

2008-09 ADOPTED BUDGET

POLICIES AND PROCESSES

Budget Process

The County's annual budget process is guided by the State of Oregon's Local Budget Law. The law has two important objectives:

1. It establishes standard procedures for preparing, presenting, and administering the budget, and
2. It provides for citizen involvement in preparing the budget and public exposure of the budget before its formal adoption.

The law requires that an annual budget be adopted prior to the beginning of the fiscal year (July 1) to which it applies. In addition, there must be notification of public meetings when the budget will be discussed and opportunity for public input. A summary of the budget must be published in a local newspaper prior to adoption. The Budget Committee (comprised of the Board of Commissioners and five lay representatives) must approve the levying of property taxes at the time the budget is approved, and the Board of Commissioners must do the same at the time of adoption.

Expenditures are appropriated by organization unit (major service function) for each fund. These appropriations establish the level of control for each organization unit and may not be overexpended. Most operating funds also include an appropriation for contingency. Expenditures cannot be made against this appropriation without additional Board actions (see Budget Adjustments below). All appropriations lapse at the end of each fiscal year.

While the adoption of the annual budget occurs in June, development of the budget begins 10 months earlier with staff reviewing actual expenditure and revenue information for the past fiscal year and assessing the financial status of County funds, including a preliminary multi-year forecast for the General Fund. This information is used to update the Boards' budget policies. The budget policies, combined with the "County 2000" strategic plan, provide direction to departments for development of their requested budgets.

At the same time staff also begin assembling internal planning materials used in the development of the budget. These include calculation of the County's full cost plan that allocates overhead costs to all County programs, rates for various services provided internally, and personal service costs for current staffing. This information is incorporated into a comprehensive packet of budget instructions and corresponding budget materials that are distributed to key participants involved in the development of the department's requested budget. Departments spend the next several months compiling revised expenditure/revenue estimates for the current fiscal year and the requested budget for the upcoming year.

Each department's requested budget is then submitted to the County Administrative Office for review and analysis. During the review process, meetings take place between the Administrative Office budget staff and individual department Directors and division Managers to discuss requested funding levels. At this time, existing and new programs are prioritized and significant changes in personnel costs, materials and services, capital outlay and revenues are examined. From these discussions, recommendations are developed and a refined department analysis is prepared and conveyed to the County Administrator. These analyses outline recommended funding levels, establish service levels, and highlight changes in programs and staffing levels.

After the budget negotiations have been completed, a Proposed Budget document is compiled and prepared for presentation to the Budget Committee. Notice of upcoming Budget Committee meetings are

published in local newspapers. The Budget Committee then meets to review the Proposed Budget, consider public input, and take action to approve the budget.

The Proposed Budget and any adjustments approved by the Budget Committee are incorporated into the document and forwarded to the Board of Commissioners for final adoption. A summary of the Approved Budget and notice of the public hearing is published. After holding a public hearing on the Approved Budget and making any necessary changes, the Board of Commissioners adopts the Budget by Resolution and Order. Local Budget Law limits changes to the Approved Budget to 10% of a fund's total appropriation. The Adopted Budget document is then finalized, printed and distributed for use as the fiscal plan for the upcoming year.

ANNUAL BUDGET CALENDAR

<i>September through December</i>	Prepare and distribute budget materials Review budget vs. actual for prior year Prepare preliminary General Fund forecast Update budget policies for adoption by the Board
<i>November through February</i>	Departments prepare proposed budgets and actual projections for current fiscal year
<i>January through March</i>	County Administrative Office reviews actual projections; finalizes General fund forecast
<i>February through April</i>	County Administrative Office reviews budget requests; prepares proposed budget document and public meeting notices
<i>May</i>	Budget Committee receives Budget Message and Proposed Budget Budget Committee considers approving Proposed Budget Departments update year-end projections; year-end adjustments are identified
<i>June</i>	Board considers adoption of Approved Budget
<i>July</i>	Adopted budget becomes effective

Budget Adjustments

Throughout the fiscal year, budget performance is monitored by department staff, the Finance Division and, from an overall perspective, the County Administrative Office. Transfers and other major amendments to the budget, especially transfers from contingencies, are discouraged during the course of the year. Rather, for other than emergency situations, departments are asked to try to absorb unanticipated costs within existing appropriations. Detailed reviews of current year expenditures are conducted twice during the fiscal year; first at mid-year when departments are preparing requested budgets for the subsequent year; and second, just prior to year-end. Any adjustments that may be appropriate are typically made at these times.

In most cases adjustments can be accommodated by transferring appropriations from fund contingencies or from the general fund to other funds. Oregon Local Budget law allows for the Board of Commissioners to make such adjustments at a regularly scheduled meeting. Should a transfer from contingency exceed 15% of fund appropriations, or the County need to increase appropriations due to additional revenue, the law provides for the following two types of supplemental budget processes:

1. If the increase is less than 10% of the fund, the Board of Commissioners may approve a resolution and order adopting the supplemental budget at a regularly scheduled meeting. Prior to the meeting,

specific details of the supplemental budget must be published in a local newspaper.

2. If the increase is 10% or more of a fund, the Board must first hold a public hearing prior to approving a resolution and order. Published notice of the supplemental budget and public hearing are required.

Budget Basis

Washington County's financial reports are prepared following the guidelines recommended by the Government Finance Officers Association (GFOA) of the United States and Canada. The 2008-09 proposed budget described herein substantially conforms to Generally Accepted Accounting Principles (GAAP). The County's budget is prepared under the modified basis of accounting.

Under the modified accrual basis of accounting, revenues are recorded at the time they become measurable and available to finance expenditures of the current period. Expenditures are recognized when the related fund liabilities are incurred, except for interfund transactions which are recorded on the accrual basis and interest expense on general long-term debt which is recorded when due. The measurement focus is on current financial resources.

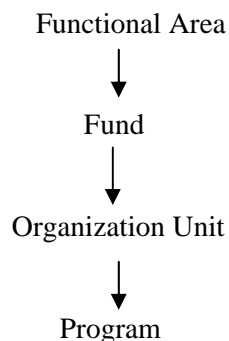
For financial reporting purposes governmental fund types (general fund, special revenue funds, debt service funds, and capital project funds) are accounted for on the modified accrual basis of accounting.

However, the accrual basis of accounting is used for financial reporting of proprietary fund types (internal service funds and enterprise funds) and for the government-wide financial statements required by the County's recent implementation of authoritative reporting requirements. Under the accrual basis of accounting revenues are recorded at the time they are earned and expenses are recorded at the time liabilities are incurred. The measurement focus of the proprietary funds is on the flow of economic resources. The difference between the methods used for budgetary versus financial reporting primarily affects the accounting for depreciation and capital outlay.

The County's most recent Comprehensive Annual Financial Report received GFOA's Certificate of Achievement for Excellence in Financial Reporting.

Service Reporting Structure

The financial accounting structure is organized in a hierarchy as shown below:



The County's structure focuses on functional or service areas. There are six main functional areas in the operating budget – General Government, Public Safety & Justice, Land Use, Housing & Transportation, Health & Human Services, Culture Education & Recreation and Non-Operating. In addition the capital budget has two areas – Facilities & Technology, and Transportation. The Non-Operating budget is separated into four areas, Debt and Other Financing, Risk Management and Insurance, Replacement and Reserves, and Miscellaneous.

Each functional area includes a number of organization units. Each unit represents a group of similar services and is the level at which the budget is appropriated. An organization unit may include one or more programs.

An organization unit accounts for the activities of a fund. Each fund is a distinct financial or fiscal entity. Typically the activities in a fund are accounted for in a single organization unit, however, there are three exceptions. The largest exception is the general fund. It is broken down into approximately 30 organization units to enable separate accounting of different services provided through the general fund. General fund organization units are spread across most of the functional areas. The local option levy fund includes seven organization units, all within the same functional area. Likewise, the road fund includes four organization units also all within the same functional area.

From an organizational perspective, the management of services and finances for an organization unit are assigned to a department. Departments may be responsible for one or many organization units, and these units may be in one or more functional areas.

County Debt

Debt management is performed by the Finance division of the department of Support Services. Debt service payments are made in accordance with debt service schedules and are included in the adopted budget each year. The Chief Finance Officer is responsible for evaluating funding needs and determining the appropriate means to raise necessary funds. The following policies are followed as funding needs are examined:

- Capital projects financed through bond proceeds shall be financed for a period not to exceed the useful life of the improvements
- Total amount borrowed in each issue will include the full cost of the project including all costs of issuance.
- No County debt will be issued until a full analysis has been completed by the Finance Division showing that the issuance of debt is the most cost effective method of funding and the issuance of such debt has been approved by the Board of County Commissioners.
- The adopted budget will include debt service requirements for all debt service payments due in each fiscal year.
- Total outstanding debt will not exceed the debt limits placed on the County by the State of Oregon, the County Charter and by the Board of County Commissioners.
- The Chief Finance Officer will monitor interest rates and recommend refinancing of outstanding debt if more than 3% savings can be realized.

The County has three main categories of outstanding obligations, each of which are discussed below.

General Obligation Bonds:

General obligation bonds are subject to voter approval and the debt is retired through resources received from dedicated property tax levies. Oregon law limits indebtedness on general obligation bonds by counties to two percent of the latest Real Market Value (RMV) of the county. The County's current limit is as follows:

2007-08 RMV	\$76,919,204,726
Debt limitation (2.00 % of RMV)	\$1,532,384,095

Applicable County bonded debt	\$34,270,000
Debt margin	\$1,498,114,095
Percent of limit issued	2.2%

Currently the County has the following issues outstanding:

1. *Public Service Building Bonds* – A general obligation bond was issued in November 1987 to partially finance the construction of the Public Services Building and remodel of an existing County Building. An advance refunding was done in 1991-92 and a current refunding in 2001-02; both of which took advantage of lower interest rates.
2. *Criminal Justice Facilities Bonds* – A general obligation bond was issued in October 1994 to finance the construction of a new jail, Community Corrections Center, Law Enforcement Center and parking garage. In Fiscal Year 1997-98, a portion of the 1994 issue was advance refunded to take advantage of lower interest rates.

	Maturity Date	Amount Issued	Outstanding 6/30/08
1998 G.O. Criminal Justice Facility Refunding	12/1/13	50,550,000	34,270,000

Limited Tax Bonded Indebtedness

The County also has obligations that are backed by its full faith and credit, but are not supported by dedicated property tax levies. In addition to the bonded debt, there are several long-term contracts and notes payable. Resources to retire these obligations come from general fund and special fund revenues. Oregon law limits “limited tax bonded indebtedness” by counties to one percent of the latest Real Market Value of the county. The County’s current limit is as follows:

2007-08 RMV	\$76,919,204,726
Debt limitation (1.00 % of RMV)	\$769,192,047
Applicable County bonded debt	\$90,192,245
Debt margin	\$678,999,802
Percent of limit issued	11.7%

Currently the County has the following obligations outstanding:

1. *Series, 2001A*– A Full Faith and Credit Obligation issued in May, 2001 to:
 - Refund an outstanding obligation from 1998 (issued to cover a portion of the costs to build the Walnut Street Facility)
 - Finance the acquisition of the Murray Place building
 - Construct the Walnut Street Warehouse
 - Make improvements to the County Parking Garage facility (PCC classroom site)
 - Make various street improvements; and
 - Pay related costs, including costs of issuance.

This issue was advance refunded in February 2006 leaving only the non-callable portion of the debt outstanding.
2. *Series, 2001C* – A Full Faith and Credit Obligation issued to refinance outstanding Certificates of Participation that were originally issued to fund the Tigard Detox facility and improvements at the Fair Complex.
3. *Series, 2004* – A Full Faith and Credit Obligation issued to refinance the 1993 Certificates of Participation originally issued to fund improvements to the Animal Shelter and the Juvenile Building.

4. Series 2006 FFC Refunding – A Full Faith and Credit advanced refunding of the callable portion of Series 2001A completed in February 2006.
5. Series 2006 FFC – A Full Faith and Credit issue to fund the purchase of the Clean Water Services and City of Hillsboro portions of the Public Services Building and to finance transportation improvements.
6. Series 2007 Refunding – 1998 Criminal Justice Facilities Refunding bond series.
7. The contracts and notes payable are related to specific services or projects the County has in place. Payment of these obligations come from the programs who derive benefit from them or the general fund.

	Maturity Date	Amount Issued	Outstanding 6/30/08
Series 2001A	6/1/26	60,340,000	4,875,000
Series 2001C	7/1/11	510,000	200,000
Series 2004	7/1/18	3,925,000	3,210,000
Series 2006 FFC Refunding	6/1/26	49,475,000	48,695,000
Series 2006	6/1/26	30,850,000	28,925,000
Series 2007	12/1/07	34,125,000	33,570,000
	Maturity Date	Amount Issued	Outstanding 6/30/08
Contracts			
US Department of the Interior: Hagg Lake Improv.	2029	\$1,111,273	\$468,153
OEDD: Cornelius Pass Road Improvements	2011	395,845	86,500
Juvenile Mult. Co. Lease (existing beds)	2012	1,180,155	432,924
Juvenile Mult. Co. Lease (new beds)	2016	1,861,862	1,075,960
OEDD: Harkins House Expansion	2020	2,000,000	1,511,985
Fair Complex Line of Credit	2010	135,796	42,048
Notes Payable			
Oregon Dept. of Energy Loans:			
L00466A	12/15/10	\$204,000	\$46,659
L00466C	11/15/12	293,200	112,198
L00466D	6/15/09	113,899	81,212
L00635	3/15/15	594,263	422,305
Capital Leases			
Copiers	7/1/08	\$244,000	3,791
Fork Lift	8/15/10	21,508	12,265