 in the General Fund financial plan.

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