

DRAFT

COUNTY OF MONTEREY



GENERAL FINANCIAL POLICIES

FY 2016-17

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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 and maintenance 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 are reviewed, updated, and brought before the Board as needed but at least annually for adoption. This continued review and adoption promotes sound financial management and assists in maintaining the County's stability, efficiency and effectiveness by ensuring 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 in the management of the County's financial affairs. The Recommended Budget adheres to these policies.

2. GENERAL FINANCIAL PHILOSOPHY

2.1 General Financial Philosophy

The financial policies of the County 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 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 the County's ability to adjust efficiently to the community's changing service requirements;
- c. Effectively maintain and improve the County's infrastructure and capital assets;

- d. Maintain sufficient financial liquidity to meet normal operating and contingent obligations;
- e. Prudently plan, coordinate, review and implement responsible community development and growth;
- f. Provide an acceptable level of medical, social, law enforcement and other protective services to assure public health and safety;
- g. Regularly review programs and operational methods to improve processes that result in higher productivity, eliminate repetitive and duplicative functions, promote collaboration with other government entities and the private sector where cost and risk are minimized in the delivery of services within the community;
- h. Promote sound financial management by providing accurate and timely information on the County's financial condition;
- i. Ensure the legal use of financial resources through effective systems of internal controls;
- j. 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
- k. 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 balance or other one-time financing sources for ongoing operating expenditures while utilizing conservative revenue forecasts;
- b. The County Administrative Office and Auditor-Controller will maintain a financial training program for Board Members;
- 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;
- 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;
- e. Through the Board's Legislative Committee, the County will work with the California State Association of Counties (CSAC), state representatives, legislative

advocates in the State Capitol and other local government organizations to assure any state programs administered by the County are adequately funded and any realignment of state and county responsibilities are expenditure/revenue neutral; 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 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 determining potential budgetary impacts of current budget decisions. New 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 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 recommends services or programs; it 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 operating budget may experience change during the course of a fiscal year. This makes the strategic model relevant because it does not assume a "trend rate" is destined and that finances will not remain constant. The strategic model is designed to 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-Year Financial Forecast is 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 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 fund manager for the General Fund and on behalf of the Board makes independent recommendations regarding all other funds 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 Budget);
- 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;
- 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

It is the role of the Board's Budget Committee to provide ongoing oversight of the County budget, and in this capacity to bring those items of significant impact thereto to the attention of the full Board of Supervisors for appropriate consideration and action as warranted.

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 departmental budgets that are submitted by the various Department Heads; and
- Developing a good understanding of the departmental and programs' fiscal constraints.

4.5 Principal Functions of the Capital Improvement Committee

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;

4.6 Principal Functions of the Road Fund Advisory Committee

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.

The principal function of the Road Fund Advisory Committee includes:

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

5. SERVICES AND FUND STRUCTURE

5.1 Mandated and Optional Government Services

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.

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, road fund, 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:

- 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: paramedic emergency medical service, recreational services and Natividad Medical Center.
- Internal Service Funds 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 program activities where appropriate.
- Capital project funds are used for facilities maintenance, capital improvements management, and specified capital projects.
- The 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.

5.3 Major Funds

Sufficient fund balances and reserve levels are critical measures in the County'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 department shall immediately bring to the Budget Committee a report outlining the reason(s) along with a "Financial Plan" to ensure 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 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.

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 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 fall below expected amounts, the department must take all actions available to reestablish a revenue and expenditure relationship that conforms to the recommended budget plan.

The Recommended Budget 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. The Recommended Budget may be modified as approved by the Board during the fiscal year.

6.2 Balanced Budget

The County must adopt a "statutorily" balanced budget. A budget is statutorily balanced when total estimated financing sources (beginning fund balance plus revenues) equal the total appropriation (expenditures plus ending fund balance). At no time shall spending in a given year exceed total current revenues plus any fund balance carryover from the prior year.

In addition to adoption a statutorily balanced budget, the County seeks to ensure 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. Reduction of reliance on fund balance 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 prior direction and approval by the Board, 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 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 that 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 annual budget will provide adequate funding for all retirement systems. The County contracts with the California Public Employees' Retirement System (CalPERS) for provision of retirement benefits under their defined benefit program. 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, 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, the Board authorized joining CalPERS' California Employers' Retiree Benefit Trust (CERBT) and began pre-funding the County's OPEB liabilities annually.

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 require approval by the Board and should be consistent with state and federal 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:

- Providing accurate and timely budget estimates;
- Monitoring revenues to ensure timely receipt in the amounts anticipated;

- Ensuring that expenditures are in compliance with the law, adopted resolutions, policies and within appropriations relative to revenues;
- Ensuring prompt notification to the Budget and Analysis Division when either revenues or expenditures are not as anticipated; and
- The 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 three year forecast to provide current year performance and forward-looking perspective to advise the Board on future challenges and provide a base for building the following year's Recommended Budget;
- Reports, as appropriate to keep the Board informed on current financial performance and developments.

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

- The Countywide Annual Financial Report (CAFR) as required by the state. 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 state law. The intent is to also provide its readers a broader view and understanding of the County's financial operations;
- Single Audit is prepared in compliance with the U.S. Office of Management and Budget Circular A-133 Compliance Supplement. The County's federally funded activities are reported to assure County 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 county departments;
- The countywide annual Tax Rate Book;
- In addition the Auditor-Controller's Office maintains accounting records and reports on the County's financial condition and results of operations in accordance with state and federal laws and regulations and Generally Accepted Accounting Principles (GAAP), which are set by the Governmental Accounting Standards Board (GASB) and the Financial Accounting Standards Board (FASB).

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 County Priorities

The Board has a continuous process of establishing 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 countywide elected officials 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 accountable to the electorate.

6.11 Authorization of Countywide 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 accountable to the electorate. Although the Board adopts a budget for each department, the countywide elected officials determine the services that they will provide within the adopted budgetary constraints. The General Financial Policies recognize that elected 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 County residents while developing, maintaining and enhancing the resources of the area. These goals include: assuring a sustainable and diversified economy that builds on Monterey County's local assets; enhancing and improving County services to assure an adequate safety net and quality of life for all County residents; assuring a strong public safety system which protects the public and minimizes the fear of crime while promoting justice; and assuring 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 Monterey County Strategic Initiatives (MCSI) 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 for services that can be afforded with existing general fund contributions and anticipated program revenues. Requests for augmentations to existing general fund contribution levels must be fully justified using the County's Budget Change Proposal (BCP) form. 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 et seq., commonly known as the Budget Act, the County enacts the annual financial plan (Recommended Budget) 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** which can be found on the Auditor-Controller's website.

6.16 Changes to Adopted Budget

The Adopted Budget can only be modified by subsequent amendments by the Board. Changes to the Adopted Budget 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 mid-year budget modifications. Mid-year 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 in accordance with Generally Accepted Accounting Principles (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), which are budgeted based on a full accrual budgetary basis.

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 are conservatively estimated as a basis for preparing the annual Recommended Budget. 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 state 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 expenditures shall be balanced to annual ongoing revenues, without use of one-time financing. Deficit financing and borrowing will not be used to support ongoing County services and operations without explicit Board direction and approval. Funds under the authority of the Board may be available for purposes of cash flow loans to departments to cover temporary gaps in cash flow, when supported by a well-documented repayment schedule of short duration within the fiscal year and otherwise not disallowed by policy, regulation or statute. All departments shall obtain Board approval 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 flow 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 partially subsidized by the County as deemed necessary by the Board. Factors for subsidy consideration 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.

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 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 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 (e.g., water levels, gas prices, economy, etc.).

7.5 One-Time Revenues

Use 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 program revenue and minimize the need to use discretionary General Fund revenue to fund programs. The Board will prioritize use of discretionary General Funds through the annual budget process.

7.8 Use of Year-End Fund Balance

The County goal is to use fund balance as a source to finance one-time investments, reserves and/or commitments. As a one-time financing source, any unbudgeted year-end fund balance will be used solely for nonrecurring expenditures and only after the yearly audit and confirmation of the General Fund's *fund balance*.

7.9 Maintaining Revenue and Expenditure Categories

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

7.10 Outside Organization Contributions

Public Safety Sales Tax (Proposition 172) revenues: 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.

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. 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.

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 2016-17 allocation will be 5% of FY 2014-15 audited actuals).

Fire Agencies' Distribution

Pursuant to the 2011 disbursement agreement, the County shares with the Association of Firefighters and Volunteer Fire Companies 9.13% of the County's Proposition 172 revenues for the most recently audited fiscal year (e.g., the FY 2016-17 allocation will be 9.13% of FY 2014-15 audited actuals). Similar to the 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:

<u>Department</u>	<u>% of Growth</u>
Sheriff	61.2%
Probation	17.1%
District Attorney	<u>21.7%</u>
TOTAL	100.0%

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.

Contributions to Economic Development Set Aside

The County has agreed to annual contributions to the 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 combined 8.93% contribution from the County's 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 TOT. In response, in June 2013, the Board approved including the Road Fund as a beneficiary in the County TOT contribution formula. In FY 2013-14, the TOT contribution percentage for the Road Fund was established at 20% of total TOT revenue. Every year, the contribution shall increase by 1% until it reaches a cap of 25%. This contribution replaces, and is not in addition to, the \$2.0 million the County previously provided annually to the Road Fund from the General Fund.

The Road Fund Advisory Committee (Advisory Committee) shall be responsible 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 and its respective committees, minutes from the Advisory Committee shall be included for consideration.

Other Contributions

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

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 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 the impact.
- 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. If revenue projections fall short of associated expenditures, the department shall develop service alternatives and/or mitigation strategies and present those to the Board and its Budget Committee.

- g. If expenditure reductions are necessary, complete elimination of a specific, non-mandatory service is preferred to lowering the quality of existing programs.
- h. 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. 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. Emphasis 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.
- k. In order to promote consistent and realistic budgeting of personnel, department budgets shall include a reasonable estimate of salary savings.
- l. When augmenting or decreasing the budget, consideration shall be given to the 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 declines, the Contingency appropriation funds 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.

7.13 Grant Supported County Programs

The County manages a variety of programs, which depend on outside grants 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.

7.14 Performance Measures

County departments have begun developing performance measurements for each department 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 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 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
- Fund 451 – Natividad Medical Center

8.2 Expenses

Enterprise Fund 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 Enterprise Fund 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 Fund 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 Enterprise Fund.

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

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 has chosen to utilize a

Strategic Reserve policy to provide for adequate fund balance throughout the year. All other major County funds 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: an appropriation for operational contingencies equal to one percent of estimated annual revenue and a Strategic Reserve equal to 10% of estimated annual revenue

9.2 Committed Fund Balance – Strategic Reserve Fund

The County 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 Fund Balance 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, 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.

10. INTERNAL SERVICE FUNDS

10.1 Use of Internal Service Funds

The Risk Management Division of the County Counsel Office is responsible for managing Internal Service Funds (ISFs) for the County's general liability and workers' compensation funds. The ISFs 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 ISFs are currently funded at the 70% confidence level.

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 an annual actuarial study. The study will be completed using data through June 30th of the calendar year. The June 30th study will be used to set department allocations for the upcoming fiscal year, 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

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. 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 for which there is a dedicated funding source. 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 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 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'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 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.

11.4 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 Capital Project Reports

The Resource Management Agency (RMA) and Natividad Medical Center (NMC) 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.
- 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 COPs.

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 functions or that provide for activities which are in the best interests of the community. The County shall examine the benefits of grant funding prior to application and decline funding determined not to meet 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.

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 position 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 state and federal programs based on the level of state funding provided and shall not backfill any state cuts with General Fund resources except when local priorities dictate a need for continuance.