DRAFT

COUNTY OF MONTEREY

GENERAL FINANCIAL POLICIES

FY 2016~~5~~-17~~6~~

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GENERAL FINANCIAL POLICIES

1. PURPOSE AND BACKGROUND

The stewardship of public funds is one of the greatest responsibilities given to the officials and managers of the County of Monterey (County). Therefore, the development~~,~~ ~~establishment,~~ and maintenance ~~and adoption~~ of prudent financial policies enables County officials to protect public interests, ensure transparency and build trust. The Board of Supervisors (Board) has approved budget policies to guide the County in managing its finances. Financial Policies define a shared understanding of how the County develops its financial practices and manages its resources to provide the best value to the community.

This document centralizes County financial policies in order to establish a framework for overall fiscal planning, management and guidance. These policies ~~will be~~are reviewed, updated, and brought before the Board as needed but at least annually for adoption. This continued review and adoption ~~by the Board will promote~~promotes sound financial management and assists in maintaining the County's stability, efficiency and effectiveness by e~~i~~nsuring the Board's financial guidance is provided before all County actions. These policies also provide guidelines for evaluating both current activities and proposals for future programs and direct the County's financial resources toward meeting the goals and programs of the Monterey County Strategic Initiatives (MCSI).

These policies are to be used by all County departments to meet their obligation to operate in a financially prudent manner and have been established to provide general financial guidance ~~and are intended to provide sound direction~~ in the management of the County's financial affairs. The Recommended Budget ~~will be prepared with~~ adheres~~nce~~ to these policies.

2. GENERAL FINANCIAL PHILOSOPHY

2.1 General Financial Philosophy

The financial policies of the County ~~of Monterey~~ provide a sufficient financial base and the resources necessary to support and sustain an adequate and responsible level of community services to ensure public safety, enhance the physical infrastructure and environment of the County, and improve and sustain the quality of life within our community.

The cornerstone and highest priority of ~~Monterey~~ the County's financial policies is "fiscal integrity." It shall be the goal of the County to achieve a strong financial condition with the ability to:

a. Ensure the County maintains a sufficient financial base to withstand local and regional economic impacts;

b. Maintain sound financial practices, which promote~~s~~ the County's ability to adjust efficiently to the community's changing service requirements;

~~b.~~c.

~~c.~~ Effectively maintain and improve the County's infrastructure and capital assets;

d.

e. Maintain sufficient financial liquidity to meet normal operating and contingent obligations;

~~d.~~f. Prudently plan, coordinate, review and implement responsible community development and growth;

~~e.~~g. Provide an acceptable level of medical, social, law enforcement and other protective services to assure public health and safety;

h. Regularly review programs and operational methods~~,~~ to improve processes that result in higher productivity, eliminat~~eion of~~ repetitive and duplicative functions, promote collaboration with other government entities and the private sector where cost and risk ~~is~~ are minimized in the delivery of services within the community;

i. Promote sound financial management by providing accurate and timely information on the County's financial condition;

~~f.~~j. Ensure the legal use of financial resources through effective systems of internal controls;

~~g.~~ Provide a framework for the wise and prudent use of debt financing~~,~~ and maintain a good credit rating in the financial community, which assures the community that the County is well managed and operates in a sound fiscal environment; and

~~h. Promote service users contributing their fair share of program costs.~~

2.2 General Financial Policies

a. The County Administrative Office (CAO) will recommend a balanced budget that aligns annual expenditures with estimated annual revenues and minimizes the use of ~~Fund~~ fund ~~Balance~~ balance or other one-time financing sources for ongoing operating expenditures while utilizing conservative revenue forecasts; ~~.~~

~~a.~~b. The County Administrative Office and Auditor-Controller will maintain a financial training program for Board Members;

~~b.~~c. The County Administrative Office will work with Department Heads to reach consensus on the Recommended Budget through cooperative discussion with departments and through budget workshops with Department Heads;~~.~~

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~~c.~~d. The Adopted Budget should allow (within financial constraints) each department a level of flexibility to internally mitigate most unanticipated costs except those caused by natural disasters such as floods, earthquakes or other extenuating circumstances including litigation;~~.~~

~~d.~~e. Through the Board's Legislative Committee, the County will work with the California State Association of Counties (CSAC), ~~State~~ state representatives, legislative advocates in the State Capitol and other local government organizations to assure any ~~State~~ state ~~Programs~~ programs administered by the County are adequately funded and any realignment of ~~State~~ state and ~~County~~ county responsibilities are expenditure/revenue neutral;~~.~~ and

~~e. The County Administrative Office and Auditor-Controller will maintain a financial training program for Board Members; and.~~

f. Recognizing that each departmental budget is unique and has varying levels of financial tolerance for increased costs (such as labor negotiated items), the Board authorizes the County Administrative Office to work with each department so that such increased unbudgeted costs of conducting business will not adversely impact the current level of services provided to the community.

3. STRATEGIC PLANNING

3.1 Strategic Planning (Three-Year Forecast)

The County ~~of Monterey~~ utilizes a strategic budgeting and forecasting model (the strategic model), which allows policies to be developed, initiated and where need be, modified, in a budgetary context spanning a period of three years. The strategic model demonstrates the County's ability to accomplish long-term goals by ~~providing~~ determining potential budgetary impacts of current budget decisions. New ~~General Government~~ services are "reviewed" within the framework of long-term financial self-sufficiency. This approach allows the Board to be aware of the probable long-term outcome of alternative decisions and to select the one that effectively serves the interests of the community within the financial resources of the County. In the event a ~~New General Government~~new service was approved with the expectation of self-sufficiency and this is not realized, the managing department shall bring this issue to the Board as soon as it is discovered.

The strategic model identifies fund balances, revenue patterns, expenditure trends and cash requirements, which are subject to constant change. The strategic model is not a future budget nor recommend~~sed~~ services or programs;~~,~~ it ~~however~~ is a guide to assist in making recommendations and building future budgets. Due to the dynamic nature of government, as well as historical experience,~~;~~ it is understood that an o~~O~~perating b~~B~~udget may experience change ~~several times~~ during the course of a fiscal year. This makes the strategic model relevant because it does not assume a "trend rate" is ~~destined, moreover qualifies~~ destined and that ~~it is expected that all things~~ finances will not remain constant. ~~What it~~ The strategic model is designed to ~~do is~~ facilitate decision-making based on two fundamental questions: "What is the financial future of the County without change?" and "What path do we wish to take for the future?"

The strategic model serves as the foundation for the County's Three-Year Financial Forecast. The annual ~~three~~Three-Y~~y~~ear ~~model~~ Financial Forecast is ~~done in February/March of each year,~~ prepared in February by the County Administrative Office, with the subject matter expert assistance of departments. The timeframe allows departments to obtain prior year audited results and six-months of actual financial data in the current fiscal year. The County's Three-Year Financial Forecast ~~model~~ serves as a current year estimate and a three-year financial outlook for building the next year's Recommended Budget.

4. ROLES AND FUNCTIONS

4.1 Role of County Administrative Office

The County Administrative Office serves as the chief policy advisor to the County Administrative Officer and the Board, promotes responsible resource allocation, strives to protect the financial position and integrity of the County, and provides independent analysis on policy issues. The County Administrative Officer is the f~~F~~und m~~M~~anager for the General Fund and on behalf of the Board makes independent recommendations regarding all other f~~F~~unds under their jurisdiction.

4.2 Principal Functions of the County Administrative Office

Principal functions of the County Administrative Office include:

- Promoting continuous improvement of the structures, systems, processes, and effectiveness of County programs;
- Recommending effective fiscal policies to carryout County programs;
- Verifying Board policies are consistently applied;
- Preparing the County's annual financial plan (Recommended B~~b~~udget);
- Developing financial forecasts;
- Evaluating potential federal, state, and local budget impacts;
- Monitoring revenues and expenditures for conformance with the annual budget; and
- Ensuring that items brought before the Board are accurate, complete, fully justified, and reviewed by appropriate stakeholders.

4.3 Principal Functions of County Departments

Departments are considered the content experts for the functions they perform. They are responsible for:

- Carrying out their operations in an efficient and cost effective manner while adhering to all county, state and federal laws, regulations and policies;

- Preparing budgets and financial estimates with attention to accuracy based on their operations expertise, county, state and federal funding changes, and economic indicators affecting revenues, expenditures and service levels;
- Reviewing, evaluating and assessing potential federal and state budget issues that may impact local budgets;
- Monitoring on a monthly basis revenue and expenditure performance and conformance with the annual budget;~~ and d~~
- Developing and performing financial forecasts;
- Meeting the Board's mission, goals and policies; and
- Ensuring any items brought before the Board are transparent, accurate, complete, fully justified and reviewed by all appropriate stakeholders.

4.4 Principal Functions of the Budget Committee

Principal functions of the Budget Committee include:

- Providing oversight in the preparation of the County budget;
- Receive and review the monthly financial reports provided by the County Administrative Officer;
- Reviewing ~~and approving~~ departmental budgets that are submitted by the various Department Heads; and
- Developing a good understanding of ~~the district's~~departmental programs fiscal constraints~~ and the programs funded;~~.

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4.5 Principal Functions of the Capital Improvement Committee

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The principal function of the Capital Improvement Committee includes:

- Review requests/plans for future capital improvement projects and monitor capital projects underway.
- Provide oversight on capital projects to assure projects are completed in a timely manner, and within budget.

- Reviewing the status of projects and establish priority between competing needs.
- Make recommendations to the Board on major capital projects/expenditures and issues impacting the County of Monterey.

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4.6 Principal Functions of the Road Fund Advisory Committee

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The Road Fund Advisory Committee is made up of ten (10) members. There shall be two (2) members appointed by each Supervisor for their respective Districts; these members shall be residents of an unincorporated area of the County. The Advisory Committee does not replace the functions and responsibilities of both the Capital Improvement and Budget Committees.

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The principal function of the Road Fund Advisory Committee includes:

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- Reviewing the recommendation from the Resource Management Agency Public Works Department (RMA-PW) on the use of the funds.

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5. SERVICES AND FUND STRUCTURE

5.1 Mandated and Optional Government Services

~~Monterey~~ The County provides a broad range of mandated and optional government services. The general government operations of the County are accounted for in the General Fund. The General Fund is used to account for revenues and expenditures unless another specified fund has been created to account for a specific item, activity, or program. It is the County's largest single fund, responsible for the provision of most of the County's services. Within the General Fund, or funded primarily by the General Fund, there are five broad categories of services and programs: Administration, Land Use and Environment, Recreation and Education, Health and Human Services, and Public Safety.

~~The General Fund is financed primarily through program revenue (intergovernmental), property taxes, and local sales and use taxes (non-program).~~

5.2 Other Funds

In addition to the General Fund, the County maintains a number of special revenue, special district, enterprise, internal service, capital project, public ways and facilities, and debt service funds to account for those activities not provided by the General Fund. The following is a brief description of the County's other funds:

- ~~Monterey~~ The County will establish and maintain Special Revenue Funds, which will be used to account for proceeds and expenditures from specific revenue sources to finance designated activities, which are required by statute, regulation, ordinance, and resolution or board order.
- The County operates special district and enterprise funds to account for services such as: p~~P~~aramedic e~~E~~mergency m~~M~~edical s~~S~~ervice, r~~R~~ecreational s~~S~~ervices and Natividad Medical Center.
- Internal S~~s~~ervice F~~f~~unds are currently used to manage the County's self-insurance programs~~:~~ such as:~~,~~ Workers' Compensation, General Liability, and other self-insurance programs. Future initiatives may utilize Internal Service Funds to account for internal service department~~'s~~ activities where appropriate.
- Capital project funds are used for f~~F~~acilities m~~M~~aintenance, c~~C~~apital i~~I~~mprovements m~~M~~anagement, and specified c~~C~~apital p~~P~~rojects.
- The ~~Public Ways and Facilities fund~~Road Fund is used for staffing and operations of the Public Works Department.
- Debt service funds are used to provide repayment of debt for Certificates of Participation (COP), short-term borrowing, and other obligations and debt.

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5.3 Major Funds

Sufficient fund balances and reserve levels are critical measures in the County~~ of Monterey~~'s financial management policies~~,~~ and strategies. They are key factors in the County's strategies to sustain service delivery and obtain external financing. All funds of the County are to be kept in a positive cash balance position. In the event a fund anticipates going in a negative cash position, the f~~F~~und m~~M~~anager shall immediately bring to the ~~Board's~~ Budget Committee a report outlining the reason(s) along with a "Financial Plan" to e~~i~~nsure the Fund regains a positive cash balance. All major funds are expected to develop and maintain both reserve and contingency policies and have these adopted by the Board. "Major Funds" are as follows, but not limited to: 1) General Fund; 2) Natividad Medical Center; 3) Water Resource Agency Fund; 4) Road Fund; 5) Library Fund; 6) Behavioral Health Fund; 7) Health and Welfare Realignment Fund; 8) Local Revenue Fund 2011; and ~~6~~9) Lakes Resorts Fund. The County Administrative Officer or designee shall have authority to determine funds that will be considered "Major Funds" for financial purposes.

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5.4 Minimum Number of Funds

The County will maintain the minimum number of funds necessary to satisfy statutory, regulatory, and accounting requirements. Funds are created by the Auditor-Controller or designee.

5.5 Creation and Closing of Funds and Budgets to Be Documented

The creation and/or closure of funds and budget units shall be documented by order from the Board.

6. OPERATING BUDGET POLICIES

6.1 County Budget

The County's ~~Budget~~Recommended Budget is the central financial planning document that embodies all County departments' goals, objectives, priorities, and levels of service and the associated operating revenue and expenditures. In so doing, it establishes a relationship between expenditures and revenues, in which departments are to operate. Appropriation authority is granted on the relationship between expected expenditures and revenue and therefore appropriation authority is granted contingent on this relationship meeting the recommended budget plan. In the event that revenues ~~are reduced the Board will work with the departments to bring their department budget back in line. If a department finds that this relationship is not materializing~~fall below expected amounts, the department must take all actions available to reestablish a revenue and expenditure relationship that conforms to the recommended ~~original~~ budget plan~~ or amended by the Board~~.

The ~~budget~~ Recommended Budget ~~is adopted annually and~~ shall be presented to the Board for adoption in June of each year and prepared in such a manner where it is understandable to the public. ~~Additionally, The~~The Recommended B~~b~~udget may be modified as approved by the Board during the fiscal year.

6.2 Balanced Budget

The County must adopt a "statutorily" balanced budget.~~,~~ H~~however, to~~ e~~insure ongoing sustainability the County adopts a "structurally" balanced budget.~~ A budget is statutorily balanced when total estimated financing sources (beginning fund balance plus revenues) equal the total appropriation (expenditures plus ending f~~F~~und balance). At no time shall spending in a given year exceed total current revenues plus any f~~F~~und b~~B~~alance carryover from the prior year.

In addition to adoption a statutorily balanced budget, the County ensures ongoing sustainability of its services by producing a "structurally" balanced budget. A ~~statutorily balanced budget utilizes beginning fund balance as a financing source. In contrast, a~~ structurally balanced budget matches total ongoing expenditures to the annual estimated revenues. In a structurally balanced budget, beginning fund balance may "not" be used as a financing source for ongoing expenditures. The County's goals are to maintain annual expenditure increases at a conservative growth rate~~, and to limit expenditures to anticipated annual revenues. Ongoing expenditures shall be provided based on sound balanced to anticipated ongoing revenue~~.~~, and not include "one-time" items such as capital outlay, projects or temporary program funding. Sound anticipated ongoing revenue is recurring revenue, such as, taxes and fees.~~ Reduction of reliance on f~~F~~und b~~B~~alance for operating purposes shall be a fiscal objective and included as a goal for every department to align annual operating expenditures with annual operating revenues.

6.3 Ongoing Maintenance and Operations Needs

The County will adequately fund ongoing maintenance and operational needs with ongoing annual revenue~~ without prejudice~~. Without prior direction and approval by the Board and ~~support by~~ its Budget Committee, the use of one-time revenues or short-term borrowing is not allowed as a resource to finance ongoing maintenance and operational needs.

6.4 Adequate Maintenance of Capital Facilities and Equipment

The County ~~of Monterey~~ shall establish as a primary fiscal responsibility the preservation, maintenance, future improvement and when applicable, orderly replacement of the County's capital facilities and equipment. To assist the County in avoiding fiscal emergencies and unplanned maintenance costs, the designated departments to provide these services shall include in the annual budget a comprehensive biennial plan in coordination with the Capital Improvement Plan (CIP).

6.5 CalPERS Retirement Systems

The ~~Budget~~ annual budget will provide adequate funding for all retirement systems. ~~Currently t~~The County contracts with the California Public Employees' Retirement System (CalPERS) for provision of retirement benefits under their defined benefit program. ~~Additional a~~As a participant, the County is required to annually fund at a minimum the cost for retiree health benefits otherwise known as Other Post Employment Benefits (OPEB). These benefits principally involve health care benefits, ~~but also may~~and include life insurance, disability, legal and other services. Under a new accounting standard (GASB 45), all public agencies must measure and report their OPEB liabilities (predominantly, retiree health care costs). In order to provide long-term funding for this benefit,~~, on June 8, 2009,~~ the Board authorized joining CalPERS' California Employers' Retiree Benefit Trust (CERBT) and began pre-funding the County's OPEB liabilities ~~annually~~ annually~~through the Recommended Budget the County's OPEB liabilities~~.

6.6 Budget Deficits

Departments who estimate they will have a budget deficit shall prepare and submit a Budget Committee Report outlining the cause of the problem, the alternatives available to mitigate the projected budget deficit, and the department's recommended action. All additions to appropriations, major plans to reduce service levels, or plans to request funding from the contingencies appropriation ~~Contingency funding~~ require~~s~~ approval by the Board as long as it is consistent with s~~S~~tate and f~~F~~ederal law.

6.7 Responsibility for Budget Management and Budgetary Control System

The County shall maintain a budgetary control system to help it adhere to the budget. County Officers and Department Heads have primary responsibility for management of the budgets within their departments. The responsibility to manage budgets includes:

- ~~,~~P~~p~~roviding accurate and timely budget estimates;
- ~~,~~M~~m~~onitoring revenues to ensure timely receipt in the amounts anticipated;
- ~~,~~E~~e~~nsuring that expenditures are in compliance with the law, adopted resolutions, policies and within appropriations relative to revenues;
- ~~,~~E~~e~~nsuring prompt notification to the Budget and Analysis Division when either revenues or expenditures are not as anticipated;~~;~~ and
- T~~t~~he preparation and justification for budget revisions, supplements, and emergencies as necessary.

6.8 Preparation of Financial Reports

The County Administrative Office annually prepares:

- A Budget End of Year Report (BEYR) to retrospectively report on actual financial performance at both a detail and summary level;
- A current year estimate and t~~T~~hree y~~Y~~ear f~~F~~orecast ~~and~~ to ~~Current Year Estimate providing~~ provide ~~forward looking perspective and~~ current year performance and forward-looking perspective to advise the Board on future challenges and provide a base for building the following year's R~~r~~~~R~~ecommended B~~b~~~~B~~udget;
- ~~Quarterly~~ Reports, as appropriate ~~on the current performance of the General Fund~~ to keep the Board ~~up to date and~~ informed on current financial performance and developments.

The Auditor-Controller's Office annually prepares various reports including:

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- The Countywide Annual Financial Report (CAFR) as required by the s~~S~~tate. The purpose of the CAFR is to report on the financial position and activities of the County by presenting information above and beyond what is required by generally accepted accounting principles or s~~S~~tate l~~L~~aw. The intent is to also provide its readers a broader view and understanding of the County's financial operations;~~.~~
- ~~The County shall m~~Maintain ~~its~~ accounting records and reports on ~~its~~the County's financial condition and results of operations in accordance with s~~S~~tate and f~~F~~ederal laws and regulations and G~~g~~enerally Accepted A~~a~~ccounting P~~p~~rinciples (GAAP), which are set by the Governmental Accounting Standards Board (GASB) and the Financial Accounting Standards Board (FASB);
- Single Audit is prepared in compliance with the U.S. Office of Management and Budget Circular A-133 Compliance Supplement. ~~An independent firm of certified public accountants performs the audit report, which is included in the CAFR.~~ The County's federally funded activities are reported to assure C~~C~~ounty adherence to laws, regulations, contracts and grants applicable to its major federal programs;~~.~~
- Cost Allocation Plan is required by the Federal Management Circular A-87, "Cost Principles for State and Local Governments."~~.~~ The schedule confirms then allocates the indirect costs of the County to operating and non-general c~~C~~ounty departments;~~.~~
- The countywide annual Tax Rate Book.

6.9 Publication of Budget

The County Administrator shall publish annually a Recommended Budget document that provides information about the budget to all interested parties. The Auditor-Controller shall annually publish an Adopted Budget document to meet the requirements of the State Controller's Office.

6.10 Establish Countywide Priorities

The Board has a continuous process of establishing ~~Countywide~~countywide priorities for ensuing years and has implemented the process of incorporating these priorities in the budget within the framework of the law. Understanding that e~~E~~lected o~~O~~fficials and Department Heads are charged with the actual provision of services to the community, the Board shall set broad priorities to ensure flexibility to departments to concentrate on these priorities. In setting these priorities, the Board and County Administrative Office recognize that countywide elected officials have constitutional and/or statutorily created mandates and are ~~answerable~~accountable to the electorate.

6.11 Authorization of Elected Officials

In determining service levels, the Board and County Administrative Office recognize that countywide elected officials have constitutional and/or statutorily created mandates and are ~~answerable~~accountable to the electorate. Although the Board adopts a budget for each department, the countywide elected officials will determine the services that they will provide within the adopted budgetary constraints. The General Financial Policies recognize that e~~E~~lected Department Heads have independent constitutional and/or statutory powers to direct service levels and priorities within their departments. These powers are independent of the Board in part because these officials (like Board members) serve at the pleasure of the electorate in Monterey County. However, the Board is responsible for allocating fiscal appropriations to all County Departments.

6.12 Board's Mission, Goals, Policies and Priorities

The County departments and the County Administrative Office shall incorporate the Board's mission, goals, policies and priorities in the formulation of the Recommended Budget proposal. The mission is to excel at providing quality services for the benefit of all ~~Monterey~~ County residents while developing, maintaining and enhancing the resources of the area. ~~Inclusive in the~~These goals ~~is to~~include: assuring~~e~~ a sustainable and diversified economy that builds on Monterey County's local assets; enhancing~~e~~ and improving~~e~~ County services to assure an adequate safety net and quality of life for all County residents; assuring~~e~~ a strong public safety system which protects the public and minimizes the fear of crime while promoting justice; and assuring~~es~~ the financial stability of the County.

6.13 County's Budget Development Procedures

The County's budget development procedure is an annual process, which weighs all competing requests for County resources within expected fiscal constraints. Each year, the updated ~~strategic planning initiatives~~Monterey County Strategic Initiatives (MCSI) ~~of the Board~~ will be included in the budget document as a narrative, as well as reflected in Department objectives, performance measures and budget requests.

Departments will submit annual baseline budget requests ~~to support status quo levels of service. Increases over prior year must be supported by explanation for such changes in the cost of providing goods and services~~for services that can~~not~~ be afforded with existing general fund contributions and anticipated program revenues. Requests for augmentations to existing ~~service~~ general fund contribution levels must be fully justified using the County's *Budget Change Proposal* (BCP) process. Generally, requests for new or expanded services or programs will only be considered when a new revenue source can support the ongoing cost or when there is an offsetting reduction to an existing service or program. Requests for augmentations requiring ongoing resources made outside the budget process are discouraged.

6.14 Budget Adoption Level

In accordance with the California Government Codes, Sections 29000 ~~and~~ through 29144,~~3~~ commonly known as the Budget Act, the County enacts the annual financial plan (Recommended B~~b~~udget) through the passage of a resolution. The resolution mandates the maximum authorized expenditures for the fiscal year. In the Performance Budgeting (PB) system an "Appropriation Unit" represents one or more "Units" and it is used to define the budgetary limits of those "Unit(s)." A "Unit" represents a program or group of programs providing a similar service. The assignment of an appropriation unit is guided by State Controller financial reporting requirements and/or County requirements.

6.15 Capital Item Overview, Definitions and Thresholds

The County defines capital assets as assets with initial, individual costs of $5,000 or more, and an estimated useful life in excess of one year except for buildings for which the threshold is set at $100,000. Capital assets include both tangible and intangible assets categorized by asset type for reporting purposes. Additional detailed information is presented in the **County's Capital Asset Policy**.

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6.16 Changes to Adopted Budget

The Adopted Budget can only be modified by subsequent amendments by the Board. Changes to the A~~a~~dopted B~~b~~udget will be made in compliance with Board Policies. General Board direction is to strategically plan departmental budgets during the annual budget process thereby minimizing the need to make m~~M~~id-y~~Y~~ear budget modifications. Mid-y~~Y~~ear budget modifications are discouraged as a practice and require completion of a Budget Change Proposal form to justify the need for the modification, as well as a discussion of why it was not considered in the annual budget process. The County Administrative Office will review all requested budget change proposals and make a recommendation as to the necessity of moving forward for Board consideration.

6.17 Budgetary Basis

The County uses modified accrual basis of accounting~~ is~~ in accordance with the G~~g~~enerally A~~a~~ccepted A~~a~~ccounting P~~p~~rinciples (GAAP). The budgetary basis is substantially the same as the modified accrual method of accounting that is used for financial reporting for all governmental funds except enterprise funds. The County currently has two Enterprise Funds (Natividad Medical Center and~~&~~ the Lake Resorts~~s~~), which ~~will be~~are budgeted based on a full accrual budgetary basis~~ where Full Accrual (minus depreciation), Capital Expenses, and Debt Service will form the budget basis, where applicable and approved by the Board~~.

~~Governmental funds, including general, special revenue, debt service, and capital projects, are accounted for using 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 be 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.~~

7. REVENUE AND EXPENDITURE POLICIES

7.1 Revenue Diversification

To the extent possible, a diversified and stable revenue system will be maintained to shelter community services from short and long-term fluctuations in any one revenue source.

7.2 Revenue Estimates

Annual revenues ~~estimates~~ are conservatively estimated as a basis for ~~preparation of~~preparing the annual Recommended B~~b~~udget ~~and County service programs~~. Estimates shall not be based on optimistically hoped for events, but accepted analytical techniques that use historical data, economic trends and indicators, information available from the s~~S~~tate and other governmental agencies, and other accepted standards. In general, revenue estimates shall not assume any growth rate that is not well documented. Real growth that occurs beyond budgeted revenue will be recognized through budgetary adjustments. Major revenues will be estimated by the department who manages the program and reviewed first by the County Administrative Office and subsequently by the Board's Budget Committee, prior to adoption of the annual budget. Any new revenues and/or revenue increases included in the Recommended Budget shall be adopted by the Board or approved by the voters no later than March of each year. If this is not possible, the Recommended Budget shall identify the issue as "pending" to inform all stakeholders the issue still requires action by the Board.

7.3 Current Revenues

Annual ~~revenues~~ expenditures shall be ~~sufficient~~ balanced to ~~support~~ annual ongoing revenues, without ~~expenditures, while~~ use of one-time financing ~~should be strategic in use to ensure ongoing dependence does not occur~~. Deficit financing and borrowing will not be used to support ongoing County services and operations, without explicit Board direction and approval. ~~The Recommended Budget will strive to align the expenditure trend to conform to the revenue trend.~~ Funds under the authority of the Board may be available for purposes of cash loans to cover temporary gaps in cash flow, but only when supported by a well-documented repayment schedule of short duration within the fiscal year and otherwise not disallowed by policy, regulation or statue. All departments shall obtain Board approval via the County Administrative Office to use non-appropriated funds under their control to support their operations and programs either directly or indirectly. The Board shall be advised in the event cash loans are required or use of non-appropriated funds are requested. This policy applies to funds under the governance of the Board.

7.4 User Fees

The County charges user fees for various services when it is appropriate and permitted by law. Unless set by policy, regulation or statute, user fees and charges are established and maintained at the discretion of the Board. It is the policy of the Board that fees will generally be set at a level sufficient to cover both direct and indirect costs of the services provided or the service may be subsidized by the County as deemed necessary by the Board. Factors for subsidy consideration ~~is~~ include whether a subsidy causes an inappropriate burden on property tax payers, the degree to which the service benefits a particular segment of the population, and whether beneficiaries can pay the fee~~, and whether the service provides a broader benefit to the community~~.

All fees for services are reviewed as necessary and adjusted (where necessary). The full cost of providing a service is calculated in order to provide a basis for setting the charge or fee and~~.~~ ~~Full cost~~ incorporates direct and indirect costs, including operations and maintenance, overhead, charges for the use of capital facilities, as well as depreciation. Other factors for fee or charge adjustments may ~~also~~ include the impact of inflation, other cost increases, the adequacy of the coverage of costs, current competitive rates, and contractual or statutory restrictions. Fee revisions for inclusion in the Recommended Budget for the ensuing fiscal year shall be submitted to the Board by March of the preceding fiscal year of implementation. Part of the decision-making process in establishing new services or increasing service levels should include an analysis of fees and user charges and a desired cost-recovery threshold. Increases may be justified based on outside variables not considered at the time of budget submissions (~~i.~~e.g., water levels, gas prices, economy, etc.).

7.5 One-Time Revenues

~~It is the general guidance of the County that the~~U~~u~~se of one-time revenues for ongoing expenditures shall be discouraged. Unpredictable revenues are budgeted conservatively, and any amount collected in excess of the budget is generally carried forward in the fund balance.

7.6 Revenues of a Limited or Indefinite Term

Revenues of a limited or indefinite term will generally be used for those limited or indefinite term functions associated with the revenue. In the event that cannot be done, the revenue is to be considered discretionary revenue and may be used for one-time expenditures to ensure that no ongoing service programs are lost when such revenues are reduced or discontinued.

7.7 Use of Discretionary General Fund

Departments shall maximize the use of non-General Fund discretionary revenue and minimize the need to use d~~D~~iscretionary General Fund revenue to fund programs. The Board will prioritize use of d~~D~~iscretionary General Funds through the annual budget process.

7.8 Use of Year-End Fund Balance

The County goal is to use f~~F~~und b~~B~~alance as a source to finance one-time investments, reserves and/or commitments. As a one-time financing source, any unbudgeted year-end f~~F~~und b~~B~~alance will be used solely for nonrecurring ~~expenditures. After~~ expenditures and only after the yearly audit and confirmation of the General Fund's *f~~F~~und b~~B~~Balance*.~~, and in consideration of current financial conditions, the Board of Supervisors may allocate~~

~~unbudgeted Unassigned Fund Balance in the following manner as recommended by the County Administrative Officer:~~

1. ~~A Capital Project Fund~~
2. ~~Productivity Investment Assignment~~
3. ~~Strategic Reserve – equal to 10% of current year General Fund revenues~~
4. ~~One-time Investments/Assignment~~

7.9 Maintaining Revenue and Expenditure Categories

The County will maintain revenue and expenditure categories according to ~~state~~ ~~s~~State statute and administrative regulation and operational needs.

7.10 Outside Organization Contributions

Public Safety Sales Tax (Proposition 172) revenues ~~are currently allocated as follows:~~

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Pursuant to Government Code Section 30052, Proposition 172 funds must be placed into a special revenue fund to be expended on such public safety services as sheriffs, fire, county district attorneys, and corrections.

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The County has historically shared its Proposition 172 revenues with other agencies to assist in funding fire districts and to help offset costs to cities for emergency dispatch services. The County Administrative Office is charged with the duty to determine when a reduction to other agencies would be appropriate and obtain authorization from the Board to begin those discussions. In the event of fiscal constraints, the Board retains the authority to reduce allocations to other agencies upon findings that internal public safety programs would otherwise require program reductions.

~~The State's FY 1993-94 budget agreement transferred $2.6 billion in property tax revenue from local government into "educational revenue augmentation funds" (ERAFs) to help the State meet its obligations to K-14 school districts. Most of the diverted tax revenue came from counties, compromising their ability to fund general purpose services, the largest of which is public safety. Proposition 172, passed in the November 1993 statewide election, established a permanent statewide half-cent sales tax for support of local public safety to partially replace the lost property tax revenue.~~

~~Pursuant to Government Code Section 30052, Proposition 172 funds must be placed into a special revenue fund to be expended on such public safety services as sheriffs, fire, county district attorneys, and corrections. Information on how Proposition 172 revenues are allocated within the County of Monterey is provided below.~~

~~*Emergency Communications - Departmental*~~

~~The Emergency Communications Department provides for the operation and administration of the countywide consolidated 9-1-1 and non-emergency call answering~~

~~and dispatch services. Services are provided on behalf of the Sheriff and various police and fire agencies within the County. Participating agencies reimburse the County for their share of cost in operating the emergency communications system. The Emergency Communications Department receives 10% of the County's share of Proposition 172 revenues. A portion of these revenues (described in the next section) are shared with user agencies as an offset to the County's service charges.~~

Emergency Communications Users' Offset

In April 2012, the County met with user agencies of the County's 911 dispatch services to negotiate a new funding agreement. This agreement fixed the funding for user agencies at 5.0% of the County's total Proposition 172 revenues for the most recently audited fiscal year (e.g., the FY 2016~~4~~-17~~5~~ allocation will be 5% of FY 20145~~2~~-156~~3~~ audited actuals).

~~The new formula ties future allocations to audited actuals, creating greater predictability for budgeting purposes for both the County and user agencies.~~

Fire Agencies' Distribution

Pursuant to the 2011 disbursement agreement, the ~~In June 2011, the County Administrative Office and the Association of Firefighters and Volunteer Fire Companies (the Association) agreed to a new disbursement model for Proposition 172 revenues. Beginning in FY 2011-12, the~~ County ~~will~~ shares with the Association of Firefighters and Volunteer Fire Companies 9.13% ~~(the historic funding level dating back to FY 2001-02)~~ of the County's Proposition 172 revenues for the most recently audited fiscal year (e.g., the FY 2016~~4~~-17~~5~~ allocation will be 9.13% of FY 20154~~2~~-165~~3~~ audited actuals). Similar to the ~~new~~ agreement with emergency communications user agencies, this agreement ties future allocations to audited actuals, resulting in greater predictability for budgeting purposes, and eliminating the need for year-end reconciliations and payment "true-ups." ~~.~~ The various fire agencies allocate the Proposition 172 revenues amongst themselves via their own allocation formula.

Distributions to Sheriff, Probation, and District Attorney

~~-~~Proposition 172 revenues are allocated to the Sheriff, Probation, and District Attorney as approved by the Board of Supervisors in the base year of FY 1995-96, with growth revenues distributed using the percentages listed below:

Department	% of Growth
Sheriff	61.2%
Probation	17.1%
District Attorney	21.7%
TOTAL	100.0%

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~~The County has historically shared its Pproposition 172 revenues with other agencies to assist in funding fire districts and to help offset costs to cities for emergency dispatch~~

~~services. In the event of fiscal constraints, the Board retains the authority to reduce allocations to other agencies upon findings that internal public safety programs would otherwise require program reductions. The County Administrative office is charged with the duty to determine when a reduction to other agencies would be appropriate and obtain authorization from the Board to begin those discussions.~~

County Agency Distribution

The State Board of Equalization apportions Proposition 172 revenues to each county based on its proportionate share of statewide taxable sales. Due to the disbursement cycle of Proposition 172 revenues from the State Controller, each fiscal year's actual Proposition 172 revenues are not known until August of the following fiscal year.

~~Transient Occupancy Tax Revenue~~ Contributions to Economic Development Set Aside

The County has agreed to annual contributions to t~~T~~he Monterey County Convention and Visitors Bureau, Film Commission, and Arts Council respecting the value these organizations add to the community and their role as related to the County Transient Occupancy Taxes. This contribution is based on a shared percentage of total Transient Occupancy Tax (TOT) revenues from the previously audited fiscal year. The Convention and Visitors Bureau receives a contribution equal to 6.00%, the Film Commission receives a contribution equal to 0.95% and the Arts Council receives a contribution equal to 1.98% totaling a ~~conbined~~combined~~n~~ 8.93% contribution from the County's ~~Transient Occupancy Taxes~~TOT revenues. In the event of fiscal constraints the Board retains the authority to reduce its allocation to these outside agencies upon findings that internal countywide priority programs would otherwise require program reductions. The County Administrative Office is charged with the duty to determine when a reduction to outside agencies would be appropriate and obtain authorization from the Board to begin those discussions.

Contributions to the Road Fund

The Board recognizes the contributing value that well maintained roads provide for the overall economic vitality of the County and contributes to the County's ~~County Transient Occupancy Taxes (TOT~~TOT~~)~~. In response, in June 2013, the Board approved including the Road Fund as a beneficiary in the County ~~Transient Occupancy Tax Revenue~~TOT contribution formula ~~at which time 20% was established for FY 2012-13~~. In FY 2013-14, the TOT contribution percentage for the Road Fund ~~is~~ was established at 20% of total TOT revenue. ~~Per annum~~Every year, the contribution shall increase by 1% until it reaches a cap of 25%.~~%, which, at that time, the contribution percentage shall cap and remain at 25%. The contribution percentage per annum shall be as follows: FY 2014-15 (21%); FY 2015-16 (22%); FY 2016-17 (23%); FY 2017-18 (24%); FY 2018-19 (25%); and thereafter remain at 25%. Going forward, the~~ This contribution ~~amount~~ replaces, and is not in addition to, the $2.0 million the County previously provided ~~per annum~~annually to the Road Fund from the General Fund.

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~~A ten (10) member~~The Road Fund Advisory Committee (Advisory Committee) shall be responsible ~~per annum~~ to annually review the recommendation from the Resource Management Agency Public Works Department (RMA-PW) on the use of the funds as part of the annual budget process. When the RMA-PW provides a plan for the use of this funding to the Board ~~of Supervisors~~ and ~~their~~ its respective committees, minutes from the Advisory Committee shall be included for consideration. ~~There shall be two (2) members appointed by each Supervisor for their respective Districts; these members shall be residents of an unincorporated area of the County. The Advisory Committee does not replace the functions and responsibilities of both the Capital Improvement and Budget Committees.~~

Other Contributions

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Organizations that are not part of the County, but receive contributions from the County, shall not have their appropriation carried forward from budget-cycle to budget-cycle unless authorized and directed by the Board. At the will of the Board, those organizations receiving County contributions may be subject to annual review and presentation to the Board on the value and services provided to the community as a result of County funds.

7.11 Appropriations/Expenditures

~~The~~ County departments shall continually strive and demonstrate the review of program effectiveness to ensure maximum return on limited resources. Appropriations approved by the Board in the annual budget define the County's spending limits for the upcoming fiscal year. Beyond the requirements of law, the County shall maintain an operating philosophy of cost control and responsible financial management. The County shall pay current expenditures with current revenue. Departments should only propose ongoing operating expenditures that can be supported with ongoing operating revenues. Prior to the County undertaking any agreements that would create fixed ongoing expenditures, the cost implications of such agreements shall be ~~fully~~ determined for current and future years with the aid of strategic financial planning models. The goal is to deliver maximum services in a sustainable cost effective and efficient manner, which includes:

a. Department Heads are responsible for managing their budgets within the total appropriation for their department. Expenditures shall not exceed appropriations, and expenditures of discretionary General Fund dollars will not exceed the amount approved in the department budget, except upon approval by the Board.

b. Departments shall continually review program effectiveness to ensure maximum return.

c. Expenditures shall be controlled and must stay within the amount of appropriated funds.

d. In requesting Board authorization for mid-year budget modifications, departments should include in their report both the current year and ongoing fiscal impacts and the sustainability of revenues to support that impact.

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e. Prior to requesting Board authorization for mid-year budget modifications, such as the addition of new positions or reclassification of existing positions, departments should make every attempt to anticipate future expense and revenues to support those costs. Departments should ensure requested budget modifications do not place current staff and services at risk.

f~~d~~. If revenue projections fall short of associated expenditures, the department shall develop service alternatives and/or mitigation strategies and present those ~~findings~~ to the Board~~'s Budget Committee and Board~~ and its Budget Committee.~~.~~

g~~e~~. If expenditure reductions are necessary, complete elimination of a specific, non-mandatory service is preferred to lowering the quality of existing programs.

h~~f~~. Every effort shall be made to maintain current service levels for essential services within existing revenues. There shall be no introduction of new services without an appropriate measurement and accounting of the incremental increase in service with the incremental increase in financial impact.

i~~g~~. High priority shall be given to expenditures that will reduce future operating costs, such as increased utilization of technology, equipment and efficient business practices.

j~~h~~. Emphasis ~~i~~shall be placed on improving individual and work group productivity rather than adding to the work force. The County will invest in technology and other efficiency tools to maximize productivity. The County will hire additional staff only after the need of such positions has been demonstrated and documented.

~~i.~~ k. In order to promote consistent and realistic budgeting of personnel, department budgets shall include a reasonable estimate of salary savings.

~~j.~~ l. When augmenting or decreasing the budget, consideration shall be given to the ~~strategic plan initiatives~~Monterey County Strategic Initiatives (MCSI).~~.~~

7.12 Appropriation for Contingencies

The County annually adopts an appropriation for contingencies to provide sufficient working capital and a margin of safety for such impacts as revenue shortfalls and unplanned operational needs. In the event of an emergency and/or unexpected revenue decline, the Contingency appropriation may be used at the discretion of and by action of the Board. These funds are utilized only after all other budget resources have been examined. The appropriation for operational contingencies shall be equal to 1% of estimated General Fund revenues, unless specifically modified by the Board as part of the annual budget adoption.

~~7.12 Categorization of Services~~

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~~The County shall begin the process of identifying services into distinct categories, in order to set priorities for allocating available funding. Each fiscal year departments are to submit during the budget process the categories for their operations as defined:~~

~~a. Basic or Core Services, which are best, performed at the County level and are most closely linked to protecting the health and safety of citizens. Legally mandated services or commitments are also included in this category.~~

~~b. Maintenance of Effort Services are services that the County has traditionally provided.~~

~~c. Quality of Life activities, which are provided for more specialized groups and enhance the desirability of the County of Monterey as a place to live.~~

7.13~~3~~ Grant Supported County Programs

The County manages a variety of programs, which depend on outside grants ~~to the County~~ for partial or full funding. In the event of reductions in such outside funding amounts, the program service levels will be reduced and additional County support shall not be provided to compensate for the reduction of outside funding, unless approved and directed by the Board.

7.1~~4~~ Performance Measures

County Departments have begun developing performance measurements for each d~~D~~epartment where applicable. Performance measures shall address best practices, desired outcomes, strategic planning initiatives of the Board, annual goals, and measurable key indicators in order to assure that maximum productivity (outcomes) are being achieved for the resources utilized. Where performance measures and associated costs have demonstrated that activities are more cost effective through alternative means, those means shall be pursued. Performance measures shall also provide management and the Board criteria in which to evaluate departmental requests for funding.

7.15~~5~~ Payment for Goods from Prior Year

Goods and services ordered and not received after the close of the fiscal year will be paid from the current year budgeted appropriations. The department's payment for goods and services, which are to be received or used in the next year, are not authorized for payment from current year funds, unless such payments are for items such as dues and maintenance agreements where recurring invoices for the next year are normally due prior to year-end.

8. ENTERPRISE FUNDS

8.1 Enterprise Funds

The County will establish enterprise funds for County services when:

a. The intent of the County is that all costs of providing the service should be financed primarily through user charges; and

b. The Board determines ~~when~~ that it is appropriate to conduct a periodic review of net income for capital maintenance, accountability, or other public policy purposes. The Auditor-Controller and County Administrative Office will be chief advisors to the Board in creation of an Enterprise Fund.

The County currently has two Enterprise Funds:

- Fund 452– The Lake Resorts~~s~~
- Fund 451 – Natividad Medical Center

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8.2 Expenses

Enterprise F~~f~~und expenses will be established at a level sufficient to properly maintain the fund's infrastructure, provide necessary capital development and match its revenue where its activity does not require County fiscal intervention.

8.3 Rate Structure

Each E~~e~~nterprise F~~f~~und will maintain an adequate rate structure to cover the costs of all operations, including maintenance, capital and debt service requirements where applicable, reserves (as established by financial policy or bond covenant) and any other cost deemed necessary, which should include depreciation.

8.4 Rates/Offset

Rates may be offset from available fund balance after requirements are met for cash flow, capital replacement, operational costs, debt service if applicable, contingency funding and scheduled reserve contributions.

8.5 Services

Enterprise F~~f~~und services will establish and maintain reserves for general contingency and capital purposes consistent with those maintained for general governmental services.

8.6 Net Operating Revenues

The County will ensure that net operating revenues of the enterprise are sufficient to pay operating expenses, capital costs and any debt service requirements where applicable, in compliance with the County's fiscal and debt policies.

8.7 Maintenance of Cash

Sufficient cash shall be maintained to provide adequate funds for current operating expenses.

8.8 Interest from Funds

Unless otherwise directed by statute, regulation, or resolution, interest will be allocated as discretionary financing for the E~~e~~nterprise F~~f~~und.

8.9 Departmental Financial Monitoring and Reporting

The County Administrative Office and departments shall monitor revenues and expenses throughout the year to ensure conformity to adopted budgets. Enterprise Funds shall provide the Board monthly financial status reports. Monthly financial reports shall provide a year-to-date summary of expenses, revenues and cash positions, including significant variances and comparisons to previous fiscal years' activity, trending for the current fiscal year and General Fund impact.

9. FUND BALANCE AND RESERVE POLICIES

9.1 Fund and Reserve Levels

~~As a measure of the net financial resources, sufficient~~Sufficient fund balances and reserve levels are a critical component of the County's overall financial management strategy. In addition, rating agencies analyze fund balance when considering the County's overall financial strength and credit worthiness. Adequate reserves provide the County with the ability to exercise flexible financial planning in developing future capital projects, and to deal with unforeseen emergencies or changes in fiscal conditions. Each fund shall maintain a level of reserves, which will provide for a positive fund balance throughout the fiscal year. The County ~~General Fund~~ has chosen to utilize a Strategic Reserve policy to provide for adequate fund balance throughout the year. All other major County f~~F~~unds shall develop and fund a reserve policy that is in conformance with best practices of their industry, or in the event such best practices are non-existent the fund shall adopt the percentages as follows:

- ~~1 percent of Estimated General annual Assigned Fund Balance~~Revenue ~~for contingency funding (budget appropriation necessary)~~a~~A~~n appropriation for operational contingencies equal to one percent of estimated annual general fund revenue and a
- A~~10 percent~~ S~~S~~trategic R~~R~~eserve ~~funding (designation necessary)~~equal to 10% of estimated annual revenue

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~~All funds shall utilize restricted resources before unrestricted resources, as appropriate, when both are available for expenditure. Further, unrestricted resources shall be used in the following order: committed, assigned, unassigned.~~

9.2 Committed Fund Balance – Strategic Reserve Fund

The County ~~will~~ shall commit a portion the General Fund *Fund Balance* as a Strategic Reserve to provide the County with sufficient working capital and a margin of safety to address local and regional emergencies without borrowing. The goal is that the amount of the Strategic Reserve will be ten percent (10%) of the total General Fund Adopted Budget estimated revenues. It is the County's plan that this level of reserve will be reached over a period of eight-years beginning in FY 2005-06.

The Strategic Reserve should not be used to support recurring operating expenditures outside of the current fiscal year. The reserve shall be used to fund settlement of legal judgments against the County in excess of reserves normally designated for litigation; short-term revenue reductions due to economic downturns; declared natural disasters; one-time State budget reductions that could not be addressed through the annual appropriations for contingencies; and, local or regional emergencies as determined by the Board of Supervisors or the County Administrative Officer. If the Strategic Reserve is utilized to provide for temporary funding of unforeseen needs, the County shall take measures necessary to prevent its use in the following fiscal year by increasing General Fund revenues and/or decreasing expenditures to regain structural balance. In addition, the County shall restore the Strategic Reserve to the minimum level of ten percent (10%) of General Fund revenues within five fiscal years following the fiscal year in which the event occurred. The plan to restore the Strategic Reserve shall be included and highlighted in the County's Three-Year Forecast. Funds in excess of 10% of the annual requirements may be retained in the Strategic Reserve, or may be considered for other purposes such as supplementing the Capital Fund or prepaying existing County debt.

9.3 ~~Assigned~~ Fund Balance ~~– Contingency Reserve~~Assignment

The County shall maintain a portion of reserve for specific assignments. The reserves provide the County with sufficient working capital as a safety net for impacts in the event of an emergency or natural disaster resulting in economic shocks or significant revenue shortfalls and/or program changes. These assigned funds are used to pay for planned, one-time expenditures, including fleet replacement, and costs related to infrastructure projects and other capital needs, and liabilities associated with employee leave credits. Assignment funds shall be utilized only after all other budget resources have been examined for available funds.

~~as economicreplacement andAssignment funds shall be utilized only after all other budget resources have been examined for available funds.~~

~~The County shall maintain a portion of the General Fund as a Contingency Reserve to provide the County with sufficient working capital and a margin of safety to withstand local and regional economic shocks, and unexpected declines in revenue without borrowing. Unless specifically modified by the Board as part of the annual budget adoption, the Adopted Budget will include reserves in an amount equivalent to one percent (1%) of the total estimated General Fund estimated revenues.~~

~~In the event of an emergency and/or unexpected revenue declines, the Contingency Reserve funds may be used at the discretion of and by action of the Board of Supervisors to provide for additional temporary funding. These funds shall be utilized only after other budget sources have been examined for available funds.~~

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~~9.4 Assigned Fund Balance – Self-Insurance Reserve~~

~~Self-insurance reserves shall be maintained at a level that, together with purchased insurance policies, will adequately indemnify the County's property and liability risk.~~

~~9.5 Assigned Fund Balance – Fleet Management Reserve~~

~~A fleet management reserve will be maintained to ensure adequate funds for the systematic replacement of fleet vehicles and the disposition of vehicles to be retired. Replacement reserves shall be based on historical values for vehicles with a "Consumer Price Index" inflation factor. A "depreciation amount" will be calculated based on the acquisition cost and salvage value, and straight-line the amount over the life of the vehicle. This "depreciation amount" shall represent the replacement amount charged to a department to replace the vehicle. Vehicles shall be replaced as scheduled to minimize overall costs.~~

~~9.6 Assigned Fund Balance – - Capital Projects Reserve~~

~~A capital project reserve will be maintained to ensure a consistent and reliable source of funding for facility replacement, repair and determined use. Capital project reserves will be sourced annually through a space use allowance charged to departments utilizing County owned buildings for their operations. The individual allowance for each respective department will be determined through the use of the Monterey County Countywide Cost Allocation (COWCAP) Plan 'Building Use Allowance' schedule, which allocates cost by department. The amount charged to a department for the upcoming fiscal year will be based on the latest available COWCAP of a (the) preceding year.~~

10. INTERNAL SERVICE FUNDS

10.1 Use of Internal Service Funds

The Risk Management Division of the County ~~Administrative~~ Counsel Office is responsible for managing Internal Service Funds (ISF~~'~~s) for the County's general liability and workers' compensation funds. The ISF~~'~~s shall function as funds for paying all judgments, settlements, and claims against the County. The General Liability ISF will reserve adequate funds to cover both excess insured events and events not covered by excess insurance coverage. Both ISF~~'~~s ~~shall be~~are currently funded at the 70% confidence level. ~~Beginning with FY 20011-12, unfunded liabilities for the Workers' Compensation Fund shall be funded over an 8 year period (FY 2018-19).~~

10.2 General Fund Transfers

In the event there is a large settlement that cannot be funded within the existing ISF reserve, the Risk Management Division may submit a request to the Budget and Analysis Division for a transfer from the General Fund. Such a request will include, at a minimum, an analysis on the impact of the settlement on the reserve, alternatives for addressing the impact, and the advantages and disadvantages of each alternative.

10.3 Actuarial Studies

The Risk Management Division shall complete ~~two~~ an annual actuarial study~~ies~~. The ~~first~~ study will be completed using data through June 30th ~~-~~ of the calendar year~~and a second (“true up”) actuarial study shall be completed with data through December 31st~~. The June 30th study will be used to set department allocations for the upcoming fiscal year, ~~while the December 31st study will be used~~and ~~-~~for meeting its operational needs, such as purchasing excess insurance coverage. The Risk Management Division will work with County Counsel throughout the year to obtain information on potential settlements that could impact reserve levels and provide this information to the actuary as part of the semi-annual actuarial valuation process.

10.4 Internal Service Funds Reporting

The Risk Management Division shall provide to the Board and its Budget Committee an annual report outlining the progress made in meeting the funding levels and outlining the operational costs and outcomes of operations.

11. CAPITAL FACILITIES AND IMPROVEMENT POLICIES

11.1 Capital Investments

~~Monterey County’s government~~The County is accountable for a considerable investment in buildings, parks, roads, sewers, equipment and other capital investments. The preservation, maintenance, and future improvement of these facilities are a primary responsibility of the County. Planning and implementing sound capital improvement plans, policies and programs today will not only help the County avoid emergencies and major costs in the future, but strategically plan for the future needs of the County. The Board in recognition of the need to develop and adopt a consolidated capital improvement plan, established the Capital Improvement Program, Five-Year Plan (CIP). The CIP budgets for its implementation, and incorporates its impact on the operating budget, which include design, construction, equipment, land purchases and project administration.~~, established the Capital Improvement Program, Five-Year Plan (CIP)~~. The CIP is prepared and updated annually by the Resource Management Agency with review by the Budget and Analysis Division as part of the annual budget process.

The CIP includes projects where costs exceed $100,000, are non-recurring, and have an estimated useful life of five years or more. The CIP does not indicate approval of a project, but is considered a tool which the Board may use as a strategic planning tool to prioritize countywide capital projects. The CIP includes capital projects that have been implemented, in the stages of implementation, and those projects ~~if a~~for which there is a dedicated funding source~~ is found, to be implemented within the next five fiscal years~~. It is a dynamic document, where new projects are incorporated in the plan and previously submitted projects are updated. The CIP shall be consistent with the County’s overall goals and objectives. When doing economic development planning and capital investments, the County should coordinate the timing of economic development projects with related capital infrastructure projects.

~~11.2 Comprehensive Multi-Year Plan~~

~~The County has established and implemented a comprehensive multi-year Capital Facilities Plan. The plan is prepared and updated annually by the Resource Management Agency with review by the County Administrative Office (Budget and Analysis Division) and shall be known as the Capital Improvement Program, Five-Year Plan (CIP). The CIP includes those projects where costs exceed $100,000, are non-recurring and have an estimated useful life of five years or more. The CIP does not indicate approval of a project, but is considered a tool which the Board may use as a strategic planning tool to prioritize countywide capital projects.~~

11.2~~3~~ Ongoing Funding Levels

The Board shall determine annual ongoing funding levels for each of the major project categories within the Capital Improvement Program, Five-Year Plan.

11.3~~4~~ Financial Analysis of Funding Sources

Financial analysis of funding sources is conducted for all proposed major capital improvement projects. The plan shall be updated and priorities reviewed annually in light of changes in needs, available funding, or available staffing. ~~The Board has established the Capital Improvement Committee to review the status of projects and establish priority between competing needs.~~ The Board's Budget Committee determines the funding sources and if not available, provides input toward scope changes to meet the fiscal constraints. All projects are submitted before the Board for approval. A project scope and budget must be defined and submitted to the Board ~~of Supervisors~~ for approval before project funds can be expended. Any costs of operating and maintaining the projects listed in the plan should be identified separately, to ensure that adequate funds will be available for ongoing costs relating to the projects. When considering the priority and funding of each capital project, the County shall consider the operating impacts (i.e., increased staff, facilities maintenance, and outside rentals) of the project.

Comment [JPL1]: Moved to Section 4.4

11.4~~5~~ Annual Capital Improvement Budget

As part of the annual budget process, the Board shall include any capital project funding as part of the budget process. In general, the capital projects that will be in progress and have secured funding for work in the first year of the Five-Year CIP will be included in the annual budget. Each capital project will be budgeted and tracked at the project level utilizing an assigned Program Code in the Performance Budgeting (PB) system. The sum of the funds for all projects included in the Capital Project Fund will equal the fund's appropriation limit for the given fiscal year.

11.5 Capital Maintenance

The Board recognizes the importance of providing funding for ongoing maintenance needs in order to keep capital facilities and infrastructure systems in good repair and to maximize capital assets' useful life and as such, will be included as part of the CIP.

11.6~~6~~ Capital Project Reports

The Resource Management Agency (RMA) and ~~the applicable~~ Natividad Medical Center (NMC) ~~capital projects~~ shall provide the following reports as applicable:

a. ~~a.~~ Monthly update of the draw down schedule for debt financed projects to the County Debt Manager.

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b. Quarterly updates to the Capital Improvement and Budget Committees on implemented capital projects, which include, in part, the initial approved budget, budget modifications, expenditures to date, remaining budget and expenditures, original completion date and if applicable, revised completion date and the phase (in a percentage) the project is toward completion.

c. Quarterly updates to the Budget Committee on capital funds interest accumulation.

d. Quarterly report to the County Debt Manager detailing quarterly forecasts of expenditures for the life of debt financed projects, such as Certificates of Participation (COP).

e. Semi-annual update to the Capital Improvement and Budget Committees on "Scheduled" and "Unscheduled" maintenance projects that are funded by the Facilities Project Fund (Fund 401).

The County Debt Manager shall provide a quarterly report to the Capital Improvement and Budget Committees regarding draw down schedules for debt-financed projects, such as ~~Certificates of Participation (~~COPs~~)~~.

~~11.7 Capital Maintenance~~

~~The Board recognizes the importance of providing funding for ongoing maintenance needs in order to keep capital facilities and infrastructure systems in good repair and to maximize capital assets' useful life and as such, will be included as part of the Capital Improvement Program, Five-Year Plan (CIP)~~CIP~~.~~

12. GRANT MANAGEMENT

12.1 Funding

The County recognizes that grant funding provides significant resources to enhance the County's ability to provide services and activities not otherwise available. The County shall seek grant funding for activities that are determined to further core ~~County~~ functions or that provide for activities which are in the best interests of ~~our citizens~~the community. The County shall examine the benefits of grant funding prior to application and decline funding determined not to meet ~~the above criteria~~Board approval.

Among other issues, consideration will be given to whether grant activities further the County's mission, whether they are part of the core functions of the department, and whether locally generated revenues will be required to support grant activities when grant funding is no longer available.

~~No grant will be accepted that will incur management reporting costs greater than the grant amount. Such costs include, but are not limited to, indirect costs, overhead and any other items needed to administer the grant.~~ Departments are responsible for continuous monitoring of the financial status of grants. Departments must monitor grants for compliance with all applicable federal, state, and local regulations and ensure that grant expenditures are in compliance with grant procurement policies and procedures.

Any ~~new~~ position ~~changes to be created~~modification as a result of grant funding must be approved by the Board and properly classified by Human Resources. Departments are to promptly notify Payroll of coding changes needed for those persons being charged to grants since grant codes may change each year.

Departments are responsible for all aspects of the grant process including planning for grant acquisition, preparation and submitting grant proposals, developing grant implementation plans, managing grant programs, preparing and submitting reports to grantors, and properly closing out grant projects. Department staff and the County Administrative Office will maintain a close working relationship with respect to any grant activity to ensure a clear understanding of the project status.

13. STATE AND FEDERAL PROGRAMS

13.1 State and Federal Programs

The County shall operate s~~S~~tate and f~~F~~ederal programs based on the level of s~~S~~tate f~~F~~unding provided and shall not backfill any s~~S~~tate cuts with ~~County~~ General Fund resources except when local priorities dictate a need for continuance.