

Section F



Annual Budgetary
Processes, Policies,
& Fund Structure



Budget Processes, Policies, & Fund Structure



***Budget Processes, Policies,
& Fund Structure***



Budget Processes, Policies, & Fund Structure

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Budget Processes, Policies, & Fund Structure

Introduction

This section of the operational plan presents the major budget processes, policies, and fund structure that guide the strategic direction of the County. Certain budget-related operational processes included in this section show how budget policies are supported and reinforced in the County. We have also provided information identifying the funds that are budgeted under the authority of the Board of Supervisors and their relationship within the County organization.

Budget Processes

Annual Budget Process

Authority & Composition

The annual budget is prepared, reviewed, and approved in accordance with the County Budget Act (California Government Code Sections 29000 through 30200), which can be found online at http://www.sco.ca.gov/Files-ARD-Local/CBG_Appdx_B.pdf. The annual operating budget, the Comprehensive Annual Financial Report (CAFR) and the County Financial Information Network (FIN) follow Generally Accepted Accounting Principles (GAAP) for governments. Budgets are prepared on the modified accrual basis of accounting consistent with GAAP.

Each year, two budgets are prepared; the annual *operating budget* and the *capital budget*. The annual *operating budget* includes all operating, capital, and debt service appropriation requirements of the County for the fiscal year, which runs from July 1 to June 30. In addition, the budget document provides for the following:

- Revenue and expense assumptions upon which the budget is based.
- Number of budgeted full-time equivalent employees.
- Mission, strategic priorities, impact, and performance measures of each operating department.
- Prior year actual, current year budgeted, new year recommended, and 2nd year out proposed expenditures and revenues by department. The recommended budget will become the adopted budget and the proposed budget is for informational purposes only.
- Descriptions 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 estimated 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.

Budget Processes, Policies, & Fund Structure

Budget Process Phases & Schedule

<p>Phase I (Jul – Nov)</p>	<p style="text-align: center;">Establish Budget Priorities & Policies</p> <p>The County Executive Officer develops the operating and capital budget priorities and the budget policies for the next fiscal year. These policies and priorities are based upon analysis of relevant economic, social, and demographic trends, and are presented in the Fiscal Outlook Report to the Board of Supervisors for approval.</p>
<p>Phase II (Sep – Jan)</p>	<p style="text-align: center;">Develop Capital Budget</p> <p>The County Executive Office and General Services Department develops the annual capital budget instructions based on the priorities and policies adopted by the Board in Phase I. Capital budget instructions are distributed to department directors who are responsible for identifying and developing annual capital budget requests.</p>
<p>Phase III (Dec – Apr)</p>	<p style="text-align: center;">Develop Operating Budget</p> <p>The County Executive Office develops and distributes the annual operating budget instructions and General Fund Allocations 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.</p> <p>In addition to the operating budget for the recommended and proposed years, an additional 3 years is created for forecast purposes.</p>
<p>Phase IV (April & June)</p>	<p style="text-align: center;">Approve Budget</p> <p>In April, a series of Budget Workshops are held to anticipate issues on the budget prior to the formal presentation in June.</p> <p>In June, after a series of public meetings, the Annual Budget must be approved by a three-fifths majority of the Board of Supervisors.</p>
<p>Phase V</p>	<p style="text-align: center;">Amend the Budget</p> <p>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.</p>

Budget Processes, Policies, & Fund Structure

Budget Controls, Adjustments, and Accountability

Legal Level of Budgetary Control

The legal level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriations) is maintained at the fund, department, and object level. More stringent control is applied to capital assets and fund balance accounts, which are maintained at the line-item level. Except for payroll, the County's financial system does not process payments and disbursements when over-expenditure of object levels would result. For capital asset and fund balance transactions, payments are not processed if over-expenditure would result at the line-item level.

Budget Adjustments

Budget adjustments may be approved throughout the year in accordance with the following procedures:

Revisions Approved by the Auditor-Controller*

- Appropriation and revenue estimate revisions within an object level within a budget unit.**
- Appropriation and revenue estimate revisions up to \$1,000 between object levels within a budget unit.

Revisions Approved by the County Executive Office*

- Appropriation and revenue estimate revisions of more than \$1,000 between object levels within a budget unit.

Revisions Approved by the Board of Supervisors

- Administrative Agenda – Majority Vote***
 - a. Appropriation and revenue estimate revisions between budget units within a fund if overall appropriations are not increased.
 - b. Capital asset revisions between budget units within a fund if overall appropriations are not increased.
 - c. Capital asset revisions between projects for Capital Outlay Funds if overall appropriations are not increased.
- Administrative Agenda - 4/5 Vote
 - a. Appropriation and revenue estimate revisions if appropriations are increased.
 - b. All appropriation and revenue estimate revisions between funds.
 - c. All fund balance revisions.
- Departmental Agenda - With Accompanying Board Letter
 - a. Budget revisions as part of a Board Letter addressing a new or existing policy/program or other items recommended to go before the Board, the vote should be appropriately set based on the approval authority outlined above.

* Excluded: capital asset and fund balance revisions

** In this context a budget unit is defined as a “department/fund” combination

***Excluded: fund balance revisions

Budget Processes, Policies, & Fund Structure

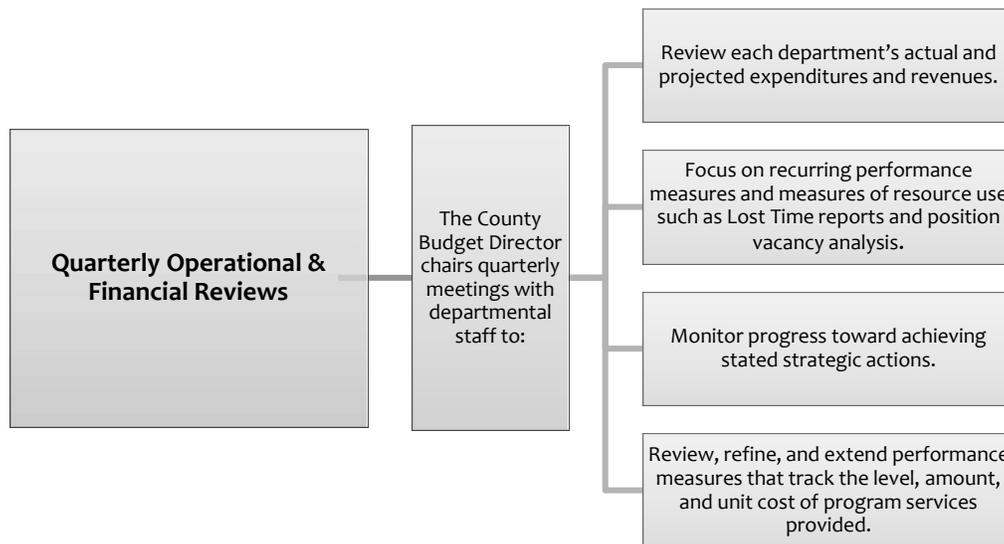
Budget Accountability

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. 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 end, explaining the reasons.

Budget Reviews

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 formal reporting and review processes to monitor and evaluate progress and assist in achieving stated objectives and priorities.



Additionally, it is 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 provides a fiscal year end projection of expenditures and revenues by department. It includes recommendations and proposed corrective actions. Furthermore, the County Executive Officer and Auditor-Controller submit a fiscal year-end Financial Status Report to the Board of Supervisors in August.

Budget Processes, Policies, & Fund Structure

Policies

The following fiscal policies have been excerpted from various County documents because of their importance in guiding, developing, and monitoring the budget. When developing budget policies, the County places emphasis on the following core values known as: A – C – E.



Budget Policies for Fiscal Year 2017-2019

As part of the annual budget process, policy priority areas are developed to help guide decision-making for the upcoming year's budget issues. These policy areas provide the necessary structure and framework to enable the CEO and departmental staff to develop their budgets in line with Board priorities. The presented policies and strategies will help build a more accountable government and provide services to the community efficiently and effectively within the parameters of economic constraints.

These policies were approved by the Board of Supervisors on Dec. 13, 2016. Included with each policy are specific strategies, which have been omitted here since they are quite lengthy and detailed. The complete text for the specific strategies can be found online at:

<https://santabarbara.legistar.com/LegislationDetail.aspx?ID=2903251&GUID=5219407D-DE3C-483E-9261-800F1CB957AC>.

Accountable Government Policy Areas:

1. *Accountability/Transparency*

Information about how public monies are spent and the outcomes they achieve are to be clear, transparent, and understandable.

2. *Policy-based Budgeting*

Allocations from the General Fund to departments will be distributed according to Board policy direction, historical spending, and Federal/State mandates.

3. *Balanced Budget/Fiscal Stability*

A structurally balanced budget (ongoing revenues equal to ongoing expenditures) for all County operating funds will be presented to the Board of Supervisors for scheduled public hearings.

4. *Identify & Mitigate Future Risks*

The County Executive Office, in coordination with County departments, will identify fiscal issues, events and circumstances which pose significant risks and reduce the impact of those risks.

5. *Reserves*

Establish and maintain a strategic reserve equal to 8% of the General Fund operating revenue (approximately 30 days working capital). Once the target is achieved, any excess fiscal year-end unassigned General Funds will lapse to the Unassigned Fund Balance account for future Board appropriation.

Budget Processes, Policies, & Fund Structure

Customer-Focus Policy Areas:

6. Service Levels

Service level impacts, positive or negative, will be identified in departmental budget requests and communicated to the public.

7. Capital and Infrastructure

Provide funding for necessary capital improvements and maintenance of existing facilities.

8. Employee Retention

Attract, retain, and develop a high performing workforce committed to excellent customer service.

Fiscal Year 2017-19 General Fund Allocation Policy

The Fiscal Year 2017-19 General Fund Allocation Policy sets a framework and establishes guidelines for the allocation of the County's local discretionary revenue (primarily property, sales, and transient occupancy taxes) to departments to support their programs, also known as General Fund Contributions. This new policy is designed to increase the clarity, consistency, and transparency of establishing General Fund Contributions. Additionally, the General Fund Allocation Policy is intended to support the matching of available General Fund resources with the needs of County departments so that departments can provide services in alignment with the goals of the Board of Supervisors. The General Fund Allocation Policy also prescribes certain administrative processes for departments to follow for submission of their FY 2017-19 budget requests. The processes have been omitted here in order to focus on policies. The processes along with the policy can be viewed at <https://santabarbara.legistar.com/LegislationDetail.aspx?ID=2903251&GUID=5219407D-DE3C-483E-9261-800F1CB957AC>.

General Fund Contributions apply to departments receiving General Fund dollars within the General Fund and in certain Special Revenue Funds, in accordance with the overall budget policies (Accountable Government Policy Area #2 above) approved by the Board of Supervisors on Dec. 13, 2016. This General Fund Allocation Policy for fiscal year 2017-19 was approved by the Board of Supervisors at the same time on Dec. 13, 2016.

Policy Statement:

Allocations from the General Fund to departments will be distributed according to Board policy direction, historical spending, and Federal/State mandates.

Fiscal Strategy:

Allocate resources in a manner that supports Board strategic and programmatic goals without across-the-board reductions or increases.

Calculations:

1. Each department's base General Fund Contribution for the Fiscal Year 2017-2018 budget will be the adopted contribution for Fiscal Year 2016-2017, reduced by one-time allocations during the FY 2016-2017 Board adoption hearings. (Ongoing expansions will have already been added to the GFC base; one-time allocations will be deducted if they were included in the base).

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2. Where not prohibited by law, departments must use all non-General Fund revenues, such as special revenues, grants and agency funds, before General Fund Contribution amounts will be allocated to fund programs and anticipated liabilities. Unanticipated revenues should be used to eliminate departmental use of one-time funds for ongoing operations.
3. In general, the base General Fund Contribution will be adjusted by an amount equal to the proportional FY 2017-2018 impact of approved wage and employee benefit adjustments, not otherwise funded, that were included in the adopted Fiscal Year 2016-2017 amount. For example, if the wage increases and benefit cost impacts total \$100, and the General Fund Contribution makes up 30% of the department's funding, then the increase would be no more than \$30.
4. In the event that projected Countywide General revenues do not meet the General Fund Contribution allocation, the departmental allocations will be reduced as necessary to balance the budget

Capital Improvement Program Policies

1. The County will develop an annual five-year plan for capital improvements; it will include project design, development, implementation, and operation and maintenance costs.
2. Each project in the Capital Improvement Program (CIP) shall show the estimated capital and ongoing 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.
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 include funds for maintenance of the County's buildings and maintenance and replacement of the County's capital equipment, based on available funding.
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).

Budget Processes, Policies, & Fund Structure

Debt Policies

Debt Management Policy

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.

In 1991, the County established the Debt Advisory Committee (DAC) to provide advice to the Board of Supervisors on debt issuance and management. 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	<ul style="list-style-type: none">• Total outstanding and per capita debt, as well as future borrowing plans and sources of revenue.
Financial	<ul style="list-style-type: none">• Trends of past operations and current conditions, budget analysis, and fund balance projections.
Administrative	<ul style="list-style-type: none">• Management policies and adequate provision of mandated services.
Economic	<ul style="list-style-type: none">• 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, 2016, is estimated at \$75.1 billion, making the debt limit approximately \$938.8 million.

Comprehensive Fund Balance Policy

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 minimum level of unrestricted fund balance is dependent on the fund type, and operational and capital replacement needs.

The limits defined in the County's fund balance policy are intended 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).

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The full text of the County's fund balance policy can be found at:

<https://santabarbara.legistar.com/LegislationDetail.aspx?ID=2903298&GUID=F6E933C3-DF98-4B6A-8457-7528186F9E13>.

The comprehensive fund balance policy provides guidance on the following:

- Appropriate Level of Unrestricted Fund Balance in the General Fund
- Fund Balance in the Special Revenue Funds
- Debt Service Funds
- Capital Projects Funds
- Enterprise Funds
- Internal Service Funds
- Circumstances in which Unrestricted Fund Balance can be "Spent Down"
- Year-end Fund Balances
- Replenishment
- Strategic Reserve Policy
- Monitoring and Reporting
- Review

Strategic Reserve Policy

The County's Strategic Reserve Policy reads as follows:

There shall be established a separate committed fund balance account known as the County's Strategic Reserve.

The Board shall approve the establishment of a Strategic Reserve with the intent of limiting the use of Strategic Reserve funds for the purposes set below. The initial funding level shall be equivalent to the amount set aside in the County's Strategic Reserve designation at the date of GASB 54 implementation.

The target funding level for the committed Strategic Reserve fund balance shall be an amount equivalent to 8% of operating revenue (approximately 30 days working capital) for the General Fund. Funding for the Strategic Reserve shall be 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.
5. Absorb liability settlements in excess of available resources in the County's litigation designation.

The monies in the Strategic Reserve are separate monies to be used only for the purposes stated above. The Strategic Reserve should only be used to support the operating budget when general revenue increases less than 3% from the prior fiscal year.

Any transfer of funds shall be approved by the Board of Supervisors and shall not exceed the amount sufficient to balance the General Fund. Transfers shall 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.

Budget Processes, Policies, & Fund Structure

Fund Structure

Countywide Funds

The County maintains the following fund types: Governmental Funds, Proprietary Funds, and Fiduciary Funds.

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
- Special Revenue Funds
- Debt Service Funds
- Capital Projects Funds

Proprietary Funds

These funds are used to account for a government's ongoing activities that are similar to those often found in the private sector. Under this method, revenues are recognized when earned and expenses are recognized when the related liabilities are incurred. The following are the County's proprietary fund types:

- Enterprise Funds
- Internal Service Funds

Fiduciary Funds

These funds account for resources held by the County for the benefit of parties outside the County. Fiduciary funds are not budgeted. The following are the County's fiduciary fund types:

- Agency Funds
- Investment Trust Funds
- Private Purpose Trust Fund

For a complete list of fund descriptions and definitions, please refer to the Comprehensive Annual Financial Report (CAFR). The CAFR is available to view and download online at:

<http://cosb.countyofsb.org/auditor/default.aspx?id=1234>

Fund Accounting

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. Governmental fund types (i.e., the General Fund, Special Revenue funds, and Debt Service funds) use the modified accrual basis, while Proprietary funds use the full accrual basis. For detailed information on all County funds, please refer to the County's CAFR.

Budget Processes, Policies, & Fund Structure

The following depicts the County's budgeted funds and how they fit in the organization for budget and accounting purposes. Note that departments in the General Fund may also have budget responsibility for other funds.

