COUNTY OF MONTEREY

GENERAL FINANCIAL POLICIES

FY 2017-18

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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. 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 the County's financial policies to establish a framework for overall fiscal planning, management, and guidance. These policies are reviewed, updated, and brought before the Board of Supervisors (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

<u>2.1 Financial Philosophy</u>

The financial policies 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, 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. Foster the County's ability to adjust efficiently to the community's changing service requirements;

c. Effectively maintain and improve 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, and 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. Support 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 equitable sharing of costs by service users.

<u>2.2 The Annual Budget</u>

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 will consult with Department Heads and seek their input in developing the Recommended Budget through cooperative discussions and through budget workshops;

c. The County Administrative Office and Auditor-Controller will keep the Board apprised on the condition of the County's finances and emerging fiscal issues; and

d. 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.

3. STRATEGIC PLANNING

<u>3.1 Strategic Planning (Three-Year Forecast)</u>

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 is 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, 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 does the County wish to take for the future?"

The strategic model serves as the foundation for the 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 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;

- Working with departments to evaluate 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 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 monthly revenue and expenditure performance and conformance with the annual budget;
- Developing and performing financial forecasts;
- Meeting the Board's Strategic Initiatives and its 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 receiving staff updates on financial issues affecting the County and providing oversight and direction to staff in the development and modifications of budgets.

4.5 Principal Functions of the Capital Improvement Committee

The principal function of the Capital Improvement Committee is to review the status of projects and establish priority between competing needs.

4.6 Principal Functions of the Road Fund Advisory Committee

The principal function of the Road Fund Advisory Committee is to include the recommendation from the Resource Management Agency (RMA) on the use of the Road Fund.

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 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 other funds to account for those activities not provided by the General Fund. The following is a brief description of the County's other funds:

- Special revenue funds are 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.
- County enterprise funds are operations that are financed and operated in a manner similar to private business enterprises, where services provided are primarily funded through user charges, such as Natividad Medical Center.
- Internal service funds are used to manage the County's self-insurance programs for workers' compensation, general liability, benefits, and capital assets.
- Capital project funds are used for facilities maintenance, capital improvements management, and specified capital projects.
- 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 balance and reserve levels are critical measures in the County's financial management policies. They are key factors in the ability to sustain service delivery and obtain external financing. All funds are to be kept in a positive cash balance position. In the event a fund anticipates going in a negative cash position, the fund manager shall immediately bring to the Board's 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 policies for reserves and operational contingencies and have these adopted by the Board.

Major funds represent the County's largest funds by appropriation and other factors such as: the political/social sensitivity of the activities financed from that fund; impact or potential impact of that fund on other programs or services; significance of that fund on financing activities which are of high interest to the County and the public; and, existence of known uses or users of that information (e.g., bond rating companies, investors, etc.). Major Funds are as follows, but not limited to: 1) General Fund; 2) Natividad Medical Center; 3) Facility Master Plan Projects; 4) Road Fund; 5) Library Fund; 6) Behavioral Health Fund; 7) Health and Welfare Realignment Fund; and 8) Local Revenue 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. If 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 adopting a statutorily balanced budget, the County ensures ongoing sustainability of its services by producing a *structurally* balanced budget. 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. 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 and 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 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.

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 GASB 45, all public agencies must measure and report their OPEB liabilities (predominantly, retiree health care costs). 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 estimating 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 if it is 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 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; and
- 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 Comprehensive 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;
- Maintaining 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);
- 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;
- A Cost Allocation Plan 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; and
- The countywide annual Tax Rate Book.

6.9 Publication of Budget

The County Administrative Office shall publish annually a Recommended Budget document that satisfies nationally-recognized standards for effective budget presentation. 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 priorities for ensuing years and has implemented the process of incorporating these priorities in the budget within the framework of the law. Understanding that 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 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 will 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. However, the Board is responsible for allocating fiscal appropriations to all departments.

6.12 Board's Mission, Goals, Policies and Priorities

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 the County's local assets; enhancing and improving services to assure an adequate safety net and quality of life for all County residents; substantiating a strong public safety system which protects the public and minimizes the fear of crime while promoting justice; and assuring the County's financial stability.

6.13 County's Budget Development Procedures

The 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 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) 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 through 29144, commonly known as the Budget Act, the Board 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**.

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.

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 basis of accounting.

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.

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 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 whether a subsidy causes an inappropriate burden on property tax payers, the degree to which the service benefits a segment of the population, 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 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. 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 is 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 Revenue

Departments shall maximize the use of non-General Fund discretionary revenue and minimize the need to use discretionary General Fund revenue to fund programs. The Board will prioritize use of discretionary General Fund revenue 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 per state statute and administrative regulation and operational needs.

7.10 Outside Organization Contributions

Public Safety Sales Tax (Proposition 172)

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 five percent (5%) of the County's total Proposition 172 revenues for the most recently audited fiscal year (e.g., the FY 2016-17 allocation will be five percent (5%) of FY 2014-15 audited actuals).

Fire Agencies' Distribution

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. Like 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%

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 from Transient Occupancy Tax (TOT)

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 Tax (TOT) revenues. This contribution is based on a shared percentage of total 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 the inclusion of the Road Fund as a beneficiary in the TOT contribution formula. In FY 2013-14, the TOT contribution percentage for the Road Fund was established at 20% of total TOT revenue. Per annum, the contribution shall increase by one percent (1%) until it reaches a cap of twenty-five percent (25%). This contribution replaces, and is not in addition to, the $2.0 million the County previously provided per annum to the Road Fund from the General Fund.

The Road Fund Advisory Committee (Advisory Committee) shall be responsible per annum to review the recommendation from the RMA on the use of the funds. When the RMA 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, 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

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 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 to ensure requested budget modifications do not place at risk current staff and services.

f. 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 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 is 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. 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 Appropriations for Contingencies

The County annually adopts an appropriation for contingencies to provide sufficient working capital and a margin of safety for unplanned operational needs. The contingency appropriation may be used at the discretion of and by action of the Board. The contingency appropriation is utilized only after all other budget resources have been examined. The appropriation for operational contingencies shall be equal to one percent (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

Departments develop performance measurements that address best practices, desired outcomes, strategic planning initiatives of the Board, annual goals, and measurable key indicators 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 the fund's operations are to be financed and operated in a manner similar to private business enterprises, where services provided are primarily funded through user charges.

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 the 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 and Fund Balance

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.
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.

8.4 Services

Enterprise fund services will establish and maintain reserves for general contingency and capital purposes consistent with those maintained for general governmental services.

8.5 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.

8.6 Maintenance of Cash

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

8.7 Interest from Funds

Unless otherwise directed by statute, regulation, or resolution, interest will be allocated as discretionary financing for the enterprise fund.

8.8 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's Budget Committee financial status reports on a monthly or quarterly basis. 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 financial impacts to the General Fund.

9. FUND BALANCE AND RESERVE POLICIES

9.1 Fund and Reserve Levels

Sufficient fund balance and reserve levels are a critical component of the County's overall financial management strategy. 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 a reserve policy and fund a reserve that is in conformance with best practices of their industry. 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 (1%) of estimated annual revenue and a strategic reserve equal to ten percent (10%) of estimated annual revenue

9.2 Committed Fund Balance – Strategic Reserve Fund

The County will commit a portion the General Fund *fund balance* as a strategic reserve to provide the County with sufficient working capital and be used to fund settlement of legal judgments against the County in excess of reserves normally designated for litigation, for short-term revenue reductions due to economic downturns, for natural disasters as determined by the County Administrative Officer or Board, and for one-time only state budget reductions that could not be addressed through the annual appropriations for contingencies in the General Fund. The Natividad Medical Center (NMC) strategic reserve designation was established in 2011 as a sub-designation of the General Fund strategic reserve. The goal of the County is to maintain a strategic reserve equal to ten percent (10%) of the General Fund estimated revenues.

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 estimated 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 ten percent (10%) of the annual requirements may be retained in the strategic reserve, or may be considered for other purposes such as supplementing the Capital Projects Fund or prepaying existing County debt.

9.3 Fund Balance Assignments

The County shall maintain a portion of fund balance for specific assignments. The assigned reserves 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. Assignments 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 County's Risk Management Division 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 seventy percent (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 two annual actuarial studies. The first study will be completed using data through June 30th 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 for meeting its operational needs, such as purchasing excess insurance coverage. The Risk Management Division will work 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 will not only help the County avoid emergencies and major costs in the future, but strategically plan for the future needs. 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 RMA with review by the Budget and Analysis Division.

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.

<u>11.2 Ongoing Funding Levels</u>

The Board shall determine annual ongoing funding levels for each of the major project categories within the CIP.

<u>11.3 Financial Analysis of Funding Sources</u>

Financial analysis of funding sources is conducted for all proposed major capital improvement projects. The plan shall be updated and priorities reviewed annually considering 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.

<u>11.4 Annual Capital Improvement Budget</u>

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.

<u>11.5 Capital Project Reports</u>

The RMA and the applicable NMC capital projects shall provide the following reports:

a. Monthly update of the draw down schedule for debt financed projects.

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.

<u>11.6 Capital Maintenance</u>

The Board recognizes the importance of providing funding for ongoing maintenance needs 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.

12. DEBT MANAGEMENT

The County has a limited ability to incur debt under state law. Debt policy establishes criteria for the issuance of debt obligation so that acceptable levels of indebtedness are maintained. They also transmit the message to investors and rating agencies that the County is committed to sound financial management.

It is the objective of the debt policies that: the County obtain financing consistent with state law and only when necessary; the process for identifying the timing and amount of debt or other financing be as efficient as possible; the most favorable interest rate and other related costs be obtained, and when appropriate, future financial flexibility be maintained. The proper utilization of debt is a major financing tool– supplementing and/or leveraging other sources of financing such as allowed taxation, fees for services, fines, and grants. Costs versus benefits/risks of borrowing will be a major consideration when evaluating each proposed use of debt as a source of financing specific County needs.

Debt is utilized to address county-wide business needs and when it is determined to be the most prudent and cost-effective method for meeting general or specific needs and service requirements. Debt proposals must be closely coordinated with the County's capital and operating budget processes and must consider the impact of the proposed debt issue on the county's credit rating and total debt burden, as well as long-term goals, objectives and financial forecasts. The CIP and other Board approved or referred projects are the primary foundation for debt financing consideration for County serviceable debt.

Debt proposals may originate from the Board, its Budget Committee, the issuing agency, and/or the recommending department. Debt for projects not eligible as a CIP project (non-recurring, less than $100,000, and/or useful life of less than five years) may be recommended by the agency or department proposing such issuance. In 2012, the Board amended the County's Public Finance Policy (PFP) developed by the Auditor Controller's Office. The Debt Management section takes language from the PFP and from best practices recommended by the Government Finance Officers Association (GFOA). Additional detailed information is presented in the **County's Public Finance Policy**.

12.1 Use of Debt and Legal Limitations

Debt should be used when it is in the best overall interest of the County, including appropriate short-term borrowings and financing of certain assets with substantial useful and economic lives. The term of the debt must not exceed the useful life of the financed asset and, ideally, it should match or have a duration of less than the useful life of the asset.

Debt may be issued to finance needed equipment, facilities or infrastructure identified by the Capital Improvement Committee or adopted Budget. Debt may be issued to fund short-term operating and/or cash flow needs of the County, but must be repaid within 13 months from date of issuance. Debt may be issued for refunding existing debt when a reasonable overall net savings can be realized.

All debt issued by the County shall follow all pertinent state and federal statutes and in compliance with all regulations promulgated by agencies that maintain jurisdiction over debt issuance. All debt issues shall conform to the provisions of Public Finance Policy, unless waived by the Board. In 2005, the Board extended the General Obligation bond debt ceiling of 1.25% of countywide assessed value to include COP financings.

12.2 Bond Proceeds

The use of proceeds from long-term financings will be limited to the uses authorized by law and allowed by the provisions of the debt issue. Generally, these limitations will allow for paying costs of planning, design, land, construction or acquisition of buildings, permanent structures, attached fixtures and/or equipment, movable furniture and equipment, and the costs of planning and issuing the debt.

The uses of short term financing will include funding the county's cash flow deficit in anticipation of tax and revenue receipts.

12.3 Avoiding Negative Impact on General Fund

Expenditures and investment transactions related to borrowings for funds other than the General Fund shall be structured to eliminate, to the maximum extent possible, direct and or indirect negative impacts on the General Fund. Interim funding for project expenditures shall be established and financed from proceeds of borrowings (or other appropriate sources) to avoid delays in draw-downs or reimbursements which would have the effect of reducing General Fund interest earnings.

12.4 Debt Issue Size

The amount of any financing should be held to a minimum, taking into consideration any available existing funds to partially finance project costs. Reasonable revenue coverage will be required for all issues. Bond reserve funds and capitalized interest should generally be minimized or eliminated to reduce borrowing size, unless it is in the County's best interest to do otherwise, or if such funds are required as a function of law, regulation, or market conditions. Debt will only be issued to cover authorized costs and upon receipt of acceptable and reliable project construction bids. In certain situations, reliable estimates may be the basis for debt issuance.

12.5 Taxable Status

It is the County's policy to avoid taxable status on County borrowings unless it is determined that taxable status would be in the best interest of the County. The County will comply with applicable IRS regulations and provisions including arbitrage rebate calculations, rebate of arbitrage profits, and any necessary tax filings.

12.6 Taxpayer Equity

If a debt issuance is to be financed by General Fund revenues, the proposing department must demonstrate a benefit to a significantly large proportion of the County's property taxpayers. If the project would primarily serve a definable group of taxpayers, the obligation to repay the debt should be borne by that group of taxpayers, when feasible, for example through a benefit assessment. In certain instances, the Board may determine that exceptions to this general guideline would be in the best interests of the County.

12.7 Authorized Method of Sale

The structure and type of financing shall be dependent upon various factors, including the nature of the project to be financed, available revenue sources and revenue streams, budget impact, and the financial market environment.

Determination of whether to sell bonds under a competitive bid or a negotiated sale will depend on many factors, including the market environment, timing considerations, structure of financing, and the type of bond or other financing instrument. For certain types of debt instruments and financing structures, competitive sale is generally the method by which the County can obtain the lowest interest cost and is required for specified types of debt issues. However, in some circumstances, competitive sale may not be feasible or practical, and in some situations, the use of negotiated sales may provide a more favorable financial outcome. Thus, the method of sale must be analyzed by the Debt Manager, and if used, a financial advisor prior to any debt issue.

Private placement may be used for any debt issue structured specifically for one purchaser, typically a bank, insurance company, broker dealer, or leasing company. Financial analysis and professional concurrence must precede any private placement issue.

12.8 Debt Credit Rating

The County seeks to maintain and, if possible, improve its current long and short term debt ratings to enhance the County's reputation within the financial community and to minimize borrowing costs. Emphasis should be placed on protecting the General Fund and enhancing the County's financial condition. The Debt Manager will maintain good communication with the bond rating agencies and keep them apprised about the County's financial condition through provision of relevant reports and documents.

The County may solicit a credit rating review at its discretion. Such reviews may result from the County's placement on a *watch* or other pre-emptive outlook position. It is the County's policy to solicit ratings from Nationally Recognized Statistical Ratings Organizations ("NRSRO") for its debt issues. A single credit rating may be utilized if/when it is financially advantageous to do so and upon advice from the County's financial advisor, underwriter, or Debt Manager.

12.9 No Public Financing for the Purpose of Arbitrage

The County shall be prohibited from issuing arbitrage bonds. Permitted investment of proceeds must be clearly defined prior to each issuance. Planning, contract, and construction delays must be managed to assure compliance with the various exceptions afforded by the IRS concerning arbitrage, such as the 6 month, 18 month, 3 year and 5 year exceptions, when applicable.

12.10 Debt Refunding Policy

Outstanding debt issues may be refunded, if permissible by federal tax law and the terms of the debt instrument, if refunding results in an acceptable level of debt service savings. Other structural aspects are to be determined by a financial advisor, Debt Manager, underwriter, bond counsel, and disclosure counsel.

12.11 Policy on Primary and Continuing Disclosure

Primary disclosure shall include the preliminary official statement and the official statement, which shall be prepared in a manner consistent with applicable securities laws and the GFOA guidelines. In connection with a debt issuance, the County may undertake to provide continuing disclosure in order to enable the underwriters of such debt to comply with the requirements of Securities and Exchange Commission (SEC) rule 15c2-12. Disclosure certifications shall be acknowledged by the Debt Manager who shall be responsible for disclosure.

12.12 Investment of Bond Proceeds

Bond proceeds shall be invested as permitted by the instrument pursuant to which the bonds are issued. The Debt Manager will determine the investment structure reasonably expected to produce the results which are in the best interest of the County as it relates to the issue. Bond proceed investment can be managed by the Treasury Department, Guaranteed Investment Contracts, or outside investment managers within the scope allowed by the instrument pursuant to which the bonds are issued.

12.13 Timing of Debt Issuance

Debt should be issued to correlate with the need for funds. For long-term projects, issuance should only occur when there is a verifiable need and reasonable expectation of compliance with statutes.

12.14 Expenditure of Bond Proceeds

Any new construction or project acquisition monies raised through debt issuance will adhere to the specific "Use of Proceeds" disclosures provided in the instrument pursuant to which the bonds are issued and any statutory requirements.

12.15 Types of Debt Permitted to be Issued

The County may engage in issuance of the following types of debt when circumstances, resources, and appropriate planning suggest their need and use:

a. Short-term Debt: Bond Anticipation Notes, Grant Anticipation Notes, Tax and Revenue Anticipation Notes, and other types of short-term debt promulgated by statute or regulatory authority that serves a beneficial public purpose.

b. Long-term Debt: General Obligation Bonds and Limited Obligation Bonds, Special Assessment Bonds, Tax Allocation Bonds, Certificates of Participation and Lease Revenue Bonds, Revenue Bonds, Taxable Bonds, Mello-Roos Bonds, Marks-Roos Bonds, Pension Obligation Bonds and Other Post Employment Benefits Bonds, Judgment Obligation Bonds, and other securitizations of County revenues.

The County may utilize the California Statewide Communities Development Authority short-term Tax and Revenue Anticipation Note program and affiliated long-term CaLease program when appropriate to reduce cost of issuance; the County is a member of the Authority. The County may participate in other joint powers or related agreements with public or quasi-public entities for beneficial issuance of debt instruments.

13. GRANT MANAGEMENT

13.1 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 the following criteria.

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 new position changes to be created because 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 positions 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.

14. STATE AND FEDERAL PROGRAMS

14.1 Level of State Funding

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.