



COUNTY OF HUMBOLDT

AGENDA ITEM NO.
D-11

For the meeting of: October 7, 2008

Date: September 19, 2008
To: Board of Supervisors
From: Loretta Nickolaus, County Administrative Officer *PSH*
Subject: Balanced Budget Policy and Reserve Policy

RECOMMENDATION(S):

That the Board of Supervisors:

1. Adopt the attached Balanced Budget Policy; and Reserve Policy, as the official financial policies for the County

SOURCE OF FUNDING:

All County Funds

DISCUSSION:

Guiding the budget process at the local level are national and state standards and principles sanctioned by the Governmental Accounting Standards Board (GASB) and the State Controller's Office (SCO). In order to put these standards and principles into practice, organizations such as the Government Finance Officers Association (GFOA) encourage local governments to adopt a series of financial policies. The adoption of financial policies is prudent in order to provide structure and integrity to the local government budget process, as well as ensure a strong financial position for future years.

Prepared by Amy S. Nilsen, Senior Administrative Analyst CAO Approval *Phillip Smith/Hansen*

REVIEW: Auditor *mjg* County Counsel *WBE* Personnel _____ Risk Manager _____ Other _____

TYPE OF ITEM:
 Consent
 Departmental
 Public Hearing
 Other _____

BOARD OF SUPERVISORS, COUNTY OF HUMBOLDT
Upon motion of Supervisor **SMITH**
Seconded by Supervisor **NEELY**
And unanimously carried by those members present,
The Board hereby adopts the recommended action
contained in this report.

PREVIOUS ACTION/REFERRAL:

Board Order No. _____

Meeting of: _____

Dated: October 7, 2008
Kathy Hayes, Clerk of the Board

By: *Phikki Turner*

The Balanced Budget Policy and Reserve Policy are sets of rules for practice and procedure that provide your Board, department heads, and county fiscal staff with guidelines for the annual budget process, as well as guidelines for potential budgetary issues.

The Balanced Budget Policy defines a balanced operating budget, encourages commitment to a balanced budget under normal circumstances, and provides for disclosure when a deviation from a balanced operating budget is planned or when it occurs.

The Reserve Policy defines the level of reserves to be maintained in various funds, and provides for disclosure when a deviation occurs. In addition, the policy addresses how to access these funds.

Staff recommends that the Board adopt the above mentioned policies.

FINANCIAL IMPACT:

By adopting these policies there is no impact to County Funds. These policies are intended to build upon your Board's previous fiscal actions and continue the financial well being of the County.

OTHER AGENCY INVOLVEMENT:

All County Departments

ALTERNATIVES TO STAFF RECOMMENDATIONS:

1. Not approve the two proposed policies. This is not recommended as the County is without financial policies.
2. Approve revised policies. This is not recommended as the proposed policies are the result of careful scrutiny to ensure compliance with local needs as well as national standards.

ATTACHMENT:

Draft Balanced Budget Policy; and
Draft Reserve Policy

SECTION: Financial Policies	PAGE 1 OF 2
ORIGINAL ISSUE DATE: , 2008	<u>SUB SECTION:</u> BALANCED BUDGET POLICY
REVISION DATE:	

PURPOSE

To control expenses in such a manner that department budgets are not expended above the levels that are appropriated in the annual budget or beyond that which the County of Humboldt (herein referred to as "County") has the funds to pay.

BACKGROUND

California Government Code §§ 29000 through 30200, as applied through rules issued by the Office of the State Controller, provide the legal requirements pertaining to the content of the budget and budget adoption procedures.

DEFINITIONS

- A. "Adopted Budget" – The budget document formally approved by the Board of Supervisors after the required public hearings and deliberations on the proposed budget.
- B. "Appropriation" – A legal authorization granted by a legislative body to make expenditures and to incur obligations for specific purposes.
- C. "Available Fund Balance" – The unreserved or unencumbered amount remaining in a fund at the end of any given fiscal year that can be used for financing the budget requirements for the following fiscal year. This is also referred to as fund balance unreserved/undesignated.
- D. "Current Available Revenue Sources" – The sum of the components which are available to meet the financing requirements for the fiscal year involved. It includes available fund balance, state and federal appropriations, local revenues, and other financing sources.
- E. "Non-County Programs" – Programs and/or activities which are not administered by County staff and for which the County has no legal requirement, per legislative or statutory requirements, to provide financial assistance for recurring or one-time-only expenses.
- F. "Operating Budget" – Plans of current expenditures and the proposed means of financing them. The annual operating budget is the primary means by which most of the financing, acquisition, spending, and service delivery activities of a government are controlled.

- G. “Recurring Expenses” – Annual expenses related directly to a fund’s primary activities.
- H. “Recurring Revenues” – Annual revenues directly related to a fund’s primary activities.

POLICY

The County will act to make a balanced budget an integral part of its budget process.

- A. The annual budget is an operational, fiscal, and staffing plan for the provision of services to the residents of the County. Therefore, the County and its departments shall endeavor to annually adopt a balanced budget as a whole, where expenditures do not exceed current available revenue sources.
- B. In the event, due to unforeseen circumstances, a balanced budget cannot be adopted, a four-fifths vote of the Board of Supervisors is required to adopt an unbalanced budget.
- C. Recurring expenses may not exceed recurring revenues.
- D. The use of available fund balance shall be limited to one-time only expenditures and is generally earmarked to support capital projects, fixed asset purchases and the acquisition of communications and computer systems.
- E. New and/or expanded unrestricted revenue sources will first be applied to support or restore existing County programs prior to funding new or non-County programs. Expansion of existing programs is possible, with the availability of sufficient funds to meet the needs of existing programs.
- F. One-time revenues will only be used for one-time expenditures.
- G. The County Administrative Officer (CAO) shall coordinate the implementation of this policy. The CAO shall hold department heads responsible for over-expended budgets pursuant to Government Code § 29121, “Except as otherwise provided by law, obligations incurred or paid in excess of the unencumbered balance of the amounts authorized in the budget appropriations are not a liability of the county or special district, but the official authorizing the obligation in an amount known by him to be in excess of the unencumbered balance of the appropriation against which it is drawn is liable therefore personally and upon his official bond.” The CAO will work with all departments to establish balanced operating budgets.

SECTION: Financial Policies	PAGE 1 OF 3
ORIGINAL ISSUE DATE: , 2008	<u>SUB SECTION:</u> GENERAL RESERVE, CONTINGENCY, AND DEFERRED MAINTENANCE POLICY
REVISION DATE:	

PURPOSE

To outline the policies and procedures regarding provisions for budgetary reserves.

BACKGROUND

The County of Humboldt (herein referred to as “County”) should maintain a prudent level of financial resources to protect against reducing service levels or incurring debt due to temporary revenue shortfalls or unpredicted one-time expenditures.

DEFINITIONS

- A. “Contingency Reserve” – A budgetary provision designed to meet unforeseen expenditure requirements during a fiscal year. Government Code § 29084 provides for the appropriation of contingencies.
- B. “General Reserve” – A fund equity restriction to provide for dry period financing. The General Reserve may only be established, canceled, increased or decreased at the time of adopting the budget, except in cases of a legally declared emergency as cited in Government Code § 29086.

POLICY

The County shall hold funds in reserve for cash flow purposes, revenue shortfalls, unpredicted one-time expenditures, and capital expenditures. These cash reserves include but are not limited to: Library Contingency; Roads Contingency; General Fund Contingency; General Reserve; and Deferred Maintenance.

- A. The General Fund Contingency will be budgeted at a minimum of six percent of the County’s total General Fund revenues on an annual basis. In the event that the General Fund Contingency is less than six percent of the County’s total General Fund revenues, at the time the budget is adopted, the County Administrative Officer (CAO) must identify and report on the specific circumstances that have lead to less than six percent in the General Fund Contingency.

All other Contingencies will be budgeted in amounts necessary to preserve the financial stability of the individual Fund.

The below bullet points contain the allocation criteria for when the Contingency Reserve may be used to support one-time costs :

- When the County is impacted by an unanticipated reduction in State and/or Federal grants and/or aid.
- When the County faces economic recession/depression and the County must take budget actions before the beginning of a fiscal year.
- When the County is impacted by a natural disaster.
- When the County is presented with an unanticipated or unbudgeted expense that is necessary for the delivery of local services.
- When the County is affected by known future events with unknown fiscal ramifications that require the allocation of funds.

The Contingency Reserve may also be used to support ongoing costs or as a financing mechanism, when presented with critical program initiatives that have a time requirement that cannot be deferred. The program initiatives would become part of the next year's operating budget and be subject to review by the Board of Supervisors (BOS) at that time.

In each case when a request for Contingency Reserve funding is made, the Department requesting the funds must provide an analysis demonstrating that funds do not exist within their current modified budget. The County Administrative Office (CAO) will review and verify that funding cannot be taken from existing appropriations. The CAO will also verify that the action requested cannot be deferred until the next budget cycle. These statements will appear in each agenda item presented to the BOS requesting the allocation of Contingency Reserve funds along with statements of which allocation criteria are used and why.

When possible, the allocation of Contingency Reserve funding should occur at the mid-year budget review. No expenditure shall be made directly from the Contingency Reserve. Funds for expenditure shall be transferred to a budget unit. A four-fifths vote of the BOS is required to authorize Contingency Reserve expenditures.

- B. The General Reserve shall target a balance of between eight and ten percent of the County's total General Fund revenues. Government Code § 29085 gives the BOS authority to determine reserve contributions. In the event that the General Reserve contribution has been decreased or increased from the prior year's contribution, at the time the budget is adopted, the CAO must identify and report on the specific circumstances that have lead to an increase or decrease in the General Reserve.

The General Reserve will be used to support the following:

- Essential cash flow for County operations during the first six months of the fiscal year until property tax payments are collected in December.
- Extraordinary expenditures due to unforeseen events that exceed the capacity of appropriated funds, including the Contingency Reserve.

No expenditure shall be made directly from the General Reserve. Funds for expenditure shall be transferred to a budget unit. The General Reserve fund shall be the last resort in balancing the County budget.

- C. The Deferred Maintenance Fund shall receive an annual contribution of five percent, or approximately \$1,435,000, of the total deferred maintenance costs of \$28.7 million as noted in the Facilities Master Plan brought before the BOS on July 8, 2008 (Agenda Item E-1).

The Deferred Maintenance Fund will be used to support costs for capital improvements to County owned facilities.

The Deferred Maintenance Fund can be accessed for maintenance needs identified in the Facilities Master Plan and items identified and recommended by County Public Works staff.

The allocation of Deferred Maintenance funding should occur at the time of bid award. No expenditure shall be made directly from the Deferred Maintenance fund. Funds for expenditure shall be transferred to the Capital Projects Budget Unit 170.

In the event that the Deferred Maintenance contribution is less than five percent of the County's total deferred maintenance costs, at the time the budget is adopted, the CAO must identify and report on the specific circumstances that have lead to a less than five percent contribution.

- D. The County Administrative Officer (CAO) shall coordinate the implementation of this policy. The CAO will work with all necessary departments and the BOS to make appropriate contributions to the General Reserve, Contingency Reserve, and Deferred Maintenance Fund in an effort to ensure a solid financial foundation for the County.