

# **MONTEREY COUNTY**

**FY 2009-10**

**FINANCIAL  
GUIDELINES**

# Table of Contents

<b>1.</b>	<b>PURPOSE AND BACKGROUND .....</b>	<b>4</b>
<b>2.</b>	<b>GENERAL FINANCIAL PHILOSOPHY.....</b>	<b>4</b>
	2.1 General Financial Philosophy.....	4
	2.2 General Financial Guidelines .....	5
<b>3.</b>	<b>STRATEGIC PLANNING.....</b>	<b>6</b>
	3.1 Strategic Planning (Three-Year Forecast).....	6
<b>4.</b>	<b>ROLES AND FUNCTIONS.....</b>	<b>6</b>
	4.1 Role of County Administrative Office.....	6
	4.2 Principal Functions of the County Administrative Office.....	6
	4.3 Principal Functions of County Departments .....	7
<b>5.</b>	<b>SERVICES AND FUND STRUCTURE.....</b>	<b>7</b>
	5.1 Mandated and Optional Government Services .....	7
	5.2 Other Funds.....	8
	5.3 Major Funds.....	8
	5.4 Minimum Number of Funds.....	8
	5.5 Creation and Closing of Funds and Budgets to be Documented .....	9
<b>6.</b>	<b>OPERATING BUDGET GUIDELINES .....</b>	<b>9</b>
	6.1 County Budget.....	9
	6.2 Balanced Budget .....	9
	6.3 Ongoing Maintenance and Operations Needs .....	9
	6.4 Adequate Maintenance of Capital Facilities and Equipment .....	10
	6.5 CalPERS Retirement Systems .....	10
	6.6 Budget Deficits .....	10
	6.7 Responsibility for Budget Management and Budgetary Control System .....	10
	6.8 Preparation of Financial Reports.....	11
	6.9 Publication of Budget .....	11
	6.10 Establish Countywide Priorities .....	11
	6.11 Authorization of Elected Officials .....	12
	6.12 Board's Mission, Goals, Guidelines, Policies and Priorities .....	12
	6.13 County's Budget Development Procedures .....	12
	6.14 Budget Adoption Level.....	12
	6.15 Capital Item Overview, Definitions and Thresholds .....	13
	6.16 Changes to Adopted Budget.....	13
	6.17 Budgetary Basis .....	13
<b>7.</b>	<b>REVENUE AND EXPENDITURE GUIDELINES .....</b>	<b>13</b>
	7.1 Revenue Diversification .....	13
	7.2 Revenue Estimates.....	13
	7.3 Current Revenues .....	14
	7.4 User Fees .....	14
	7.5 One-Time Revenues .....	15
	7.6 Revenues of a Limited or Indefinite Term .....	15
	7.7 Use of Discretionary General Fund .....	15
	7.8 Use of Year-End Fund Balance .....	15
	7.9 Maintaining Revenue and Expenditure Categories .....	15
	7.10 Outside Organization Contributions.....	15
	7.11 Appropriations/Expenditures .....	16
	7.12 Categorization of Services.....	18
	7.13 Grant Supported County Programs .....	18

# Table of Contents

7.14	Performance Measures .....	18
7.15	Payment for Goods from Prior Year .....	18
<b>8.</b>	<b>ENTERPRISE FUNDS</b> .....	<b>19</b>
8.1	Enterprise Funds .....	19
8.2	Expenses .....	19
8.3	Rate Structure .....	19
8.4	Rates/Offset .....	19
8.5	Services.....	19
8.6	Net Operating Revenues.....	19
8.7	Maintenance of Cash .....	20
8.8	Interest from Funds .....	20
8.9	Departmental Financial Monitoring and Reporting .....	20
<b>9.</b>	<b>FUND BALANCE AND RESERVE POLICIES</b> .....	<b>20</b>
9.1	Fund and Reserve Levels .....	20
9.2	Strategic Reserve Fund.....	20
9.3	Contingency Reserve .....	21
9.4	Self-Insurance Reserve.....	21
9.5	Fleet Management Reserve.....	21
<b>10.</b>	<b>INTERNAL SERVICE FUNDS</b> .....	<b>21</b>
10.1	Use of Internal Service Funds .....	21
10.2	General Fund Transfers .....	21
10.3	Actuarial Studies .....	22
10.4	Internal Service Funds Reporting.....	22
<b>11.</b>	<b>CAPITAL FACILITIES AND IMPROVEMENT GUIDELINES</b> .....	<b>22</b>
11.1	Capital Investments.....	22
11.2	Comprehensive Multi-year Plan .....	22
11.3	Ongoing Funding Levels.....	23
11.4	Financial Analysis of Funding Sources .....	23
11.5	Annual Capital Improvement Budget .....	23
11.6	Capital Project Reports .....	23
11.7	Capital Maintenance .....	24
<b>12.</b>	<b>GRANT MANAGEMENT</b> .....	<b>24</b>
12.1	Funding .....	24
<b>13.</b>	<b>STATE PROGRAMS</b> .....	<b>24</b>
13.1	State Programs .....	24

# GENERAL FINANCIAL GUIDELINES

## 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. Therefore, the development, establishment, maintenance and adoption of prudent financial guidelines and policies enables County officials to protect public interests, ensure transparency and build trust. The Board of Supervisors (Board) has approved budget guidelines to guide the County in managing its finances.

This document centralizes County financial guidelines in order to establish a framework for overall fiscal planning, management and guidance. These guidelines will be reviewed, updated, and brought before the Board as needed but at least annually for adoption. This continued review and adoption by the Board will promote sound financial management and assist in maintaining the County's stability, efficiency and effectiveness by insuring the Board's financial guidance is provided before all County actions.

These guidelines 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 guidelines and are intended to provide sound direction in the management of the County's financial affairs. The Recommended Budget will be prepared with adherence to these guidelines.

## 2. GENERAL FINANCIAL PHILOSOPHY

### 2.1 General Financial Philosophy

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

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

- a. Ensure the County maintains a sufficient financial base to withstand local and regional economic impacts;
- b. Maintain sound financial practices, which promotes the County's ability to adjust efficiently to the community's changing service requirements;
- c. Effectively maintain and improve the County's infrastructure and capital assets;
- d. Prudently plan, coordinate, review and implement responsible community development;

- e. Provide law enforcement and other protective services to assure public health and safety;
- f. Regularly review programs and operational methods, to improve processes that result in higher productivity, elimination of repetitive and duplicative functions, promote collaboration with other government entities and the private sector that minimizes the cost and risk to deliver services within the community;
- g. Provide a framework for the wise and prudent use of debt financing, and maintain a good credit rating in the financial community, which assures the community that the County is well managed and operates in a sound fiscal environment; and
- h. Promote service users contributing their fair share of program costs.

## 2.2 General Financial Guidelines

- 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.
- b. The County Administrative Office will work with Department Heads to reach consensus on the Recommended Budget through cooperative discussion with departments and through budget workshops with Department Heads.
- c. The Adopted Budget should allow (within financial constraints) each department a level of flexibility to internally mitigate most unanticipated costs except those caused by natural disasters such as floods, earthquakes or other extenuating circumstances including litigation.
- d. 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 that any State Programs administered by the County are adequately funded and that any realignment of State and County responsibilities are expenditure/revenue neutral.
- e. The County Administrative Office and Auditor-Controller will continue implementation of a financial training program for Board Members.
- f. Recognizing that each departmental budget is unique and has varying levels of financial tolerance for increased costs (such as labor negotiated items), the Board authorizes the County Administrative Office to work with each department so that such increased unbudgeted costs of conducting business will not adversely impact the current level of services provided to the community.

### **3. STRATEGIC PLANNING**

#### 3.1 Strategic Planning (Three-Year Forecast)

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

The strategic model identifies fund balances, revenue patterns, expenditure trends and cash requirements, which are subject to constant change. The model is not a future budget or recommended services or programs, it however is a guide to assist in making recommendations and building future budgets. Due to the dynamic nature of government, as well as historical experience; it is understood that an Operating Budget may experience change several times during the course of a fiscal year. This makes the model relevant because it does not assume a "trend rate" is destined, moreover qualifies that it is expected that all things will not remain constant. What it is designed to do is facilitate decision-making based on two fundamental questions: "What is the financial future of the County without change?" and "What path do we wish to take for the future?"

The annual three-year model is done in February/March of each year, prepared 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 model serves as a current year estimate and a three-year financial outlook for building the next year's Recommended Budget.

### **4. ROLES AND FUNCTIONS**

#### 4.1 Role of County Administrative Office

The County Administrative Office serves as the chief policy advisor to the County Administrative Officer and the Board, promotes responsible resource allocation, strives to protect the financial position and integrity of the County, and provides independent analysis on policy issues. The County Administrative Officer is the 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 (budget);
- Developing financial forecasts;
- Evaluating potential federal, state, and local budget impacts;
- Monitoring revenues and expenditures for conformance with the annual budget;
- 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 expert for the functions they perform. They are responsible for:

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

### **5. SERVICES AND FUND STRUCTURE**

#### 5.1 Mandated and Optional Government Services

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

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

## 5.2 Other Funds

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

- Monterey County will establish and maintain Special Revenue Funds, which will be used to account for proceeds and expenditures from specific revenue sources to finance designated activities, which are required by statute, regulation, ordinance, and resolution or board order.
- The County operates special district and enterprise funds to account for Paramedic Emergency Medical Service, Recreational Services and Natividad Medical Center.
- Internal service funds are currently used to manage the County's self-insurance programs: such as, Workers' Compensation, General Liability and other self-insurance programs. Future initiatives may utilize Internal Service Funds to account for internal service department's activities where appropriate.
- Capital project funds are used for Facilities Maintenance, Capital Improvements Management, and specified Capital Projects.
- The Public Ways and Facilities fund is used for staffing and operations of the Public Works Department.
- Debt service funds are used to provide repayment of debt for Certificates of Participation (COP), short-term borrowing and other obligations and debt.

## 5.3 Major Funds

Sufficient fund balances and reserve levels are critical measures in the County of Monterey's financial management policies, guidelines, and strategies. They are key factors in the County's strategies to sustain service delivery and obtain external financing. All funds of the County are to be kept in a positive cash balance position. In the event a fund anticipates going in a negative cash position, the Fund Manager shall immediately bring to the Board's Budget Committee a report outlining the reason(s) along with a "Financial Plan" to insure the Fund regains a positive cash balance. All major funds are expected to develop and maintain both reserve and contingency policies and have these adopted by the Board. "Major Funds" are as follows, but not limited to: 1) General Fund; 2) Natividad Medical Center; 3) Water Resource Agency Fund; 4) Road Fund; 5) Library Fund; and 6) Lakes 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 or abolished by adoption of the Board upon the recommendation of the County Administrator or designee and the Auditor-Controller or designee.

## 5.5 Creation and Closing of Funds and Budgets to be Documented

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

## **6. OPERATING BUDGET GUIDELINES**

### 6.1 County Budget

The County 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 budget plan. In the event that revenues are reduced the Board will work with the departments to bring their department budget back in-line. If a department finds that this relationship is not materializing, the department must take all actions available to reestablish a revenue and expenditure relationship that conforms to the original budget plan or amended by the Board. The budget is adopted annually and shall be presented to the Board in June of each year and prepared in such a manner where it is understandable to the public. Additionally, the 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, however to insure ongoing sustainability the County of Monterey is working towards adoption of a "structurally" balanced budget. A budget is statutorily balanced when total estimated financing sources (beginning fund balance plus revenues) equal the total appropriation (expenditures plus ending Fund balance). At no time shall spending in a given year exceed total current revenues plus any Fund Balance carryover from the prior year. A statutorily balanced budget utilizes beginning fund balance as a financing source. In contrast, a structurally balanced budget matches total ongoing expenditures to the annual estimated revenues. In a structurally balanced budget, beginning fund balance may "not" be used as a financing source for ongoing expenditures. The County's goals are to maintain annual expenditure increases at a conservative growth rate, and to limit expenditures to anticipated annual revenues. Ongoing expenditures shall be provided based on sound anticipated ongoing revenue and not include "one-time" items such as capital outlay, projects or temporary program funding. Sound anticipated ongoing revenue is recurring revenue, such as, taxes and fees. Reduction of reliance on 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 prejudice. Without prior direction and approval by the Board and support by its Budget Committee, the use of one-time revenues or short-term

borrowing shall be discouraged as a resource to finance ongoing maintenance and operational needs.

#### 6.4 Adequate Maintenance of Capital Facilities and Equipment

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

#### 6.5 CalPERS Retirement Systems

The Budget will provide adequate funding for all retirement systems. Currently the County contracts with the California Public Employees Retirement System (CalPERS) for provision of retirement benefits under their defined benefit program. Additionally 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). Under a new accounting standard (GASB 45), all public agencies must measure and report their OPEB liabilities (predominantly, retiree health care costs). In order to provide long-term funding for this benefit the County shall join CalPERS California Employers' Retiree Benefit Trust (CERBT) and begin pre-funding annually through the Recommended Budget the County's OPEB liabilities.

#### 6.6 Budget Deficits

Departments who estimate they will have a budget deficit shall prepare and submit a Budget Committee Report outlining the cause of the problem, the alternatives available to mitigate the projected budget deficit, and the department's recommended action. All additions to appropriations, major plans to reduce service levels or plans to request Contingency funding requires approval by the Board as long as 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, supplements, and emergencies as necessary.

## 6.8 Preparation of Financial Reports

The County Administrative Office annually prepares:

- A Budget End of Year Report (BEYR) to retrospectively report on actual financial performance at both a detail and summary level;
- A Three Year Forecast and Current Year Estimate providing forward looking perspective and current year performance to advise the Board on future challenges and provide a base for building the following year's Recommended Budget;
- Quarterly Reports on the current performance of the General Fund to keep the Board up-to-date and informed on current financial performance.

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

- The Countywide Annual Financial Report (CAFR) as required by the State. The purpose of CAFR is to report on the financial position and activities of the County by presenting information above and beyond what is required by generally accepted accounting principles or State Law. The intent is to also provide its readers a broader view and understanding of the County's financial operations.
- Single Audit is prepared in compliance with the U.S. Office of Management and Budget Circular A-133 Compliance Supplement. The County's federally funded activities are reported to assure County adherence to laws, regulations, contracts and grants applicable to its major federal programs.
- Cost Allocation Plan is required by the Federal Management Circular A-87, "Cost Principles for State and Local Governments". The schedule confirms then allocates the indirect costs of the County to operating and non-general County departments.
- The countywide annual Tax Rate Book.

## 6.9 Publication of Budget

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

## 6.10 Establish Countywide Priorities

The Board will begin the process of establishing Countywide priorities for the ensuing years and begin developing and implementing 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 recognizes that countywide elected officials have constitutional and/or statutorily created mandates and are answerable to the electorate.

### 6.11 Authorization of Elected Officials

In determining service levels, the Board and CAO recognizes that countywide elected officials have constitutional and/or statutorily created mandates and are answerable 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 Guidelines recognize that Elected Department Heads have independent constitutional and/or statutory powers to direct service levels and priorities within their departments. These powers are independent of the Board in part because these officials (like Board members) serve at the pleasure of the electorate in Monterey County. However, the Board is responsible for allocating fiscal appropriations to all County Departments.

### 6.12 Board's Mission, Goals, Guidelines, Policies and Priorities

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

### 6.13 County's Budget Development Procedures

The County's budget development procedure is an annual process, which weighs all competing requests for County resources, within expected fiscal constraints. Departments will submit base budget requests to support status quo levels of service. Increases over prior year must be supported by explanation for such changes in the cost of providing goods and services. Requests for augmentations to existing service levels must be fully justified using the County's *Budget Change Proposal* (BCP) process. Generally, requests for new or expanded services or programs will only be considered when a new revenue source can support the ongoing cost or when there is an offsetting reduction to an existing service or program. Requests for augmentations requiring ongoing resources made outside the budget process are discouraged.

### 6.14 Budget Adoption Level

In accordance with the California Government Codes, Sections 29000 and 29143 commonly know as the Budget Act, the County enacts the annual financial plan (budget) through the passage of a resolution. The resolution mandates the maximum authorized expenditures for the fiscal year. In the Performance Budgeting 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 and Guidelines. General Board direction is to strategically plan departmental budgets during the annual budget process thereby minimizing the need to make Mid-Year budget modifications. Mid-Year budget modifications are discouraged as a practice and require completion of a Budget Change Proposal to justify the need for the modification, as well as a discussion why it was not considered in the annual budget process. The County Administrative Office will review all requested budget change proposals and make a recommendation as to the necessity of moving forward for Board consideration.

### 6.17 Budgetary Basis

The 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 & The Lakes), which will be budgeted based on a full accrual budgetary basis where Full Accrual (minus depreciation), Capital Expenses, and Debt Service will form the budget basis, where applicable and approved by the Board.

## **7. REVENUE AND EXPENDITURE GUIDELINES**

### 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 revenue estimates are conservatively estimated as a basis for preparation of the annual budget and County service programs. Estimates shall not be based on optimistically hoped for events, but accepted analytical techniques that use historical data, economic trends and indicators, information available from the State and other governmental agencies, and other accepted standards. In general, revenue estimates shall not assume any growth rate that is not well documented. Real growth that occurs beyond budgeted revenue will be recognized through budgetary adjustments. Major revenues will be estimated by the department who manages the program and reviewed first by the County Administrative Office and subsequently by the Board's Budget

Committee, prior to adoption of the annual budget. Any new revenues and/or revenue increases included in the Recommended Budget shall be adopted by the Board or approved by the voters no later than March of each year. If this is not possible, the Recommended Budget shall identify the issue as "pending" to inform all stakeholders the issue still requires action by the Board.

### 7.3 Current Revenues

Annual revenues shall be sufficient to support annual expenditures, while use of one-time financing should be strategic in use to ensure ongoing dependence does not occur. Deficit financing and borrowing will not be used to support ongoing County services and operations, without explicit Board direction and approval. The Recommended Budget will strive to align the expenditure trend to conform to the revenue trend. Funds under the authority of the Board may be available for purposes of cash loans to cover temporary gaps in cash flow, but only when supported by a well-documented repayment schedule of short duration within the fiscal year and otherwise not disallowed by policy, regulation or statute. 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 will charge user fees for various services when it is appropriate and permitted by law. Unless set by policy, regulation or statute, user fees and charges will be established and maintained at the discretion of the Board. It is the guideline 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 particular 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 will be reviewed as necessary and adjusted (where necessary). The full cost of providing a service should be calculated in order to provide a basis for setting the charge or fee. Full cost incorporates direct and indirect costs, including operations and maintenance, overhead, charges for the use of capital facilities, as well as depreciation. Other factors for fee or charge adjustments may also include the impact of inflation, other cost increases, the adequacy of the coverage of costs, current competitive rates, and contractual or statutory restrictions. Fee revisions for inclusion in the Recommended Budget for the ensuing fiscal year shall be submitted to the Board by March of the preceding fiscal year of implementation. Part of the decision-making process in establishing new services or increasing service levels should include an analysis of fees and user charges and a desired cost-recovery threshold. Increases may be justified based on outside variables not considered at the time of budget submissions (i.e., water levels, gas prices, economy, etc.)

### 7.5 One-Time Revenues

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

### 7.6 Revenues of a Limited or Indefinite Term

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

### 7.7 Use of Discretionary General Fund

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

### 7.8 Use of Year-End Fund Balance

At the time the Adopted Budget is approved by the Board, the audited General Fund *Fund Balance* is not available. When the actual fund balance is determined by the Auditor-Controller's Office, the County Administrative Office shall budget any excess General Fund *Fund Balance* from the amount that was estimated during budget hearings in a Capital Project Fund.

### 7.9 Maintaining Revenue and Expenditure Categories

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

### 7.10 Outside Organization Contributions

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

#### County of Monterey Proposition 172 Revenue Allocation

Contributions to Other Agencies (Fire Districts)	9.13%
Emergency Dispatch Costs Offset to Cities	10.00%
County Public Safety Departments	80.87%

Proposition 172 revenues are allocated to the Sheriff, District Attorney and Probation as approved by the Board in the base year of FY 1995-96, with growth revenues distributed using the percentages indicated below. The Sheriff, District Attorney and Chief Probation Officer in previous years have agreed to the growth allocation factors.

Department	Base Percentage
Sheriff	61.20%
District Attorney	21.70%
Probation	<u>17.10%</u>
Total:	100.00%

The County of Monterey has historically allocated Proposition 172 Revenue to outside agencies in order to assist in funding of such programs as Fire Districts and offset of costs to cities for service costs associated with emergency dispatch. In the event of fiscal constraints the Board retains the authority to reduce its allocation to these outside agencies upon findings that internal Countywide public safety 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<sup>1</sup>.

**Transient Occupancy Tax revenue Contributions are currently allocated as follows:**

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 Counties Transient Occupancy Taxes. This contribution is based on a shared percentage of total Transient Occupancy Tax 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 an 8.93% contribution from the County's Transient Occupancy Taxes. 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.

**Other Contributions**

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

7.11 Appropriations/Expenditures

---

<sup>1</sup> Due to constrained financial resources the Contribution to offset the Cities cost for Emergency Communications has been fixed at \$1,428,617, while the Contribution to Fire Agencies has been reduced by 5% of the amount of total dollars equal to the 9.13% share formula. This policy allows the CAO to determine the financial appropriateness of this funding level or determine if reductions are warranted and obtain authorization from the Board to begin those discussions with outside agencies.

The County departments will 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 will maintain an operating philosophy of cost control and responsible financial management. The County will 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 will 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 appropriation, 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 will continually review program effectiveness to ensure maximum return.
- c. Expenditures shall be controlled and must stay within the amount of appropriated funds.
- d. If revenue projections fall short of associated expenditures, the department shall develop service alternatives and/or mitigation strategies and present those findings to the Board's Budget Committee and Board.
- e. If expenditure reductions are necessary, complete elimination of a specific, non-mandatory service is preferred to lowering the quality of existing programs.
- f. Every effort shall be made to maintain current service levels for essential services within existing revenues. There shall be no introduction of new services without an appropriate measurement and accounting of the incremental increase in service with the incremental increase in financial impact.
- g. High priority will be given to expenditures that will reduce future operating costs, such as increased utilization of technology, equipment and efficient business practices.
- h. 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.
- i. In order to promote consistent and realistic budgeting of personnel, department budgets shall include a reasonable estimate of salary savings.

### 7.12 Categorization of Services

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

- a. Basic or Core Services, which are best, performed at the County level and are most closely linked to protecting the health and safety of citizens. Legally mandated services or commitments are also included in this category.
- b. Maintenance of Effort Services are services that the County has traditionally provided.
- c. Quality of Life activities, which are provided for more specialized groups and enhance the desirability of the County of Monterey as a place to live.

### 7.13 Grant Supported County Programs

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

### 7.14 Performance Measures

County Departments shall begin developing performance measurements where applicable, for each County department common and used as best practice for functions in the industry, in order to assure that maximum productivity (outcomes) are being achieved for the resources utilized. Where performance measures and associated costs demonstrate that activities are more cost effective through alternative means; such an alternative means should be pursued. Performance measures shall also provide management and the Board criteria in which to evaluate departmental requests for increased funding levels.

### 7.15 Payment for Goods from Prior Year

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

## **8. ENTERPRISE FUNDS**

### 8.1 Enterprise Funds

The County will establish enterprise funds for County services when:

- a. The intent of the County is that all costs of providing the service should be financed primarily through user charges; and
- b. The Board determines when it is appropriate to conduct a periodic review of net income for capital maintenance, accountability, or other public policy purposes. The Auditor-Controller and County Administrative Office will be chief advisors to the Board in creation of an Enterprise Fund.

The County currently has two Enterprise Funds:

- Fund 004 – The Lakes
- Fund 091 – Natividad Medical Center

### 8.2 Expenses

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

### 8.3 Rate Structure

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

### 8.4 Rates/Offset

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

### 8.5 Services

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

### 8.6 Net Operating Revenues

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

### 8.7 Maintenance of Cash

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

### 8.8 Interest from Funds

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

### 8.9 Departmental Financial Monitoring and Reporting

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

## **9. FUND BALANCE AND RESERVE POLICIES**

### 9.1 Fund and Reserve Levels

Sufficient fund balances and reserve levels are a critical component of the County's overall financial management strategy and a key factor in external agencies' measurement of the County's financial strength. Adequate reserves provide the County with the ability to exercise flexible financial planning in developing future capital projects. Reserve funds are necessary to enable the County to deal with unforeseen emergencies or changes in condition. Each fund shall maintain a level of reserves, which will provide for a positive fund balance throughout the fiscal year. The County General Fund has chosen to utilize a Strategic Reserve to provide for adequate fund balance throughout the year. All other major County Funds shall develop and fund a reserve policy that is in conformance with best practices of their industry, or in the event such best practices are non-existent the fund shall adopt the percentages as follows:

- 1 percent annual contingency funding (budget necessary)
- 10 percent reserve funding (designation necessary)

### 9.2 Strategic Reserve Fund

The amount of the General Fund Strategic Reserve shall be equal to 10% of the total General Fund Adopted Budget estimated revenues. This level of reserve will be reached over a period of eight-years beginning in FY 2005-06. The Strategic Reserve shall be used to fund settlement of legal judgments against the County in excess of reserves normally designated for litigation, short-term revenue reductions due to economic downturns, declared natural disasters, and for one-time State budget reductions that could not be addressed through the annual appropriations for contingencies.

### 9.3 Contingency Reserve

The County will maintain general contingency (operating) reserves, as ending fund balances, to serve as "rainy day funds," to address temporary revenue shortfalls, and to provide sufficient cash flow. Unless specifically modified by the Board as part of the annual budget adoption, reserves in an amount equivalent to one percent of the total General Fund estimated revenues will be included in the Adopted Budget.

### 9.4 Self-Insurance Reserve

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

### 9.5 Fleet Management Reserve

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

## **10. INTERNAL SERVICE FUNDS**

### 10.1 Use of Internal Service Funds

The Risk Management Division of the County Administrative Office is responsible for managing Internal Service Funds (ISF's) for the County's general liability and workers' compensation funds. The ISF's shall function as funds for paying all judgments, settlements, and claims against the County. The General Liability ISF will reserve adequate funds to cover both excess insured events and events not covered by excess insurance coverage.

Both ISF's shall be funded at the 70% confidence level. Beginning with FY 2004-05, unfunded reserves shall be restored over a 10-year period for the workers' compensation program and a five-year period for the general liability program.

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

### 10.4 Internal Service Funds Reporting

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

## **11. CAPITAL FACILITIES AND IMPROVEMENT GUIDELINES**

### 11.1 Capital Investments

Monterey County's government is accountable for a considerable investment in buildings, parks, roads, sewers, equipment and other capital investments. The preservation, maintenance, and future improvement of these facilities are a primary responsibility of the County. Planning and implementing sound capital improvement plans, policies and programs today will not only help the County avoid emergencies and major costs in the future, but strategically plan for the future needs of the County. The Board in recognition of the need to develop and adopt a consolidated capital improvement plan, budget for its implementation, and incorporate its impact on the operating budget, established the Capital Improvement Program, Five-Year (CIP). The CIP includes capital projects that have been implemented, in the stages of implementation, and those projects if a funding source is found, to be implemented within the next five fiscal years. It is a dynamic document, where new projects are incorporated in the plan and previously submitted projects are updated.

### 11.2 Comprehensive Multi-year Plan

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

### 11.3 Ongoing Funding Levels

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

### 11.4 Financial Analysis of Funding Sources

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

### 11.5 Annual Capital Improvement Budget

As part of the annual budget process, the Board shall include any capital project funding as part of the budget process. In general, the capital projects in the first year of the Five-Year CIP will be a part of the annual budget process.

### 11.6 Capital Project Reports

The Resource Management Agency (RMA) shall provide the following reports:

- a. Monthly 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.
- b. Monthly update of the draw down schedule for debt financed projects to the County Debt Manager.
- 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 Maintenance Fund, Budget Unit 166, Fund 009

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

#### 11.7 Capital Maintenance

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

### **12. GRANT MANAGEMENT**

#### 12.1 Funding

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

### **13. STATE PROGRAMS**

#### 13.1 State Programs

The County will operate State programs based on the level of State Funding provided and will not backfill any State cuts with County General Fund except when local priorities dictate a need for continuance.