

# FINANCIAL POLICIES AND BUDGET PROCESS

## INTRODUCTION

The County has received the Government Finance Officers Association's (GFOA) Distinguished Budget Presentation Award for 15 consecutive years and the International City/County Management Association's (ICMA) Certificate of Excellence, Distinction or Achievement for Performance Measurement for 10 consecutive years. The County has achieved these recognitions through the use of sound financial planning and policies, which primarily relate to the integration of capital planning, debt planning, cash management, and strategic planning to ensure prudent use of resources.

This section presents the major policies and long-term financial management tools and planning documents that serve as guidelines for decision-making and support the strategic direction of the County. In addition, an overview of the Board of Supervisors' adopted policies as well as operational practices guided by oversight authorities such as federal, state, and national finance organizations is presented.

The following policies are included in this section:

- **Financial Planning Policies:** Balanced budget, full cost recovery, basis of accounting and budgeting, budget controls and accountability, budget coordination, long-range planning, project management and reporting, asset inventory, and investment policy;
- **Revenue Policies:** Fees and charges, grant revenues, and unanticipated revenues;
- **Expenditure Policies:** Debt management policy, capacity, and issuance; policy on issuing debt; legal debt limit; certificates of participation; bond ratings; comprehensive fund balance policy; and operating and capital expenditure accountability and reporting;
- **Capital Improvement Program (CIP) Policies:** Capital projects include the acquisition of technology systems, including hardware and software, as well as equipment, heavy equipment, and machinery. Also included in the CIP are projects that have a minimum cost threshold of \$100,000 such as the following: major improvements to existing buildings and facilities, transportation projects, water resources projects (i.e., storm drains), resource recovery and waste management projects (i.e., landfills), and major maintenance; and
- **Annual Budget Process:** County Budget Act as established in the California Government Code, description of the budget process, and Fiscal Years 2012-13 and 2013-14 budget development schedule.

## FINANCIAL PLANNING POLICIES

### **Balanced Budget**

**(Adopted by the Board of Supervisors November 2008)**

The County Executive Officer shall present a balanced budget for all County operating funds, on an annual basis, to the Board of Supervisors for scheduled public hearings in June of each year.

1. Available funding sources shall be at least equal to recommended appropriations.
2. As a general rule, the year-end undesignated General Fund balance should not be used to fund ongoing operations, but could be used to fund designations such as the Strategic Reserve and the General Fund Contingency.
3. Use of one-time designation or year-end balances for ongoing operations will be considered one-time appropriations and not part of the ongoing base budget.

### **Full Cost Recovery**

The full cost of County services shall be calculated in all cases where fees are charged and/or service contracts (such as with cities or by one department to another) are negotiated to cover operating costs. In all cases, unless precluded by law, contracts, or current Board policy, full costs shall be recovered.

### **Basis of Accounting and Budgeting – Fund Accounting**

The accounts of the County are organized on the basis of funds. A fund is an independent fiscal and accounting entity with a self-balanced set of accounts. The minimum number of funds is maintained consistent with legal and managerial requirements. For detailed information on all County funds see the Appendix.

The County maintains the following fund types:

#### **Governmental Funds**

These funds are used to account for most of the County's general government activities. Governmental fund types use the flow of current financial resources measurement focus and the modified-accrual basis of accounting and budgeting. The following are the County's governmental fund types:

- The General Fund is the County's primary operating fund. It accounts for all the financial resources and the legally authorized activities of the County except those required to be accounted for in other specialized funds;
- Special Revenue Funds account for the revenue sources that are legally restricted to expenditures for specific purposes (not including major capital projects);
- Debt Service Funds account for the accumulation of resources for the servicing of general long-term debt not being financed by proprietary funds; and
- Capital Project Funds account for the acquisition or construction of major capital assets not being financed by proprietary funds.

#### **Proprietary Funds**

Sometimes referred to as income determination or commercial-type funds, these funds are used to account for a government's ongoing organizations and activities that are similar to those often found in the private sector (i.e., enterprise and internal service funds). These funds use the

accrual basis of accounting and budgeting. Under this method, revenues are recognized when earned and expenses are recognized when the related liabilities are incurred. Additionally, the County uses these funds to budget for capital assets, lease purchase payments, and long-term debt principal repayment in order to establish appropriations and monitor expenditure and cash flow. The following are the County's proprietary fund types:

- Enterprise Funds account for those operations that are financed and operated in a manner similar to private business enterprises or for which the County has decided that the determination of revenues earned, costs incurred, and/or net income is necessary for management accountability; and
- Internal Service Funds account for operations that provide services to other departments or agencies of the government, or to other governments, on a cost-reimbursement basis.

### **Fiduciary Funds**

These funds account for resources held by the County for the benefit of parties outside the County. The following are the County's fiduciary fund types:

- Agency Funds are custodial in nature and do not present results of operations or have a measurement focus. These funds account for assets held by the County in an agency capacity for individuals, private organizations, other governmental entities and other funds; and
- Investment Trust Funds are custodial in nature. The financial reporting for these entities is limited to the total amount of cash and investments and the related fiduciary responsibility for disbursement of these assets. The Board of Supervisors has no effective budget authority over these custodial monies.

### **Budget Controls and Accountability**

#### **(County of Santa Barbara Online Policies and Procedures Manual, Activated August 1993, updated November 1998)**

The purpose of the following policy is to clarify department directors' responsibility and accountability for maintaining departmental expenditure levels within the approved budget and collecting, in a timely manner, the full amount of revenues budgeted, along with making timely budget adjustments, as necessary.

1. If a budget over expenditure is projected to occur, the department director responsible for the budget shall perform one or more of the following steps in the following order:
  - a. Lower the expenditure level to maintain overall expenditures within the total amount budgeted;
  - b. Request a transfer from a fund balance account within the same department and fund under the department head's control; or
  - c. Prepare a transfer request from the County's Contingency account and an agenda item for the Board of Supervisors, with a memo to the County Executive Officer, providing adequate justification
2. If budgeted revenue is projected to be under-achieved, the department director responsible for that budget shall take one or more of the following steps in the following order:

- a. Attempt to speed up revenue collections, or obtain additional revenues;
  - b. Lower expenditure levels so that the originally budgeted County contribution is not exceeded, and notify the County Executive Officer;
  - c. Request a transfer reducing appropriations from a fund balance account within the same department and fund under the department head's control; or
  - d. Prepare a transfer request from the County's Contingency account and an agenda item for the Board of Supervisors, with a memo providing adequate justification
3. If, at the end of a fiscal year, a department budget has over-expended its appropriation and/or under-realized its revenue, the department director responsible for that budget will report in writing to the Board of Supervisors by the third Board of Supervisors' meeting following the fiscal year, explaining the reasons therefore.
  4. California Government Code Section 29121 provides that department directors may be held personally liable for their departmental over expenditures. The Board of Supervisors reserves the right to apply this law in instances of a department head's failure to adhere to the procedures outlined in this policy.

### **Budget Coordination**

On any proposed budget adjustment (reduction or enhancement), the department proposing the change shall consider impacts on other departments, and discuss possible impacts with these departments, so that all positive and negative impacts can be considered before the reduction or enhancement is formally proposed to the County Executive Officer.

### **Long-Range Planning: Monitoring Efforts to Achieve Results**

Adoption of the budget is not the end of the budget process. In order to ensure execution of the Board's adopted policy, the County uses three formal reporting and review processes. County executives and managers monitor and evaluate progress and assist in achieving stated objectives and priorities.

#### **Performance Measures**

Departments will continue to review, refine, and extend performance measures that measure the level/amount/unit cost of program services provided.

#### **Quarterly Financial Reviews**

Throughout the year, the County Budget Director chairs quarterly meetings with departmental staff to review each department's actual and projected expenditures and revenues.

#### **Quarterly Operations Review Meetings**

The County Executive Office (CEO) or an Assistant County Executive Officer chairs these meetings with department directors that focus on recurring performance measures and measures of resource use, such as Lost Time reports and position vacancy analysis. Progress toward achieving stated strategic actions is also reviewed. Operations review meetings also provide an opportunity for the CEO executives and department directors to discuss other relevant issues that impact department operations.

## Project Management and Reporting

Projects have specified timeframes and deliverables; that is, they have a beginning, an end, and a tangible product. Examples of typical County projects include the following: construction of a bridge, installation of a data system, development and implementation of a major process improvement, etc. The County views project management as a core strategic management function and, as such, developed the Project Reporting System (PRS). PRS is a web-based application available to all County departments designed to assist project managers, department managers, and executives in managing the status of projects, assignment of projects, and source of projects. Currently, 17 of the 23 County departments use PRS to track and manage a total of 251 projects.

In addition, quarterly Project Review meetings are held where department staff present the status of selected projects to the CEO, assistant CEOs, and department directors. These meetings provide an opportunity to gain or expand executive support for a project, collaborate with other departments to solve problems, and ensure projects are in alignment with organizational strategic goals.

## Asset Inventory: Financial Asset Management and Capitalization Policy

Capital assets are tangible and intangible assets of significant value that benefit multiple years, and are broadly classified as land, land improvements, buildings, building improvements, infrastructure, and equipment. The guidelines define capital assets under each classification, identify useful life ranges, set minimum capitalization thresholds, and include examples of costs to include in the value of the capital asset. Additionally, the guidelines discuss the treatment of unique items such as computer software, capital leases, self-constructed assets, works of art, donated assets, construction in progress, costs incurred subsequent to acquisition, and transfers of assets between funds.

Capital assets are to be accounted for at historical cost or, if cost is not practically determinable, an estimated fair market value at the time acquired or placed into service. Generally, cost includes all expenses associated with the acquisition, construction, and installation of a capital asset. Salvage/residual values, if applicable, should be determined prior to recording the asset.

The funding source(s) of an asset shall always be recorded. If the funding source cannot be determined, the asset shall be recorded under the General Fund.

## Investment Policy

The County of Santa Barbara's Treasurer Investment Policy, in accordance with state law, is presented annually to the Treasury Oversight Committee (TOC) for review and to the Board of Supervisors for approval. The Treasurer submits quarterly reports on the investment program to the TOC, the Investment Pool participants, the Auditor-Controller, and the Board of Supervisors.

The purpose of the Investment Policy is to provide a basis for the implementation and management of a prudent, conservative investment program. It is the policy of the Santa Barbara County Treasurer (the Treasurer) to invest public funds in a manner which provides the maximum security of principal invested with secondary emphasis on achieving the highest

return, while meeting the daily cash flow needs of the Investment Pool participants and conforming to all applicable State statutes and County resolutions governing the investment of public funds.

Authorized Investments (adopted by the Board of Supervisors, February 2012) - All investments shall be made in accordance with the California Government Code Sections 53630 et seq. and as described within the Investment Policy. Percentage allowances per this policy shall be determined by the overall portfolio size at book value on the close of the date any security is purchased. Permitted investments under this policy shall include:

1. Securities issued by the US Treasury, provided that
  - a. There shall be no restriction on the percentage of portfolio investment in US Treasury securities, and
  - b. The final maturity shall not exceed five years.
2. Securities issued and fully guaranteed as to payment by an agency, or issued by a government sponsored enterprise of the US Government, provided that
  - a. There shall be no restriction on the percentage of portfolio investment in US Government agencies and sponsored enterprises,
  - b. The final maturity shall not exceed five years, unless specifically authorized by the governing body, and
3. Bonds, notes, warrants or certificates of indebtedness issued by the state of California and all other 49 states, local agencies within California, or the County of Santa Barbara provided that
  - a. The maximum allowable portfolio investment in this category shall be 10%,
  - b. The final maturity shall not exceed five years.
4. Banker's acceptances provided that
  - a. The maximum allowable portfolio investment in banker's acceptances shall be 40%,
  - b. The final maturity shall not exceed 180 days,
  - c. Maximum exposure to any one issuer shall be limited to 5% of the total portfolio, and
  - d. The issuer's short term obligations shall be rated by at least two of the three major rating services a minimum of P1 by Moody's, A1 by S&P or F1 by Fitch.
5. Commercial Paper provided that
  - a. The maximum allowable portfolio investment in commercial paper shall be 40%,
  - b. The final maturity shall not exceed 270 days,
  - c. The obligation is issued by a US corporation with total assets exceeding \$500 million,
  - d. The investment in paper of any one issuer may not exceed 10% of the outstanding debt of that issuer,
  - e. Maximum exposure to any one issuer (including MTNs, CP, and other obligations) shall be limited to 5% of the total portfolio, and

- f. The issuer's short term obligations shall be rated by at least two of the three major rating services a minimum of P1 by Moody's, A1 by S&P or F1 by Fitch.
6. State of California Local Agency Investment Fund (LAIF) provided that
    - a. The County may invest up to the maximum amount permitted by LAIF, and
    - b. the fund's reports allow the Treasurer to adequately judge the risk inherent in LAIF's portfolio.
  7. Managed investment pools pursuant to California Government Code 53601(p) for which shares of beneficial interest issued by a joint powers authority organized pursuant to Government Code Section 6509.7 that invests in the securities and obligations authorized in subdivisions (a) to (o) of Government Code Section 53601, inclusive. Each share shall represent an equal proportional interest in the underlying pool of securities owned by the joint powers authority. To be eligible under this section, the joint powers authority issuing the shares shall have retained an investment adviser that meets all of the following criteria:
    - a. The adviser is registered or exempt from registration with the Securities and Exchange Commission.
    - b. The adviser has not less than five years of experience investing in the securities and obligations authorized in subdivisions (a) to (o) Government Code Section 53601, inclusive.
    - c. The adviser has assets under management in excess of five hundred million dollars (\$500,000,000).
  8. Negotiable certificates of deposit (NCDs) provided that
    - a. The maximum allowable portfolio investment in NCDs shall be 30%,
    - b. The final maturity shall not exceed one year,
    - c. Maximum exposure to any one issuer shall be limited to 5% of the total portfolio, and
    - d. The issuer's short term obligations shall be rated by at least two of the three major rating services a minimum of P1 by Moody's, A1 by S&P or F1 by Fitch.
    - e. The issuer shall be a national or state chartered bank or a licensed branch of one of the top 100 foreign banks.
  9. Bank deposits (Non-negotiable certificates of deposit) which are fully collateralized with securities in accordance with California law, provided that
    - a. The maximum allowable portfolio investment in time non-negotiable certificates of deposit shall be 10%, and
    - b. The final maturity shall not exceed one year.
  10. Repurchase agreements collateralized with securities authorized under XII.A.1. and XII.A.2 of this policy maintained at a level of at least 102% of the market value of the repurchase agreements, provided that
    - a. There shall be no restriction on the percentage of portfolio investment.
    - b. The maximum allowable portfolio investment in repurchase agreements shall be one year,
  - c. The repurchase agreements are the subject of a master repurchase agreement between the County and the provider of the repurchase agreement. The master repurchase agreement shall be substantially in the form developed by the Public Securities Association, and
  - d. The counterparty to the repurchase agreements is a primary government securities dealer as designated by the Federal Reserve Bank of New York and state chartered banks.
11. Securities lending and reverse repurchase agreements
    - a. The total of reverse repurchase agreements and securities that are subject to a securities lending agreement may not exceed 20% of the County's total portfolio,
    - b. To the extent that the County's authorized securities lending agent does not utilize the full 20% allocation, the County may enter into reverse repurchase agreements in accordance with the government code. The term to maturity of such reverse repurchase agreements may not exceed 92 days, and the maturity of securities purchased with the proceeds of reverse repos must match the maturity of the reverse repurchase agreement, and
    - c. The counterparty to the agreements is a primary government securities dealer as designated by the Federal Reserve Bank of New York.
  12. Medium Term or Corporate Notes (MTNs) of United States corporations & Depository Institutions or Medium Term Notes of U.S. Corporations and Depository Institutions issued under the Temporary Liquidity Guarantee Program, guaranteed by the Federal Deposit Insurance Corporation provided that
    - a. The maximum allowable portfolio investment in MTNs shall be 30%,
    - b. The final maturity shall not exceed 5 years,
    - c. The maximum allowable portfolio investment in MTNs with maturity in excess of 3 years shall be 10%,
    - d. The obligation shall be issued by a corporation organized and operating within the U.S. or by a depository institution licensed in the U.S. or any state and operating within the U.S.,
    - e. Maximum exposure to any one issuer (including MTNs, CP and other obligations) shall be limited to 5% of the total portfolio, and
    - f. The issuer of non-TLGP notes shall be rated AA by at least two of the three major rating services of Moody's, S&P, and Fitch if maturity is greater than 3 years and shall be rated AA- by at least two of the three major rating services of Moody's, S&P, and Fitch if maturity is 3 years or less. TLGP notes shall be rated AAA by one of the three major rating services.
  13. Money Market Mutual Funds provided that
    - a. The maximum allowable portfolio investment in Money Market Funds shall be 15%,
    - b. The Fund is registered with the Securities and Exchange Commission,
    - c. The Fund must have as one of its primary objectives that it will strive to maintain a \$1.00 net asset value and share price,

- d. The Fund shall have retained an investment advisor registered or exempt from registration with the Securities and Exchange Commission with not less than five years experience investing in the securities and obligations authorized by California Government Code Section 53601 (a through j) and with assets under management in excess of \$500 million, and
- e. The issuer shall be rated AAA by at least two of the three major rating services of Moody's, S&P, and Fitch.

**REVENUE POLICIES**

**Fee and Charges: Costs and Revenues**

1. The full cost of County services shall be calculated in all cases where fees are charged and/or service contracts (such as with cities or by one department to another) are negotiated to cover operating costs.
  - a. For charges to outside agencies, such as cities, full cost includes cost allocation charges unless prohibited by law.
  - b. For charges from County internal service funds and special revenue funds, full cost includes cost allocation charges.
  - c. For other charges between County departments, full cost includes departmental overhead but does not include cost allocation charges.
2. In all cases, unless precluded by law, contracts, or current Board policy, full costs shall be recovered. As with budget reductions or enhancements, a provider department shall inform and discuss cost calculation changes with user departments prior to budgeting the change.
3. Departments are encouraged to identify new revenue sources and to develop proposals, which would generate new revenues to pay for services provided to county residents and visitors.
4. Where not prohibited by law, departments must use non-General Fund revenue, existing fund balances, special revenue funds and agency funds, before using General Fund contribution amounts to fund programs.

**Grant Revenues**

Departmental expenditures for grant-funded programs will not exceed projected grant revenues. Authorization for higher expenditures without offsetting revenues must be obtained in advance from the Board of Supervisors.

**Unanticipated Revenues**

The following policies guide the use of unanticipated revenues for the County:

1. The appropriation of unanticipated revenue during the year will only be considered if the department has achieved its year-to-date budgeted revenue and anticipates receiving the remainder of its budgeted revenue during the current fiscal year.

For example: A department with an estimated year-to-date revenue of \$100,000 must have received at least \$100,000 by that date, and anticipate receiving the remainder of its estimated revenue during the current fiscal year, before the County Executive Officer will consider recommending a request to appropriate any unanticipated revenue.

Department directors, in processing fund transfers, must estimate the date(s) by which the unanticipated revenue will be received and whether it will be in advance or in arrears of expenditures. If the full amount of unanticipated revenue is estimated to lag behind the expenditure of program funds, this must be specified on the fund transfer with a recommendation on how to deal with the delayed receipt of revenues.

2. Exceptions to point 1 will be considered on a case-by-case basis. For example, the appropriation of unanticipated revenue for grant-funded programs may be considered.

**EXPENDITURE POLICIES**

**Debt Management Policy, Capacity, and Issuance**

The County will maintain, at all times, debt management policies that are fiscally prudent, consistent with County, state and federal law, and that reflect the needs of the unique urban and rural nature of the County.

**Policy on Issuing Debt**

In 1991, the County established the Debt Advisory Committee (DAC) to provide advice to the Board of Supervisors on debt issuance and management. Members of the Committee include the County Executive Officer, Auditor-Controller, Treasurer-Tax Collector, County Counsel, and one member of the Board of Supervisors. The Board of Supervisors adopted the County of Santa Barbara Debt Management Policy which is used by the DAC as a guideline for planning and management of municipal debt originated through the County Treasurer. The policy provides the foundation for a well-managed debt program and helps to ensure that debt is issued prudently and is cost effective. In its review of proposals to issue new debt, the Committee considers the following four factors:

Debt Management	total outstanding and per capita debt, future borrowing plans and sources of revenue
Financial	trends of past operations and current conditions, budget analysis, fund balance projections
Administrative	management policies, adequate provision of mandated services
Economic	assessment of the strength and diversity of the local economy

**Legal Debt Limit**

California Government Code Section 29909 prescribes the bonded debt limit for general law counties at 1.25% of the taxable property of the county. The County's gross assessed value of taxable property as of June 30, 2012, is estimated at \$63.0 billion, making the debt limit approximately \$786.9 million.

As of June 30, 2011 the County’s long term debt totaled \$92.2 million. It was comprised of \$77.8 million in certificates of participation for financing of capital improvements, \$4.0 million in capital leases for the Alcohol, Drug, and Mental Health’s Lompoc Children’s Clinic and Santa Maria Crisis Center, and for fire equipment; and \$10.3 million for financing of the Laguna Wastewater Treatment Plant and a solar power system for this plant. The ratio of debt to assessed value was 0.15%, with per capita debt of \$216.

In October 2011, the County issued \$22.2 million of new debt: \$5.3 million of Qualified Energy Conservation Bonds for a solar energy project at the County’s Calle Real campus, and \$17.0 million for the refunding of the County’s 2001 COPs.

### Certificates of Participation

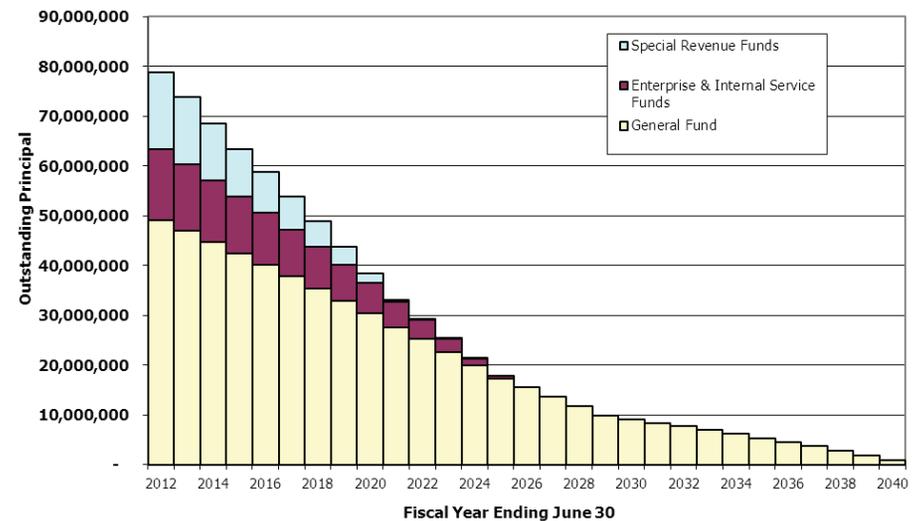
The County of Santa Barbara has used Certificates of Participation (COPs) as a primary means of financing capital needs that are not Public Works infrastructure such as roads, bridges and flood control projects. COPs are securities issued and marketed to investors in a manner similar to tax-exempt bonds. They are created in conjunction with lease agreements which encumber County-owned property. In a COP transaction, the County enters into an agreement with a third party, the Santa Barbara County Finance Corporation, to lease an asset (normally a building or building complex) over a specific period of time at a predetermined total cost. The asset, owned by the County and leased to the Finance Corporation, is then subleased back to the County. In this transaction, the Finance Corporation assigns its rights to a bank trustee who collects the “rent” revenues to make debt service payments to holders of the Certificates and who keeps required reserve deposits on the County’s behalf. An underwriter sells the COP and proceeds are used for the approved capital projects.

The Finance Corporation was created as a public benefit, non-profit corporation to issue certificates and lease back various assets. The COPs are secured by the annual sublease payments, made by the County in exchange for use of the facilities. The COPs contain certain covenants, which are deemed by the County to be duties imposed by law.

The County must include the applicable sublease payments due each year in its annual budget and make the necessary appropriations. This annual appropriation distinguishes COPs from general obligation bonds. The County is also required to maintain certain levels of liability, property damage, casualty, rental interruption and earthquake insurance in connection with each lease agreement.

The chart below shows the outstanding principal amounts by fund type for the County’s current COPs and private placement debt:

**Certificates of Participation and Private Placement**  
Outstanding Principal by Fund Type



### Bond Ratings

The County does everything in its power to attain and maintain the highest possible credit ratings for its outstanding general obligation bonds and other long-term obligations, including balanced budgets, clean annual audits, practicing sound financial management, and maintaining regular communication with the major rating agencies.

In October 2008, Standard and Poor’s Rating Services upgraded the County’s rating on outstanding COPs to ‘AA+’ from ‘AA’. In supporting this upgrade, the rating agency cited the County’s maintenance of very strong reserves, its stable and broad local economic base, and its low debt levels. The County maintains a Standard & Poor’s “SP-1+” rating for short-term notes and both a Standard & Poor’s “AA+” and a Moody’s “A1” for long-term certificates of participation.

### Comprehensive Fund Balance Policy (Adopted by the Board of Supervisors June 2011)

The County’s fund balance policy establishes a minimum level at which unrestricted fund balance is to be maintained.

The County believes that sound financial management principles require that sufficient funds be retained by the County to provide a stable financial base at all times. To retain this stable financial base, the County needs to maintain unrestricted fund balance in its county funds sufficient to fund cash flows of the County and to provide financial reserves for unanticipated expenditures and/or revenue shortfalls of an emergency nature.

The purpose of the County’s fund balance policy is to "maintain a prudent level of financial resources to protect against reducing service levels or raising taxes and fees because of

temporary revenue shortfalls or unpredicted one-time expenditures" (recommended Practice 4.1 of the National Advisory Council on State and Local Budgeting).

### **Appropriate Level of Unrestricted Fund Balance in the General Fund**

The County hereby adopts a policy to achieve and maintain unrestricted fund balance in the General Fund of 15% of operating revenue (approximately 60 days working capital) at the close of each fiscal cycle, consistent with the recommended level promulgated by the Government Finance Officers Association (GFOA). All committed, assigned and unassigned fund balance in the General Fund is considered unrestricted.

### **Fund Balance in the Special Revenue Funds**

Special revenue funds are created to account for the proceeds of specific revenue sources that are legally restricted to expenditure for specified purposes. Only nonspendable and restricted fund balance should be maintained within the special revenue funds.

Appropriations of General Fund contributions to the special revenue funds should be maintained in the General Fund. Transfers of general fund contributions should be made on a reimbursement basis for qualified expenditures. To the extent that special revenue fund balances are sufficient to support annual operations, appropriated General Fund contributions should not be utilized and should lapse at the end of the fiscal year.

### **Debt Service Funds**

Debt service funds contain specific debt reserve amounts that are subject to the requirements set forth by the ordinances or resolutions that authorize the issuance of debt. It is the County's policy that debt reserve requirements for any outstanding debt issue will be consistent with the ordinance or resolution authorizing the issuance of debt.

### **Capital Projects Fund**

Capital Projects Funds account for resources accumulated to construct or acquire general capital assets and major improvements (capital maintenance activities/projects are accounted for in the General Fund or an appropriate Special Revenue Fund and not in a Capital Projects Fund). Capital projects may extend beyond a single fiscal year. The County's policy is that the fund should maintain, at a minimum, a fiscal year end fund balance plus estimated revenues sufficient to meet the outstanding projects for the upcoming fiscal year.

Residual project proceeds are bound by the same conditions and restrictions as the original funding source. If there are no restrictions on residual project proceeds it is the County's policy to return the residual proceeds to the appropriate operating fund.

### **Enterprise Funds**

Generally, Enterprise Funds are used when services are provided to external users for goods and services. The majority of the fund's revenues are fee generated and are maintained to meet the following objectives:

1. Ensure adequate funding for operations;
2. Ensure adequate funding for infrastructure repair and replacement; and
3. Provide working capital to absorb rate fluctuations and provide stable rates to customers.

Enterprise Funds must be operated and managed as an ongoing business entity and therefore the focus is on long term sustainability using the economic resources measurement focus and the full accrual basis of accounting. Accordingly, Enterprise Funds will have revenues (customer charges, interest income, and all other income) sufficient to meet all cash operating expenses, depreciation expense, and prescribed cash reserves per financial policies unique to each enterprise activity. The following policies regarding reserving fund equity are intended to meet the above objectives:

1. Enterprise Fund Reserved Retained Earnings accounts for capital replacement and investment in capital assets will be funded and maintained as necessary for the operation of the specific Enterprise Fund. These accounts and their funding will be reviewed either annually or bi-annually during the budget process.
2. Each Enterprise Fund should maintain working capital to provide sufficient resources in order to allow the Board to react and adopt a financial plan which can adequately deal with a variety of short-term adverse economic circumstances which may materialize. A common "general operating" reserve standard for Enterprise Fund operations ranges anywhere from 30 to 90 days of operating expenses.
3. Enterprise Funds should maintain a Retained Earnings Contingency account which will support operations during times of financial emergencies. The amount of the contingency will be determined based on a risk assessment of each Enterprise Fund including funding status of other Retained Earnings accounts.
4. The Resource Recovery and Waste Management Fund should establish a Retained Earnings account for post closure that, at the end of the useful life of the Tajiguas Landfill, will provide funding towards one or a combination of:
  - a. A replacement facility,
  - b. An alternative technological process to dispose of waste currently being buried at the landfill, or
  - c. Fully funding landfill post closure costs should the pledge of revenue stream be reduced or eliminated.
5. The Laguna Sanitation District shall establish a Retained Earnings account for capital expansion that will provide for the expenses associated with expanding the capacity of the plant facilities due to new or additional growth, upgrades and major rehabilitations. Funding will be collected from new and existing development via connection fees.

### **Internal Service Funds**

The County of Santa Barbara operates in accordance with OMB Circular A-87 regarding working capital balances. Internal service funds are dependent upon a reasonable level of working capital to operate from one billing cycle to the next. Charges by an internal service activity to provide for the establishment and maintenance of a reasonable level of working capital reserve, in addition to the full recovery of costs, are allowable. A working capital reserve as part of retained earnings of up to 60 days cash expenses for normal operating purposes is considered reasonable. A working capital reserve exceeding 60 days may be approved by the cognizant Federal agency in exceptional cases.

### **Circumstances in Which Unrestricted Fund Balance Can Be "Spent Down"**

Unrestricted fund balance includes committed, assigned and unassigned fund balance. Committed and assigned fund balances indicate amounts set aside by the Board of Supervisors

for specific purposes. Committed and assigned fund balances shall be spent for the approved purpose but may be redirected by majority approval of the Board of Supervisors according to the requirements of the County Budget Act.

In the event that the County has a positive unassigned fund balance, the excess may be utilized for any lawful purpose approved by the Board of Supervisors. It is recommended that first priority shall be to set aside sufficient resources in the committed Strategic Reserve fund balance to provide 30 days working capital consistent with the County's Strategic Reserve Policy.

#### **Year-end Fund Balances**

If a portion of existing fund balance is included as a budgetary resource in the subsequent year's budget to eliminate a projected excess of expenditures over expected revenues, then that portion of fund balance should be classified as assigned. The assignment automatically releases with the loading of the budget and expires with the appropriation. If the expected excess does not occur, a budget correction is required from the affected department.

Excess fund balance remaining over and above the projected budgeted excess of expenditures over expected revenues should be classified as "unassigned" in the General Fund and "Restricted for Purpose of Fund" in Special Revenue Funds.

#### **Replenishment**

Should the unrestricted fund balance fall below the 15% targeted level, the Board shall approve and adopt a plan to restore this balance to the target level within 24 months. If restoration of unrestricted fund balance cannot be accomplished within such period without severe hardship to the County, then the Board will establish a different time period.

#### **Strategic Reserve Policy**

The County has established a separate committed fund balance account known as the Strategic Reserve. The target funding level for the Strategic Reserve is an amount equivalent to 8% of operating revenue (approximately 30 days working capital) for the General Fund. Funding for the Strategic Reserve is appropriated annually by the Board of Supervisors as part of the budget approval process.

The purpose of the County's Strategic Reserve is to:

1. Mitigate economic downturns that reduce County general revenue;
2. Mitigate state or federal budget actions that may reduce County revenue;
3. Maintain core service levels essential to public health, safety, and welfare;
4. Front-fund or completely fund, if necessary, disaster costs or costs associated with emergencies. Only those events that have been legally declared to be a disaster at the local, state or federal level are eligible for funding from the Strategic Reserve; and
5. Absorb liability settlements in excess of available resources in the County's committed litigation fund balance.

The monies in the Strategic Reserve are separate monies used only for the purposes stated above. The funds are used only to support the operating budget when general revenue increases less than 3% from the prior fiscal year. Any transfer of funds is approved by the Board of Supervisors and does not exceed the amount sufficient to balance the General Fund. Transfers

require approval by 3/5 vote during budget hearings and 4/5 vote at all other times during the fiscal year in accordance with the County Budget Act.

#### **Monitoring and Reporting**

The Auditor-Controller shall annually prepare a report documenting the status of the fund balance with this policy and present to the Board in conjunction with the presentation of the County's annual financial statements.

#### **Review**

The County's Fund Balance Policy shall be reviewed annually, within the context of long-term forecasting, to evaluate sufficiency of the adopted level of fund balance.

#### **Operating and Capital Expenditure Accountability and Reporting**

The following policies guide expenditure reporting for the County:

1. It shall be the responsibility of the County Executive Officer and Auditor-Controller to submit a combined Quarterly Financial Status Report to the Board of Supervisors in November, February, and May of each year. This report shall provide a projection by department of expenditures and revenues, identifying projected variances. It will also include recommendations and proposed corrective actions. In addition, the County Executive Officer and Auditor-Controller shall submit a fiscal year-end Financial Status Report to the Board of Supervisors in August.
2. Except for payroll, the County's financial system does not process payments and disbursements when over-expenditure of object levels of accounts would result from such payment. More stringent control is placed over capital assets and fund balance transactions where payments are not processed when over-expenditure at the line-item level would result from such payment.
3. Even if unexpended appropriation savings are available to correct an over-expended account, the transfer of appropriations between major object categories (i.e., Salaries, and Services and Supplies) will not be authorized if a department's actual financing (i.e., revenues and fund balances) is projected to be less than that budgeted.

#### **CAPITAL IMPROVEMENT PROGRAM (CIP) POLICIES**

##### **(Adopted by the Board of Supervisors April 2007)**

1. The County will develop an annual five-year plan for capital improvements; it will include project design, development, implementation, and operating and maintenance costs.
2. Each project in the CIP shall show the estimated capital and on-going maintenance costs, known and potential funding sources, and a design and development schedule.
3. As used in the CIP, projects include land acquisition, buildings and facilities construction; these projects do not have a cost threshold.
4. The development of the capital improvement budget will be coordinated with the development of the operating budget.

5. Annual capital costs shall be budgeted according to the County Auditor-Controller's Capital Asset Policy and Guidelines.
6. Costs for County professional services needed to implement the CIP will be included in the appropriate year's operating budget.
7. Annual operating budgets will provide adequate funds for maintenance of the County's buildings and maintenance and replacement of the County's capital equipment.
8. The County will make all capital improvements in accordance with an adopted and funded capital improvement program.
9. Every funded capital improvement project shall be included in the County's Project Reporting System and project progress shall be reported periodically to the County Executive Office.
10. Every county project that involves new construction, the remodeling of space, or building maintenance with a cost of \$100,000 or more to facilities staffed by County employees shall be managed by the General Services Department-Support Services Division (Facilities Management or Capital Projects).

*Included in this definition are all County office and clinic buildings, fire stations, Sheriff patrol stations, jails, inmate holding facilities, boy's camp facilities and park ranger residences.*

*Excluded are roads and bridges, water and wastewater systems, flood control facilities, and park facilities other than ranger residences.*

## **ANNUAL BUDGET PROCESS**

### **County Budget Act**

California Government Code Sections 29000-29144 and 30200 outline the State Controller forms and miscellaneous schedules necessary for conformity among California counties. Following the County Budget Act displayed in this section is a listing summary of the State Controller schedules 1 through 15. These schedules are produced in their entirety in a separate publication and are incorporated by reference.

#### **Chapter 1, Division 3, Title 3 of the Government Code Chapter 1. Budget and Tax Levy**

##### **Article 1. General**

**§29000.** This chapter shall be known, and may be cited, as the County Budget Act. Unless the context otherwise requires or provides, the general provisions set forth in this article, and the requirements concerning county budget matters prescribed by the Controller under Section 30200, govern the construction of this chapter.

**§29001.** Except as otherwise defined in this section, the meaning of terms used in this chapter shall be as defined in the Accounting Standards and Procedures for Counties prescribed by the Controller pursuant to Section 30200. As used in this chapter:

- (a) "Administrative officer" means the chief administrative officer, county administrator, county executive, county manager, or other officials employed in the several counties

under various titles whose duties and responsibilities are comparable to the officials named herein.

(b) "Adopted budget" means the budget document formally approved by the board of supervisors after the required public hearings and deliberations on the recommended budget.

(c) "Auditor" means the county auditor or that officer whose responsibilities include those designated in Chapter 4 (commencing with Section 26900) of Division 2.

(d) "Board" means the board of supervisors of the county, or the same body acting as the governing board of a special district whose affairs and finances are under its supervision and control.

(e) "Budget year" means the fiscal year (July 1 through June 30) for which the budget is being prepared.

(f) "Controller" means the State Controller.

(g) "Final budget" means the adopted budget adjusted by all revisions throughout the fiscal year as of June 30.

(h) "Fiscal year" means the current 12-month period to which the annual operating budget applies and at the end of which a government determines its financial position and the results of its operations.

(i) "Obligated fund balance" means the nonspendable, restricted, committed, and assigned fund balances.

(j) "Recommended budget" means the budget document recommended to the board of supervisors by the designated county official.

**§29002.** This chapter shall apply to counties, dependent special districts, and other agencies whose affairs and finances are under the supervision and control of the board.

**§29003.** Except as otherwise specifically provided by law, a majority vote of the total membership of the board is required for the board to take action pursuant to this chapter.

**§29005.** (a) The Controller shall promulgate such rules, regulations, and classifications as are deemed necessary and commensurate with the accounting procedures for counties prescribed pursuant to Section 30200 to secure standards of uniformity among the various counties and to carry out the provisions of this chapter. The rules, regulations, and classifications shall be adopted in accordance with the provisions of Section 30200.

(b) The Controller shall prescribe the forms required to be used in presenting the required information in the budget document after consultation with the Committee on County Accounting Procedures, which committee is provided for in Section 30201. Any county may add to the information required, or display it in more detail, provided that the financial information and the classifications or items required to be included in the budget are clearly and completely set forth. Any change proposed by a county in the arrangement of the information required on the forms shall be subject to review and approval by the Controller.

**§29006.** For the adopted budget, the various forms, as prescribed by the Controller pursuant to Section 29005, shall provide for the presentation of data and information to include, at a minimum, estimated or actual amounts of the following items by fund:

- (a) Fund balances.
  - (1) Nonspendable.
  - (2) Restricted.
  - (3) Committed.
  - (4) Assigned.
  - (5) Unassigned.

(b) Additional financing sources shall be classified by source in accordance with the accounting procedures for counties as prescribed by the Controller pursuant to Section 30200. For comparative purposes the amounts of financing sources shall be shown as follows:

- (1) On an actual basis for the fiscal year two years prior to the budget year.
- (2) On an actual basis, except for those sources that can only be estimated, for the fiscal year prior to the budget year.
- (3) On an estimated basis for the budget year, as submitted by those officials or persons responsible, or as recommended by the administrative officer or auditor, as appropriate.
- (4) On an estimated basis for the budget year, as approved, or as adopted, by the board.

(c) Financing uses for each budget unit, classified by the fund or funds from which financed, by the objects of expenditure, other financing uses, intrafund transfers, and transfers-out in accordance with the accounting procedures for counties and by such further classifications or requirements pertaining to county budget matters as prescribed by the Controller pursuant to Section 30200. For comparative purposes the amounts of financing uses shall be shown as follows:

- (1) On an actual basis for the fiscal year two years prior to the budget year.
- (2) On an actual basis, except for those uses that can only be estimated, for the fiscal year prior to the budget year.
- (3) On an estimated basis for the budget year, as submitted by those officials or persons responsible, or as recommended by the administrative officer or auditor, as appropriate.
- (4) On an estimated basis for the budget year, as approved, or as adopted, by the board.

(d) Appropriations for contingencies.

(e) Provisions for nonspendable, restricted, committed, and assigned fund balances.

(f) The appropriations limit and the total annual appropriations subject to limitation as determined pursuant to Division 9 (commencing with Section 7900) of Title 1.

**§29007.** There shall be a schedule in or supporting the adopted budget document or separate ordinance or resolution, setting forth for each budget unit the following data for each position classification:

- (a) Salary rate or range, as applicable.
- (b) Total allocated positions approved by the board.

**§29008.** At a minimum, within the object of capital assets, the budget amounts for the following shall be reported, as specified:

- (a) Land shall be reported in total amounts, except when included as a component of a project.
- (b) Structures and improvements shall be reported separately for each project, except that minor improvement projects may be reported in totals.
- (c) Equipment shall be reported in total amounts by budget unit.
- (d) Infrastructure shall be reported in total amounts by budget unit.
- (e) Intangible assets may be reported in total amounts by budget unit.

**§29009.** In the recommended, adopted, and final budgets the funding sources shall equal the financing uses.

**§29040.** On or before June 10 of each year, each official in charge of any budget unit shall provide the administrative officer or the auditor, as the board directs, an itemized request detailing the estimate of financing sources, financing uses, and any other matter required by the board.

**§29042.** The requests shall be submitted as prescribed by the administrative officer or the auditor, as designated by the board.

## **Article 2. Budget Request**

**§29043.** The auditor shall provide the estimates for bonded debt service requirements. The auditor shall also provide or furnish to the responsible authority, as applicable, the estimates for bonded debt service requirements of:

- (a) School districts.
- (b) Any special district, the records for which are maintained in the auditor's office as required by law.

**§29044.** The auditor shall provide to the administrative officer or such other official as the board directs, any financial statements, data, or recommendations, if any, for any changes to the estimated financing sources referenced in Section 29040.

**§29045.** In the absence or disability, or failure of any official or person required to submit budget requests, they shall be submitted by the acting official in charge of the budget unit or shall be prepared by the administrative officer or the auditor, as designated by the board.

## **Article 3. Recommended Budget**

**§29060.** The administrative officer or auditor, as designated by the board, shall compile the budget requests.

**§29061.** The board shall designate either the administrative officer or auditor to review the budget requests and prepare a recommended budget. Any differences may be described in the written recommendations or comments, or both.

**§29062.** The recommended budget shall be submitted to the board by the administrative officer or auditor, as designated by the board, on or before June 30 of each year, as the board directs.

**§29063.** Upon receipt of the recommended budget, the board shall consider it and, on or before June 30 of each year, at such time as it directs, shall make any revisions, reductions, or additions. Any official or person whose budget requests have been revised shall be given the opportunity to be heard thereon before the board during or prior to the hearings required by Section 29080.

**§29064.** On or before June 30 of each year the board, by formal action, shall approve the recommended budget, including the revisions it deems necessary for the purpose of having authority to spend until the budget is adopted.

**§29065.** On or before September 8 of each year, as the board directs, the recommended budget shall be made available to the public.

## **Article 4. Adopted Budget**

**§29080.** On or before September 8 of each year, the board shall publish a notice in a newspaper of general circulation stating that:

- (a) The recommended budget documents are available to members of the public.
- (b) On the date stated in the notice, not fewer than 10 days after the recommended budget documents are available, and at a time and place also stated in the notice, the board will conduct a public hearing on the recommended budget.
- (c) Any member of the public may appear at the hearing and be heard regarding any item in the recommended budget or for the inclusion of additional items.

(d) All proposals for revisions shall be submitted in writing to the clerk of the board of supervisors before the close of the public hearing.

**§29081.** The hearing may be continued from day to day until concluded, but not to exceed a total of 14 calendar days.

**§29082.** (a) At the hearing, the board of supervisors shall hear any official who wishes to be heard regarding the recommended budget for his or her budget unit.

(b) At the time of the hearing, the board of supervisors may call in the official or person in charge of any budget unit concerning any matter relating to his or her budget unit. The board of supervisors may also call in the official or person in charge of a budget unit if any member of the public files with the clerk of the board a written request to question any matter relating to that budget unit.

**§29083.** (a) The auditor, or a deputy designated by the auditor, shall attend the public hearing on the recommended budget, and shall furnish the board with any financial statements and data it requires.

(b) It shall be the responsibility of the administrative officer or auditor to revise the recommended budget to reflect the actions of the board pertaining thereto in developing the adopted budget document.

**§29084.** The budget may contain an appropriation or appropriations for contingencies in such amounts as the board deems sufficient.

**§29085.** The budget for each fund may contain nonspendable, restricted, committed, or assigned fund balance classifications in such amounts as the board deems sufficient. General reserves and stabilization arrangements may also be included as part of the restricted, committed, assigned, and unassigned fund balance.

**§29086.** Except in cases of a legally declared emergency, as defined in Section 29127, the general reserve may only be established, canceled, increased, or decreased at the time of adopting the budget as provided in Section 29088. The general reserve may be increased any time during the fiscal year by a four-fifths vote of the board.

**§29088.** After the conclusion of the hearing, and not later than October 2 of each year, and after making any revisions of, deductions from, or increases or additions to, the recommended budget it deems advisable during or after the public hearing, the board shall by resolution adopt the budget as finally determined. Increases or additions shall not be made after the public hearing, unless the items were proposed in writing and filed with the clerk of the board before the close of the public hearing or unless approved by the board by four-fifths vote.

**§29089.** The resolution of adoption of the budget of the county, each dependent special district, and each other agency as defined in Section 29002, shall specify the following:

(a) Appropriations by objects of expenditure within each budget unit, except for capital assets that are appropriated at the subobject level pursuant to Section 29008.

(b) Other financing uses by budget unit.

(c) Intrafund transfers by budget unit.

(d) Transfers-out by fund.

(e) Appropriations for contingencies, by fund.

(f) Provisions for nonspendable, restricted, committed, and assigned fund balances, by fund and purpose.

(g) The means of financing the budget requirements.

**§29090.** The adoption of the budget may be accomplished by a resolution in which the adoption is effectuated by reference to the financing uses in the budget as finally determined, provided that the minimum requirements set forth in Section 29089 are met in the budget document. If adopted by reference, the budget shall have the same effect and be subject to the same provisions of law as if the resolution of adoption had been accomplished by specific designation.

**§29092.** The board may set forth appropriations in greater detail than required in Section 29089 and may authorize any additional controls for the administration of the budget as it deems necessary. The board may designate a county official to exercise these administrative controls.

**§29093.** (a) A copy of the adopted budget in the format prescribed by the Controller shall be filed by the auditor in the office of the clerk of the board and the office of the Controller not later than December 1 of each year.

(b) (1) If the auditor, after receipt of written notice from the Controller, fails to transmit a copy of the adopted budget within 20 days, the county shall forfeit to the state one thousand dollars (\$1,000) to be recovered in an action brought by the Attorney General, in the name of the Controller.

(2) Upon a satisfactory showing of good cause, the Controller may waive the penalty for late filing provided in paragraph (1).

#### Article 5. Tax Levy

**§29100.** (a) On or before October 3 of each year, the board shall adopt by resolution the rates of taxes on the secured roll, not to exceed the 1-percent limitation specified in Article XIII A of the Constitution and Sections 93 and 100 of the Revenue and Taxation Code. For voter-approved indebtedness, the board shall adopt the rates on the secured roll by determining the percentage of full value of property on the secured roll legally subject to support the annual debt requirement. Each rate shall be such as will produce the amount determined as necessary to be raised by taxation on the secured roll after due allowance for delinquency, anticipated changes to the roll, disputed tax revenues anticipated to be impounded pursuant to Section 26906.1, amounts subject to the Community Redevelopment Law (Part 1 (commencing with Section 33000) of Division 24 of the Health and Safety Code), and other available financing sources. The board may adopt a rate for voter-approved indebtedness as will produce an amount determined as appropriate for necessary reserves.

(b) For purposes of this section, "an amount appropriate for necessary reserves" shall be limited to an amount sufficient to accommodate the county's anticipated annual cash flow needs for servicing the county's voter-approved debt. The funds reserved may service only the debt for which the extraordinary rate is levied. All interest earned on the amount deposited in the nonspendable, restricted, committed, or assigned fund balance account shall accrue to the same account.

**§29100.6.** On or before December 1 of each year, each county auditor shall file with the Controller in such form as the Controller directs, a statement of the amounts of exempt values granted for the homeowners' property tax exemption under subdivision (k) of Section 3 and Section 25 of Article XIII of the Constitution for the county, each city and school district or portion thereof within the county, each special district or subdivision or zone thereof or portion thereof within the county, for which a tax levy is carried on the county assessment roll. The auditor shall therein compute and show the total amount of ad valorem tax loss to the county and the cities and districts resulting from the exemption and the statement shall claim such amount against the state for payment of reimbursement.

§29101. After adopting the rates, the board shall levy the taxes upon the taxable property of the county in specific sums in terms of the rates so adopted. Each rate is upon the full assessed valuation of property and only upon property which is legally subject to such tax.

§29102. Unless otherwise provided by law, the authority and duties of the county board of supervisors with respect to adopting tax rates and levying of taxes prescribed in this article shall have application to school districts and to special districts, or zones or improvement districts thereof, whose affairs and finances are not under the supervision and control of the county board of supervisors but for which a tax levy is carried on the regular county assessment roll. If the assessed value of the taxable property in a special district on the unsecured roll exceeds the assessed value of the taxable property on the secured roll, the special district tax rate which is adopted by the board for the secured roll shall be adjusted to an amount which the board determines will meet the estimated annual revenue requirements of the district for both the current and the next succeeding year.

§29103. It shall be the responsibility of the auditor to calculate the several tax rates for the board's action thereon.

§29104. The board may adopt a rate ending in the next highest fraction of a percent for a fund, or for a group of funds having the same tax base. Any cash collections resulting from this rate or from an excess resulting from any other cause shall not invalidate the levies.

§29106. In the resolution adopting tax rates, the entity or fund with its corresponding rate shall be classified in any manner sufficient to identify it.

§29107. The tax rates for property not sufficiently secured as provided in Section 12 of Article XIII of the Constitution are levied in the amounts therein provided and need not be formally levied by the board.

§29109. (a) On or before December 1 of each year, the auditor shall forward to the Controller, in the format prescribed by the Controller, a statement of the rates of taxation, the assessed valuation as shown on the current equalized assessment roll, and the amount of taxes to be levied and allocated pursuant to the Revenue and Taxation Code.

(b) (1) If the auditor, after receipt of written notice from the Controller fails to transmit the statements within 20 days, the county shall forfeit to the state, one thousand dollars (\$1,000) to be recovered in an action brought by the Attorney General, in the name of the Controller.

(2) Upon a satisfactory showing of good cause, the Controller may waive the penalty for late filing provided in paragraph (1).

#### **Article 6. Appropriations and Transfers**

§29120. Except as otherwise provided by law, the board and every other county or dependent special district official and person shall be limited in the incurring or paying of obligations to the amounts of the appropriations allowed for each budget unit as originally adopted or as thereafter revised by addition, cancellation, or transfer.

§29121. Except as otherwise provided by law, obligations incurred or paid in excess of the amounts authorized in the budget unit appropriations are not a liability of the county or dependent special district, but a personal liability of the official authorizing the obligation.

§29122. The board shall not approve a claim and the auditor shall not issue payment for any obligation in excess of that authorized in the budget unit appropriation, except upon an order of a court, for an emergency, or as otherwise provided by law.

§29124. (a) If at the beginning of any fiscal year, the budget has not been adopted, the auditor shall approve payments for the support of the various budget units in accordance with the following authorizations:

(1) Except as otherwise provided in subdivision (b), the amounts in the recommended budget, except capital assets, transfer-out, and new permanent employee positions, are deemed appropriated until the adoption of the budget.

(2) Capital assets, transfers-out, and new permanent employee positions are deemed appropriated until the adoption of the budget if specifically approved by the board. For the purposes of this subdivision, the words "new permanent employee positions" do not include any employee positions created in lieu of an employee position that is abolished.

(3) If the recommended budget has not been approved by the board because of an emergency as described in subdivision (a) of Section 29127, the amounts deemed appropriated shall be based on the final budget of the preceding year, excluding assets and transfers-out unless specifically approved by the board.

(b) Notwithstanding any other provision of this section, prior to the adoption of the adopted budget, the board of supervisors may impose expenditure limitations that are more restrictive than those contained in this section.

§29125. (a) Transfers and revisions to the adopted appropriations may be made by an action formally adopted by the board at a regular or special meeting as follows:

(1) If between funds, by a four-fifths vote.

(2) If transfers from appropriation for contingencies, by a four-fifths vote.

(3) If between budget units within a fund if overall appropriations are not increased, by a majority vote.

(b) The board may designate the administrative officer or auditor to approve transfers and revisions of appropriations within a budget unit if the overall appropriations of the budget unit are not increased.

§29126. At any regular or special meeting the board may cancel any appropriation in whole or in part that is not needed and transfer the amount canceled to the appropriation for contingencies of the fund from which the appropriation was originally made if there is one, or to any appropriation for contingencies account, or fund, to which the amount canceled may be properly transferred. If there is no appropriation for contingencies in the respective fund, the board may establish one.

§29126.1. At any regular or special meeting the board may cancel any unused appropriation in whole or in part upon determining that the source of funding of the appropriation will be unrealized in whole or part. An offsetting reduction shall be made to the corresponding estimated revenue.

§29126.2. The auditor may review and issue reports, and make recommendations regarding estimated financing sources, or actual financing sources, or both, and the status of appropriations. The auditor shall submit to the board, and any other official the board may designate, a statement showing this information with respect to the condition of each separate budget appropriation and to the condition of estimated financing sources, as the board requires.

§29127. After adopting a resolution stating the facts constituting an emergency by a four-fifths vote of the board at any regular or special meeting, the board may appropriate and make the expenditure necessary to meet an emergency in any of the following cases:

(a) Upon the happening of an emergency caused by war, fire, failure or the imminent failure of a water system or supply, flood, explosion, storm, earthquake, epidemic, riot, or insurrection.

**Chapter 3.5, Part 1, Division 3, Title 2**

- (b) For the immediate preservation of order or of public health.
- (c) For the restoration to a condition of usefulness of any public property, the usefulness of which has been destroyed by accident.
- (d) For the relief of a stricken community overtaken by calamity.
- (e) For the settlement of approved claims for personal injuries or property damages, exclusive of claims arising from the operation of any public utilities owned by the county.
- (f) To meet mandatory expenditures required by law.

**§29128.** All emergency expenditures shall be paid from any money in the county treasury in any fund from which the expenditure may properly be paid.

**§29130.** At any regular or special meeting, the board by a four-fifths vote may make available for appropriation any of the following fund balances for which the board has authority:

- (a) Restricted, committed, assigned, and unassigned fund balances, excluding the general reserves and nonspendable fund balance.
- (b) Amounts that are either in excess of anticipated amounts or not specifically set forth in the budget derived from any actual or anticipated increases in financing sources.

**Article 7. Miscellaneous**

**§29141.** The adopted budget shall include a schedule showing the managerial budget of each service activity financed by a proprietary fund established pursuant to Sections 25260 and 25261. The schedule shall set forth expected operations of the activity in such detail for revenues, expenses, and reserves as will adequately display the nature and the approximate size of its operations. Comparative data as prescribed in Section 29006 shall be provided.

**§29141.1.** The property tax bill in the County of Orange shall include a statement with language to the effect that a portion of the taxpayer's property taxes may be used to implement the county recovery plan to emerge from bankruptcy. This section shall not be required after these revenues are no longer needed for this purpose.

**§29142.** Notwithstanding any other provision of law, when taxes or assessments are collected by the county for any special district, or zone or improvement district thereof, but excluding a school district, the board of supervisors may provide for a collection fee for such services which when collected shall belong to the county and shall be deposited to the credit of the general fund, and shall cover the expense and compensation of such officials of the county in the collection of such taxes and of the interest or penalties thereon, subject to the following:

- (a) For taxes covering debt service requirements on any bond or bonds authorized and issued by any such special district, the tax rate fixed to raise such amounts may be fixed by the board of supervisors to include also a percentage of such amounts up to one-fourth of 1 percent thereof.
- (b) For taxes covering all purposes of such special districts, other than debt service requirements on bonds, the amount of the collection fees, if any, to be charged by the county shall be fixed by agreement between the board of supervisors and the governing board of such special district and shall not exceed one-fourth of 1 percent of all money collected.

**§29143.** Any unencumbered balance remaining to the credit of any appropriation shall lapse at the end of the fiscal year and shall revert to the available balance of the fund from which appropriated.

**§29144.** All commitments covered by the restricted, committed, or assigned fund balance encumbrances account at fiscal yearend are appropriated for the succeeding fiscal year.

**§30200.** Under this division, the Controller shall prescribe for counties uniform accounting procedures conforming to the Generally Accepted Accounting Principles (GAAP). The procedures shall be adopted under the provisions of Chapter 3.5 (commencing with Section 11340) of Part 1 of Division 3 of Title 2 and shall be published in the California Code of Regulations either in their entirety or by reference. The Controller shall prescribe such procedures after consultation with and approval by the Committee on County Accounting Procedures. Approval of such procedures shall be by a majority vote of the members of the committee. The vote may be conducted by mail at the discretion of the chairperson of the committee, provided however, that should one or more members of the committee request a meeting for the purpose of voting, the chairperson shall call a meeting of the committee as provided in Section 30201.

**State Controller Schedules**

Schedule 1	All Funds Summary
Schedule 2	Governmental Funds Summary
Schedule 3	Fund Balance – Governmental Funds
Schedule 4	Obligated Fund Balances – Governmental Funds
Schedule 5	Summary of Additional Financing Sources by Source and Fund – Governmental Funds
Schedule 6	Detail of Additional Financing Sources by Fund and Account – Governmental Funds
Schedule 7	Summary of Financing Uses by Function and Fund – Governmental Funds
Schedule 8	Detail of Financing Uses by Function, Activity and Budget Unit – Governmental Funds
Schedule 9	Financing Sources and Uses by Budget Unit by Object – Governmental Funds
Schedule 10	Operations of Internal Service Funds
Schedule 11	Operations of Enterprise Funds
Schedule 12	Special Districts and Other Agencies Summary
Schedule 13	Fund Balance – Special Districts and Other Agencies
Schedule 14	Special Districts and Other Agencies Obligated Fund Balances
Schedule 15	Special Districts and Other Agencies Financing Sources and Uses by Budget Unit by Object

**Description of Budget Process**

The annual budget is prepared, reviewed and approved in accordance with the County Budget Act (California Government Code Sections 29000 through 30200). The annual budget, the Comprehensive Annual Financial Report (CAFR) and the County Financial Information Network (FIN) are prepared using generally accepted accounting principles. Governmental fund types (i.e., the General Fund, Special Revenue and Debt Service funds) use the modified accrual basis, while Proprietary funds use the full accrual basis.

The annual operating budget includes all operating, capital, and debt service requirements of the County for the fiscal year, which runs from July 1 to June 30. In addition, the budget includes the following: revenue and expense assumptions upon which the budget is based; the number of budgeted full-time equivalent employees; the mission, strategic priorities, impact and performance measures of each operating department; prior year actual, current year budgeted, new year recommended and 2<sup>nd</sup> year out proposed expenditures and revenue by department; and a description of significant expenditure and revenue changes, and related operational impacts by department.

The capital budget reflects the annual amount appropriated for each capital project included in the long range Capital Improvement Program. When the Board authorizes a new capital project, the Board approves the total project cost and schedule. The approval of the project budget authorizes total expenditures over the duration of the construction project, which oftentimes spans multiple fiscal years. The annual capital budget authorizes the anticipated expenditures for the scope of work anticipated to be completed in the upcoming fiscal year.

The annual budget process includes four phases:

**Phase I - (July - November) - Establish Budget Priorities & Policies:** The County Executive Officer develops the operating and capital budget priorities and the budget policies for the next fiscal year based upon analysis of relevant economic, social, and demographic trends, and presents it along with a budget update with a two-year forecast to the Board of Supervisors for approval.

**Phase II - (September - January) - Develop Capital Improvement Program:** Board priorities are transmitted to the Capital Advisory Committee (CAC), which is responsible for determining the long range capital requirements of the County. The CAC develops the annual capital budget instructions based on the priorities set by the Board. Capital budget instructions are distributed to department directors who are responsible for identifying and developing annual capital budget requests.

In developing the annual capital budget, departments must determine the impact these capital projects will have on the following fiscal year's operating budget. Consequently, this phase must be completed in advance of the distribution of the annual operating budget instructions.

**Phase III - (December - April) - Develop Operating Budget:** The County Executive Office develops and distributes the annual operating budget instructions based upon the following: Board priorities and budget principles; the impact of annual capital budget requests on the operating budget; revenue and expense projections for the following fiscal year; and state and county long range economic indicators. Department budgets are developed by the operating department directors and staff. These are subsequently reviewed and modified as necessary, through a collaborative effort among the County Executive Office/Human Resources, the Auditor-Controller's Office, and the departments.

**Phase IV - June:** After a series of public meetings, the Annual Budget must be approved by a three-fifths majority of the Board of Supervisors. The legally mandated time requirements for budget approval are as follows:

**County Budget Act Requirements**

Revenue Estimates	June 10
Recommended Budget	September 8
Budget Hearings	September 18 - October 2
Final Budget Approval	October 2
Final Budget Filed with the State	December 1

**Phase V - Amend the Budget:** California Government Code Sections 29125 through 29130 authorizes amendments to the adopted budget through the budget revision process. Revisions enable departments to move or adjust budgeted appropriations or adjust estimated revenues. The Board of Supervisors also dictates policies regarding budget revisions. Budget revisions may be approved throughout the year in accordance with the following procedures:

1. Revisions requiring Board of Supervisors approval are:
  - a. By a 4/5 vote: Appropriation transfer(s) adjusting unrealized revenue, unanticipated revenue, contingencies, or fund balance transactions.
  - b. By a 3/5 vote: Appropriation transfers between departments involving previously approved Board items; transfers creating appropriations for new capital assets.
2. Revisions that may be approved by the County Executive Officer are appropriation transfer(s) of \$100 or more between object levels within a department, excluding new capital assets.
3. Revisions that may be approved by the Auditor-Controller are interest earning related; adjustments to contingency for imprest (petty) cash transactions and minor appropriation transfer(s) of up to \$100 within and between object levels within a department.
4. Together the Offices of the County Executive and the Auditor-Controller review and process budget revisions by ensuring budget revisions are necessary and contain sufficient justification regarding the purposes of the revisions as well as follow accounting procedures.

## Budget Development Schedule

<b>September 2011</b>	Capital Advisory Committee (CAC) reviews 5-Year (2012-17) Capital Improvement Plan (CIP) Instructions
	Issue 2012-17 CIP instructions; hold CIP kick-off mtg.
<b>October 2011</b>	Develop & distribute FY 2012-14 Operating Budget process requirements & Budget Policies
<b>November 2011</b>	Provide Board of Supervisors (BOS) with Fiscal Outlook Report on the economic context and impending financial challenges that will be faced by the County in FY 2012-14 and subsequent years.
	CEO meets with department directors & budget staff to discuss FY 2012-14 Operating Budget Process requirements & Budget Policies
	Finalize 2012-14 Budget Policies & present to BOS for adoption
<b>December 2011</b>	Review departmental 5-Yr CIP & FY 2012-14 Capital Budget
	FY 2012-14 Operating Budget Kick-Off meeting; issue Operating Budget instructions
<b>January 2012</b>	Internal Service Funds rates finalized
	General Fund targets issued to departments
	Department budget numbers loaded into Financial Information Network (FIN)
	Lead CAC meetings and send CIP book to printer
	BOS submits 5-Year CIP to Planning Commission
<b>February 2012</b>	Review & meet with departments on FY 2012-14 Operating Budgets
	Functional group meetings
<b>March 2012</b>	Review & meet with departments on FY 2012-14 Operating Budgets
<b>April 2012</b>	Present 5-year Capital Improvement Program to BOS for review & approval
	Finalize FY 2012-14 Operating budget & send budget book to printer
<b>May 2012</b>	Publish notice of FY 2012-14 budget hearings
	Distribute FY 2012-14 Recommended Budget
<b>June 2012</b>	Hold FY 2012-14 budget hearings
	BOS adopts FY 2012-14 budget
	FY 2012-14 Operating Budget Kick-Off meeting; issue Operating Budget instructions
	Finalize FY 2012-14 Operating budget & send budget book to printer
	Provide Board of Supervisors (BOS) with Fiscal Issues Report identifying certain and potential issues that would impact the development of the FY 2012-14 Budget
	FY 2012-14 Operating Budget Kick-Off meeting; issue Operating Budget instructions
	Approve any cost center re-mapping
BOS adopts FY 2012-14 budget	