# COUNTY OF MONTEREY

# GENERAL FINANCIAL POLICIES

# FY 2018-19

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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). 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 provide general financial guidance in the management of the County's financial affairs. The Recommended Budget adheres to these policies.

## 2. GENERAL FINANCIAL PHILOSOPHY

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.

2.1 The Annual Budget

a. The County Administrative Office 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 budget workshops;

c. The County Administrative Office 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. ROLES AND FUNCTIONS

3.1 Role of County Administrative Office

The County Administrative Office serves as the chief policy advisor to the County Administrative Officer and the Board. The County Administrative Office 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 all other County funds. On behalf of the Board, the County Administrative Officer makes independent recommendations regarding all other funds under the Board's jurisdiction.

3.2 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.

3.3 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.

3.4 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.

3.5 Principal Functions of the Capital Improvement Committee

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

## 4. SERVICES AND FUND STRUCTURE

4.1 General Fund

The County provides a broad range of mandated and non-mandated 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.

4.2 Other Funds

In addition to the General Fund, the County maintains other governmental and proprietary funds to account for those activities not provided by the General Fund. The following is a brief description of the County's other funds:

Other Governmental 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.
- Debt service funds are used to provide repayment of debt such as Certificates of Participation (COP), short-term borrowing, and other obligations and debt.
- Capital project funds are used for facilities maintenance, capital improvements management, and specified capital projects.

Proprietary Funds:

- Enterprise funds are operations that are financed and operated in a manner like private business enterprises, where services provided are primarily funded through user charges.
- Internal service funds are used to account for any activity that provides goods or services to other funds, departments, or agencies of the County.

4.3 Major Funds

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 include, but are 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. OPERATING BUDGET POLICIES

5.1 County Budget

The County's Recommended Budget is the central financial planning document that embodies all County departments' goals, objectives, priorities, levels of service, and the associated operating revenue and expenditures. In so doing, the Recommended Budget 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.

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.

### 5.2 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 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 on the 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.

### 5.3 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.

### 5.4 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.

### 5.5 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.

## 5.6 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.

## 5.7 Appropriations and Transfers

The following policy establishes appropriation control at the appropriation unit level, per Section 29120 of the California Government Code. The County Administrative Officer, per Section 29092 of the California Government Code, is the designated administrator over appropriation control, which includes transfers and revisions of appropriations that do not result in an overall increase in appropriations for an appropriation unit.

After the Board of Supervisors adopts the budget, departments may request a transfer between major expense categories within the same appropriation unit. Examples of major expense categories include, Salary and Employee Benefits, Services and Supplies, and Other Financing Uses. Departments can only request a transfer between major expense categories within the same appropriation unit. The request to transfer between major expense categories must be approved by the County Administrative Office. The County Administrative Officer has designated authority to approve moves between major expense categories.

Transfers of appropriations between appropriation units must be approved by Board resolution. Per Section 29125 (a) of the California Government Code, operating transfers in and out between funds are not a transfer of appropriations, as, per Section 29089 of the County Budget Act, transfers out by fund are specified in the budget and are adopted by resolution.

## 5.8 Responsibility for Budget Management and Budgetary Control

The County shall maintain a budgetary control system to help it adhere to the budget. The County Administrative Office has budgetary control and authority over appropriations. The Auditor-Controller shall administer and maintain the system utilized for budgetary control. As administrator of the budgetary control system, the Auditor-Controller shall notify the County Administrative Office when a department is reaching its appropriation limit for an appropriation unit. The Auditor-Controller shall seek guidance from the County Administrative Office on all issues relating to appropriation limits and controls.

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 County Administrative Office when either revenues or expenditures are not as anticipated; and
- The preparation and justification for budget revisions as necessary.

5.9 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 CAFR reports on the financial position and activities of the County by presenting information above and beyond what is required by Generally Accepted Accounting Principles (GAAP) 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;
- 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 to operating and non-general county departments; and
- The countywide annual Tax Rate Book.

The County Administrative Office has oversight and contract management over the external auditors reviewing the Comprehensive Annual Financial Report (CAFR). External auditors shall report to the County Administrative Office on audit findings. The County Administrative Office will take audit findings thereafter to the Board.

5.10 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.

5.11 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 MCSI will be included in the budget document as a narrative, as well as reflected in department objectives, performance measures, and budget requests.

5.12 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.

5.13 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. These 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.

5.14 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.

5.15 Budget Adoption Level

In accordance with the County Budget Act (California Government Code, Sections 29000 through 29144), 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 and sets appropriation control at the appropriation unit level. An appropriation unit represents one or more budget units and it is used to define the budgetary limits of those budget unit(s). A budget 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. Pursuant to Section 29092 of the County Budget Act, the County Administrative Office is charged by the Board to monitor and make administrative decisions related to appropriation control.

5.16 Changes to Adopted Budget

The Adopted Budget can only be modified by subsequent amendments approved 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.

5.17 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.

5.18 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: www.co.monterey.ca.us/cao/CapitalAssetPolicyFinal2007.pdf.

## 6. STRATEGIC PLANNING

6.1 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.

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.

## 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 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. The Board shall be advised in the event interfund loans are required or use of non-appropriated funds are requested. The Board must authorize all long and short-term interfund loans. This policy applies to all 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 an anticipated cost-recovery threshold. Increases may be justified based on outside variables not considered at the time of budget submission (e.g., water levels, gas prices, economy).

### 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 Maintaining Revenue and Expenditure Categories

The County will maintain revenue and expenditure categories per state statute and administrative regulation, and operational needs.

### 7.9 Outside Organization Contributions

**Public Safety Sales Tax (Proposition 172)**

Pursuant to Government Code Section 30052, Public Safety Sales Tax (Proposition 172) revenues 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*

The Emergency Communications Department receives ten percent (10%) of Proposition 172 revenues, of which five percent (5%) is allocated to user agencies as an offset to their dispatch costs and five percent (5%) is retained by the Emergency Communications Department for dispatch operations. 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 2018-19 allocation will be five percent (5%) of FY 2016-17 audited actuals). Overall, ten percent (10%) of Proposition 172 revenues are distributed for emergency communication operations.

*Fire Agencies' Distribution*

The County shares with the Association of Firefighters and Volunteer Fire Companies 9.13% of 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*

After allocation to local fire agencies and emergency communication operations, 80.87% percent of Proposition 172 revenues are distributed to other County departments. 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% |
| District Attorney | 21.7% |
| Probation | 17.1% |
| | 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.

*Distribution Formula*

| Agency | Prop. 172 Distribution |
|---|---|
| Local Fire Agencies | 9.13% |
| Emergency Communications | 10.0% |
| Other County Departments | 80.87% |
| | 100.0% |

**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. 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 twenty percent (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.

**Annual 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.

7.10 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 appropriation unit. 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 appropriations for the applicable appropriation unit.
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 MCSI.

7.11 Appropriation 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 recommended 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.

7.12 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.

7.13 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 provide management and the Board criteria in which to evaluate departmental requests for funding.

7.14 Payment for Goods from Prior Year

Goods and services ordered but 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. FUND BALANCE AND RESERVE POLICIES

8.1 Use of Year-End Fund Balance

Fund balance is a measurement of available financial resources and is the difference between total assets and total liabilities in each fund. The Board recognizes that the maintenance of a fund balance is essential to the preservation of the financial integrity of the County. 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 for nonrecurring expenditures and only after the yearly audit and confirmation of the General Fund’s *fund balance.*

GASB Statement 54 distinguishes fund balance based on the relative strength of the constraints that control the purposes for which specified amounts can be spent. Beginning with the most restrictive constraints, fund balance amounts will be reported in the following categories:

1. **Nonspendable fund balance –** amounts that are not in a spendable form (e.g., inventory) or are legally or contractually required to be maintained intact (e.g., permanent fund principal).

2. **Restricted fund balance –** amounts that can be spent only for the specific purposes stipulated by external parties either constitutionally or through enabling legislation (e.g., grants or donations).

3. **Committed fund balance –** amounts that can be used only for the specific purposes determined by a formal action of the Board. Commitments may be changed or lifted only by referring to the formal action that imposed the constraint originally (e.g., the board's commitment in connection with future capital projects).

4. **Assigned fund balance –** amounts *intended* to be used by the County for specific purposes. Intent can be expressed by the Board, or the County Administrative Officer, or designee.

5. **Unassigned fund balance –** includes all amounts not contained in other classifications and is the residual classification of the general fund only. Unassigned amounts are available for any legal purpose.

8.2 Fund Balance Authority

The responsibility for designating funds to specific classifications shall be as follows:

1. **Committed fund balance** – The Board is the County's highest level of decision-making authority, and the formal action that is required to be taken to establish, modify, or rescind a fund balance commitment is a resolution approved by the Board.

2. **Assigned fund balance** – The Board shall establish, modify, or rescind fund balance that is intended to be used for a specific purpose.

8.3 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

8.4 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 goal of the County is to maintain a strategic reserve equal to ten percent (10%) of the General Fund estimated revenues. The Natividad Medical Center (NMC) strategic reserve designation, established in 2011, is as a sub-designation of the General Fund strategic reserve.

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 debt.

8.5 Order of Expenditure of Fund Balance

When multiple categories of fund balance are available for expenditure (e.g., a project is being funded partly by a grant, funds set aside by the Board, and unassigned fund balance), the County will start with the most restricted category and spend those funds first before moving down to the next fund balance category with available funds.

8.6 Adequate Fund Balance and Reserve Levels

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.

## 9. INTERFUND LOANS

Interfund loans are the lending of cash from one County fund to another for a specific purpose and with a requirement for repayment. Interfund loans are typically short-term in nature and constitute the allocation of cash between individual funds for working capital purposes.

Interfund loans are temporary borrowing of cash and may be made for the following reasons:

- To offset timing differences in cash flow
- To offset timing differences between expenditures and reimbursements, typically associated with grant funding.
- To provide funds for interim financing in conjunction with obtaining long-term financing.
- For short-term borrowing in place of external financing.

Interfund loans are not to be used to solve ongoing structural budget issues or hindering the accomplishment of any function or project for which the lending fund was established. Interfund loans are not to be used from fiscal year to fiscal year as a financing strategy. If a fund has a negative cash balance, the Department must present the County Administrative Office with a plan for reaching positive cash balance. A negative cash balance must be addressed in the fiscal year that the fund reaches negative cash.

Interfund loan monies may only be used for the purpose identified in the authorizing resolution. Appropriate accounting records will be maintained to reflect the balances of loans in every fund affected by such transactions. A summary of all outstanding interfund loans will be included in the Comprehensive Annual Financial Report (CAFR).

### 9.1 Interfund Loan Terms

- Repayment of an interfund loan shall be within the same fiscal year, unless otherwise stated in a Board resolution.
- When required by the lending fund’s restrictions or regulations, interest will be paid by the borrowing fund to the lending fund, during the time the loan is outstanding.
- The Board must approve interfund loans by resolution. The resolution will include a planned schedule of repayment of the loan principal as well as setting a reasonable rate of interest to be paid to the lending fund, if required by the lending fund.
- The County Administrative Office shall have authority for issuing temporary interfund loans for end of year proposes and report out these temporary interfund loans to the Board via memorandum.

### 9.2 Interfund Loan Interest

The following guidelines should be used in establishing the rate of interest:

- Not lower than the “opportunity cost” if the funds were otherwise invested, such as the County Treasury Pooled Interest Rate.
- Treasury yields or short-term bond yields for a similar term.
- Not higher than the external rate available to the County.

Interest is not required in the following circumstances:

- The borrowing fund has no independent source of revenue other than the lending fund; or
- The borrowing fund is normally funded by the lending fund; or
- The lending fund is the General Fund, which, being unrestricted, can loan interest-free, except to a proprietary fund (i.e., enterprise funds such as Natividad Medical Center).

**10. 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.

County Administrative Office will be chief advisor 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

<u>10.1 Expenses</u>

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.

<u>10.2 Rate Structure and Net Position</u>

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 net position after requirements are met for cash flow, capital replacement, operational costs, debt service if applicable, contingency funding and scheduled reserve contributions.

<u>10.3 Services</u>

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

10.4 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.

10.5 Maintenance of Cash

Sufficient cash shall be maintained to provide adequate funds for current operating expenses. An enterprise fund shall never have a negative cash balance.

10.6 Interest from Funds

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

10.7 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.

## 11. INTERNAL SERVICE FUNDS

An internal service fund (ISF) is a governmental centralized service that provides services or products on a cost-reimbursement basis to other governmental units or external users with a break-even motive. To qualify as an ISF the predominant users of the services or products must be the government itself.

11.1 Use of Internal Service Funds

*Risk Management*
The County Counsel – Risk Management Division is responsible for managing ISFs for the County's general liability (fund 475) and workers' compensation (fund 476) 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, and will provide for "recoverable" and "non-recoverable" losses. Both ISFs are currently funded at the seventy percent (70%) confidence level.

*Human Resources – Benefits*
The Human Resources Department is responsible for managing the County's Benefits ISF (fund 477). The ISF supports various benefit programs supported by contributions from the County, employees, and retired employees. Programs include dental and vision Benefits for employees and

dependents, Employee Assistance, Long Term Disability, Retiree Sick Leave Conversion, and other miscellaneous programs.

*Resource Planning*
The County Administrative Office has administrative authority over all aspects of the Resource Planning ISF (fund 478). The Resources Planning ISF provides funds for capital projects that require replacement, maintenance, or upgrades during the life of the asset. The fund serves to establish a capital funding process, generating funds over the life of an asset, and thereby minimizing fiscal impacts to operations.

11.2 General Fund Transfers

In the event there is a large settlement that cannot be funded within the existing ISF reserve, the County Counsel – Risk Management Division may submit a request to the Budget and Analysis Division for a transfer from the General Fund, or such other fund as may be available and appropriate. 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.

11.3 Actuarial Studies

The County Counsel – Risk Management ISFs and the Benefits ISF shall complete two annual actuarial studies. The first study will be completed using data through June 30$^{th}$ and a second ("true up") actuarial study shall be completed with data through December 31$^{st}$. The June 30$^{th}$ study will be used to set department allocations for the upcoming fiscal year, while the December 31$^{st}$ study will be used for meeting its operational needs (e.g. purchasing excess insurance coverage). The County Counsel – 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.

11.4 Internal Service Funds Reporting

Departments that manage ISFs 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.

## 12. CAPITAL FACILITIES AND IMPROVEMENT POLICIES

12.1 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 County Administrative Office.

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.

### 12.2 Ongoing Funding Levels

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

### 12.3 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 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.

### 12.4 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.

### 12.5 Capital Project Reports

The RMA and 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 Administrative Office 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 Administrative Office shall provide a quarterly report to the Capital Improvement and Budget Committees regarding draw down schedules for debt-financed projects, such as COPs.
12.6 Capital Maintenance

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.

## 13. DEBT MANAGEMENT

On July 25, 2017, the Board amended its Debt Management Policy. Due to its length and complexity, the Debt Management Policy is reviewed by the Board separately from these policies. The Debt Management Policies are published online: www.co.monterey.ca.us/government/departments-a-h/administrative-office/budget-analysis.

## 14. GRANT MANAGEMENT

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 comply 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.

**15. 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.