

## CALIFORNIA GOVERNMENT CODE

Government Code Sections 29000 through 29144 and Section 30200 provide the statutory requirements pertaining to the form and content of the State Controller's prescribed Line-Item Budget. Government Code Section 29009 requires a balanced budget in the recommended, adopted, and final budgets, defined as "the funding sources shall equal the financing uses".

## COUNTY CODE

Title 1. Division 2. Chapter 2:

Section 12.0201:

On November 2, 2010, the County Code was amended to establish the position of Chief Executive Officer.

Section 12.0203:

The Chief Executive Officer shall be appointed by and serve at the pleasure of the Board of Supervisors.

Section 12.0206:

Under the supervision of the Board of Supervisors, and subject to the approval and direction and control thereof, the Chief Executive Officer shall be responsible for the performance of such duties and ministerial functions as may be placed in his or her charge by the Board of Supervisors, and in connection therewith, shall report to the Board from time to time the status and enforcement of the Board's policies, rules, and regulations. The Chief Executive Officer shall, among others:

- Act as the primary administrative advisor to the Board of Supervisors on all matters relating to the efficient and economical administration of county government.
- Provide budgetary, fiscal, and administrative support, oversight, and direction as it pertains to Board of Supervisors' policy and procedures for all elected and all Board of Supervisor appointed department heads and their agencies and departments.
- Supervise, in cooperation with the County Auditor, the preparation of the annual County Budget. In the performance of this duty, the Chief Executive Officer shall review all departmental and agency requests and all items in the recommended budget, including revenues, expenditures, and reserves. He or she shall submit his or her recommended budget to the Board of Supervisors.
- Review all departmental and agency requests for adjustments and transfers of appropriations from contingencies and among budget units and make recommendations on them to the Board of Supervisors.

Section 12.0211:

Pursuant to Government Code § 29125, the Board of Supervisors designates the Chief Executive Officer as the County officer with the authority to approve, with respect to an adopted budget, any transfers and revisions of appropriations, objects, and sub-objects within a budget unit.

## BASIS OF ACCOUNTING

Governmental fund types are accounted for using the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. Property and sales taxes, interest, certain state and federal grants and charges for services are accrued if their receipt occurs within sixty days after the end of the accounting period, and recognized as revenue.

Expenditures are generally recorded when a liability is incurred, as under accrual accounting. Exceptions to this general rule include the following: principal and interest on long-term debt is recognized when due; prepaid expenses are reported as current period expenditures rather than allocated; and accumulated unpaid vacation, sick leave and other employee benefits are reported in the period due and payable, rather than in the period earned by employees.

Proprietary fund types are accounted for on the accrual basis of accounting. Their revenues are recognized in the period earned and expenses are recognized in the period incurred.



## **BASIS OF BUDGETING**

### **Governmental Funds:**

An operating budget is adopted each fiscal year for the governmental fund types in accordance with provisions of the County Budget Act. The County's financial statement, the Comprehensive Annual Financial Report (CAFR), is prepared using generally accepted accounting principles (GAAP). Budgets for the governmental fund types are adopted with the following differences from GAAP:

Encumbrance accounting is employed in governmental funds. For budget purposes, outstanding encumbrances (which represent the unspent amounts of purchase orders and contracts funded in the fiscal year), are treated as expenditures in that fiscal year. This affects only the "actual" data that appears in that budget book. For GAAP purposes, in the fund financial statements of the CAFR, encumbrances outstanding at year-end are reported as reservations of fund balances and do not constitute expenditures and liabilities. Appropriation for these encumbrance commitments survive the expiration of the fiscal year to the extent that encumbrances exist. Encumbrances cancelled subsequent to the end of the fiscal year also cancel the underlying appropriation.

On a budgetary basis, unrealized gains and losses on the fair value of investments are not recognized. For GAAP purposes, such gains or losses are recognized.

### **Proprietary Funds:**

The Board of Supervisors approves an annual spending plan for proprietary funds. Although the adopted expense estimates are not appropriation, these county funds have budgetary controls the same as those for the governmental fund types. Because these funds collect fees and revenues generally to cover the cost of the goods and services they provide, their accounting and budgeting bases are closer to commercial models. Budgeting, like accounting, is done on the accrual basis and generally according to GAAP.

## **COUNTY POLICIES**

When building the 2011-12 budget, the following County policies were considered:

### **BUDGETING POLICY**

The objective of the Budgeting Policy is to help ensure the County has adequate resources to meet its basic financial obligations, and to serve as a vehicle to help the County achieve financial continuity and stability. This policy will serve as a guide when preparing budget plans and quarterly budget reports for Board of Supervisors approval.

#### Balanced Budget

To obtain a balanced budget, total revenues, including carry-over fund balances, will equal the total fund appropriation and reserves. The annual operating budget will be structurally balanced upon adoption by the Board of Supervisors. One-time funds will not be used to fund ongoing operational costs, except within the context of a larger plan to balance ongoing revenues and expenses over a multi-year period, as detailed under "Use of One-Time Funding Sources". Significant budget variances and recommended actions will be reported to the Board of Supervisors on a quarterly basis.

#### Long Range Planning

As part of the annual budget process, the County will prepare a multi-year forecast of financial operations for the general fund. This forecast includes changes in costs to maintain current service levels and costs related to new programs or program enhancements. The County will project major revenues and expenditures of the general fund, and report significant findings and recommendations to the Board of Supervisors.

#### Appropriation Changes

An operating budget is adopted each fiscal year for all Governmental Funds. Expenditures are controlled at the appropriation unit level (i.e., salaries and benefits, services and supplies, fixed assets, etc.) within budget units. Departments are expected to maintain expenditures within their budget authority as adopted by the Board of Supervisors. Any increase in appropriation in a budget unit after adoption of the budget shall be included in the quarterly budget reports and must be approved by a four-fifths vote of the Board of Supervisors. Transfers of appropriation within the same budget unit may be approved by the County Administrative Office or Board of Supervisors depending upon the appropriation unit. Exceptions are noted below:



**Transfer of Salaries and Benefits Appropriation:**

- Transfers out funded with discretionary general funding are not allowed.
- Transfers out not funded with discretionary general funding are required to be included in the quarterly budget reports for Board of Supervisors approval.
- Transfers in from other available appropriation within the budget unit will be required if budgeted salaries and benefits appropriation is inadequate to meet expenditures.

**Transfer of Fixed Asset Appropriation:**

- Transfers out are required to be included in the quarterly budget reports for Board of Supervisors approval.
- Transfers in, less than \$10,000 are approved by the County Administrative Office.
- Transfers in, greater than \$10,000 requires Board of Supervisors approval either through a separate board agenda item or inclusion in the quarterly budget report.

**Use of One-Time Funding Sources**

The appropriation of carry-over fund balances and other one-time funding sources must be managed with care. These sources are most appropriately used to fund one-time expenses such as capital expenditures, start-up costs for new programs, or to supplement the general purpose reserve to attain the 20% target level as defined in the County's "Fund Balance and Reserve Policy". A goal is to invest one-time monies in a way that increases ongoing revenues and/or reduces ongoing expenses.

It is the policy of the County that one-time funds will not be used to finance ongoing operational costs, except within the context of a larger plan to balance ongoing revenues and costs over a multi-year period. Such a plan could involve short-term use of one-time funds to preserve essential public services where longer-term financial forecasts demonstrate the near-term future potential for ongoing revenues to fund those services.

**Revenue Forecasting**

Because of the complexity of the County budget, realistic projections of revenue are crucial to accurate budgeting. Revenue forecasting will be undertaken annually through a review of local historical revenue trends and analysis of federal, state, and local economic projections. Especially in regard to those revenues that tend to be most volatile and sensitive to changes in the economy, forecasting will involve analysis of economic, demographic, business cycle and other factors that might impact those revenues. These unpredictable revenues, including, but not limited to interest income and fees, will be estimated and budgeted conservatively. Revenue forecasts will not be based on straight-line assumptions.

**Property Tax Revenue Stabilization**

The County's discretionary revenue primarily comes from property taxes. Revenue growth rates can vary dramatically from year to year due to fluctuations in the economy and housing market. These fluctuations can result in insufficient revenue growth to fund increases in required governmental services during slow economic periods. This policy expands on the current policy of establishing set-aside contingencies for future County needs by appropriating anticipated property tax revenue growth, in excess of the lesser of 8% or of the average annualized rate of growth of actual revenues, to an ongoing revenue stabilization set-aside contingency. This ongoing revenue stabilization set-aside contingency will be made available for allocation in years when property tax revenue is anticipated to increase at a rate less than the average annualized rate of growth of actual revenues. For purposes of this paragraph, property tax revenue is defined as Current Secured (the current 1% general tax levy on locally assessed secured property on the assessment roll) and VLF/Property Tax Swap (the County's "vehicle license fee adjustment amount" as defined in Section 97.70 of the Revenue and Taxation Code) received by the County general fund. The average annualized rate of growth of actual revenues will be calculated using the most recent fifteen years' worth of data.

Any unspent money from this ongoing revenue stabilization set-aside contingency in a given year will be used to prepay or defease debt in the subsequent year, fund large County projects, supplement reserves or fund any other one-time costs the Board of Supervisors may direct.



Prop 172 Revenue Stabilization

The County's Prop 172 Sales Tax revenue can only be used for local public safety activities and is allocated to the Sheriff/Coroner/Public Administrator, District Attorney and Probation Departments. Revenue growth rates can vary dramatically from year to year due to fluctuations in the economy and retail spending. These fluctuations can result in insufficient revenue growth to fund increases in required public safety activities. When this occurs, the County General Fund may temporarily allocate financial resources away from other important County programs as a backfill to offset the Prop 172 revenue shortfall. The County will set-aside any Prop 172 revenue in excess of the lesser of 8% or of the average annualized rate of growth of actual revenues, to an ongoing Prop 172 revenue stabilization set-aside contingency. This ongoing Prop 172 revenue stabilization set-aside contingency will only be used to fund Prop 172 base restoration or the cost to maintain current services in years when Prop 172 revenue is anticipated to increase at a rate less than the average annualized rate of growth of actual revenues. The average annualized rate of growth of actual revenues will be calculated using the most recent fifteen years' worth of data.

Any one-time unspent money from this ongoing Prop 172 revenue stabilization set-aside contingency or other available one-time Prop 172 amounts that fall into fund balance at the end of the fiscal year will be used as follows: first, to reduce the amount contributed by the County General Fund from its discretionary revenue sources until such time as the prior General Fund backfills of Prop 172 shortfalls are recouped, and second, to address one-time costs for public safety activities.

Encumbrances

An encumbrance is not an actual expenditure or a liability but merely a reserve of budgetary appropriation in a given fiscal year. Expenditures and/or liabilities are recorded when, and if, goods are actually provided or services are actually rendered. At the end of each fiscal year, departments will have three options to manage current fiscal year encumbrances: cancel the encumbrance, roll forward the encumbrance if needed, or obtain County Administrative Office approval to leave the encumbrance in the current budget fiscal year. If the department decides to roll forward the encumbrance, the amount to be spent in the new fiscal year must be re-budgeted as an appropriation and therefore use new fiscal year funding sources.

Program Efficiency and Performance Measurement

Efficiency and economy in the delivery of County services is a top priority. The County integrated performance measures within the budget. County departments will be encouraged to make productivity improvements within their service delivery areas.

Retirement System Funding

Careful management of financial resources to pay retirement costs is critical to the County's long-term financial health. Accordingly, for any savings resulting from negative Unfunded Accrued Actuarial Liability (UAAL) contribution rates, the Board will first consider setting aside these savings in a reserve for reduction of any existing pension obligation bonds or as a reserve against future rate increases.

Risk Management Self-Insurance Funds

The County will maintain an 80% confidence level in all Risk Management self-insurance funds as determined by a yearly actuarial study.

Grant Funding

The County will aggressively pursue opportunities for federal, state or local grant funding including private foundations. An aggressive policy of pursuing opportunities for federal or state grants provides citizens with the assurance that the County is striving to obtain all state and federal funds to which it is entitled – thereby reducing dependence on local taxpayers' funds. However, prior to applying for, and accepting such intergovernmental aid, the County will consider the current and future implications of either accepting or rejecting the grant. That consideration shall include: 1) the amount of matching local funds required; 2) in-kind services to be provided; 3) length of grant, and whether the County is required to continue the service after the grant has ended; and 4) related operating expenses. The County shall also assess the merits of any individual grant program as if it were funded with local tax dollars.



Use of Variable Rate Interest Savings

Covenants in debt instruments require conservative budgeting of variable rate interest expense. When amounts budgeted for variable rate interest expense for such debt instruments exceed actual interest expense for the year, such savings will be used in the succeeding fiscal year to reduce the total outstanding principal amount of long-term debt. This policy will apply only to interest savings/debt instruments that are paid from discretionary revenue sources of the County's General Fund.

Use of Savings from Interest Rate Swap Agreements Associated with the Issuance of Debt

It is the policy of the Board that any benefit realized on interest rate swap agreements where the swap payment received by the County and the actual debt service payment due from the County are not equal per the terms of the swap agreement, be retained as a contingency to offset the County share of any future increases in debt service caused by the swap agreement. This contingency amount will not exceed \$5.0 million dollars per interest rate swap agreement. The contingency will be retained in the fund that is responsible for payments under the swap.

Intent to Recover Full Cost of Service

The full cost of service should be calculated for all County services to provide a basis for setting fees or charges. Full cost should include direct and indirect costs. This calculation shall be reviewed and updated annually.

**CONTINGENCY POLICY**

The objective of the Contingency Policy is to help protect the County from unforeseen increases in expenditures or reductions in revenues, or from extraordinary events that might otherwise substantially harm the fiscal health of the County. In so doing, it is also intended to help avoid undue service level fluctuations during periods of economic instability. This policy will serve as a guide when preparing budget plans and quarterly budget reports for Board of Supervisors approval.

General Fund – Mandatory Contingencies

The County will maintain an appropriated contingency in the General Fund to accommodate unanticipated operational changes, legislative impacts, or other economic events affecting the County's operations that could not have been reasonably anticipated at the time the budget was prepared. Funding shall be targeted at no less than 1.5% of locally funded appropriation. Locally funded appropriation are those funded by countywide discretionary revenue, such as unrestricted property tax, sales tax, interest income, and other revenues not linked to specific programs, and by ongoing operating transfers in. In the event the locally funded appropriation declines from the previous year, the mandatory contingencies shall have no downward adjustments.

General Fund – Ongoing Set-Aside Contingencies

Ongoing set-aside contingencies represent ongoing sources of funding that have been targeted for future debt obligations or planned future ongoing program/operational needs. Set-asides are appropriated as contingencies and approved during the formal adoption of the budget. Any balance of such contingency set-asides remaining at the end of the fiscal year shall be transferred into a corresponding general fund reserve account as of June 30.

General Fund – Uncertainties Contingencies

Any unallocated funding available from current year sources (both ongoing and one-time) that has not been set aside and any unassigned fund balance carried over from the prior year, will be budgeted as Uncertainties Contingencies. The use of these contingencies requires prior approval by the County Administrative Office before obtaining approval by the Board of Supervisors. The County Administrative Office will only recommend uses as a last resort, and only if the requesting department: 1) has no other unanticipated sources of funding to appropriate, and 2) has no other appropriation within its own budget unit to cover the budget overrun, and 3) has no appropriation available in another fund that it controls that can be legally applied to cover the budget overrun.



Restricted Fund – Prop 172-Contingencies

Restricted Proposition 172 sales tax revenues are used solely for public safety programs. The County has allocated using the funds solely for funding the Sheriff/Coroner/Public Administrator, District Attorney, and Probation departmental programs. The County will maintain an appropriated contingency to accommodate unanticipated operational changes, legislative impacts, or other economic events affecting this restricted funding stream that could not have been reasonably anticipated at the time the budget was prepared. The appropriation for contingency for the Prop 172 fund shall be targeted at no less than 10% of the current year's budgeted Prop 172 revenue. Said contingencies shall be budgeted at the 10% level separately for each department receiving Prop 172 revenues.

Restricted Funds – Realignment-Contingencies

Restricted Realignment funds from dedicated sales tax and vehicle license fee revenue are used in funding mental health, social services and health programs within the County. The County will maintain an appropriated contingency within these funds to accommodate unanticipated operational changes, legislative impacts, or other economic events affecting these restricted funds which could not have been reasonably anticipated at the time the budget was prepared. The appropriation for contingency for Realignment funds shall be targeted at no less than 10% of the current year's budgeted Realignment revenues. Said contingencies shall be budgeted at the 10% level separately for each program receiving Realignment revenues.

Master Settlement Agreement Fund – Contingencies

Master Settlement Agreement funds from the tobacco settlement lawsuit are used to fund health related expenditures. The County will maintain an appropriated contingency within the Master Settlement Agreement fund to accommodate unanticipated operational changes, legislative impacts, or other economic events affecting this fund that could not have been reasonably anticipated at the time the budget was prepared. The appropriation for contingency within this Master Settlement Agreement Fund shall be targeted at no less than 10% of the current year's budgeted Master Settlement Agreement revenues.

**FUND BALANCE AND RESERVE POLICY**

The objective of the Fund Balance and Reserve Policy is to help ensure the County maintains a minimum level of unassigned fund balance designated as general purpose reserve to meet seasonal cash flow shortfalls, revenue shortfalls, unanticipated expenditures, economic downturns or a local disaster. The policy also addresses the circumstances under which unassigned fund balance can be "spent down" and how the unassigned fund balance will be replenished if it falls below the established minimum.

General Fund – New Classification of Fund Balance (Per the Government Accounting Standards Board-GASB)

Previously the fund balance in the General Fund was classified as Reserved and Unreserved (delineated further as designated and undesignated) for accounting purposes. Reserved fund balance is legally restricted funds established for a future specific use and is not available for general appropriation. Unreserved/designated fund balance has been set-aside by the Board of Supervisors for a specific purpose. Unreserved/undesignated fund balance is available for those uses the Board deems necessary and is typically described as "fund balance available for appropriation" in budget reports.

GASB has issued Statement No. 54 Fund Balance Reporting and Governmental Fund Type Definitions. This statement is effective for financial statements with periods beginning after June 15, 2010. Therefore, effective the fiscal year beginning July 1, 2010, the above classifications will be replaced with five new categories: nonspendable, restricted, committed, assigned, and unassigned. Although only the General Fund is addressed in this policy, Statement No. 54 applies to the Special Revenue, Debt Service, Capital Project and Permanent funds as well. The fund balance will be reported in the following five new categories, representing a hierarchy in most restrictive (1) to least restrictive (5):

1. Nonspendable Fund Balance: Amounts cannot be spent because they are: (a) not in spendable form or (b) legally or contractually required to be maintained intact. Due to the nature or form of the resources, they generally cannot be expected to be converted into cash or a spendable form. These fund balance amounts are automatically recorded each year by the Auditor-Controller/Treasurer/Tax Collector to match the balances of the associated balance sheet account codes. No Board action is required to change these amounts.



2. Restricted Fund Balance: Amounts are restricted by external parties, i.e., creditors, grantors, contributors, or laws/regulations of other governments or restricted by law through constitutional provisions or enabling legislation. Restrictions may be changed or lifted only with the consent of the resource provider.
3. Committed Fund Balance: Amounts that can only be used for a specific purpose pursuant to constraints imposed by formal action of the government's highest level of decision making authority. The formal action must occur prior to the end of the reporting period, however, the amount may be determined in the subsequent period. These are self-imposed limitations on available resources. These committed amounts cannot be used for any other purpose unless the government removes or changes the specified use by taking the same action it employed to previously commit those amounts. These committed amounts would be approved and adopted by formal action of the Board.
4. Assigned Fund Balance: Amounts constrained by the government's intent to be used for specific purposes that are neither restricted nor committed. The intent will be expressed by the body or official to which the governing body has delegated the authority, i.e. the County Administrative Office.
5. Unassigned Fund Balance: The General Fund, as the principal operating fund, often will have net resources in excess of what can properly be classified in one of the four categories already described. Therefore, in order to calculate unassigned fund balance, total fund balance less nonspendable, restricted, committed, or assigned equals unassigned fund balance. This amount is available for any purpose and will be placed in either the General Purpose Reserve, General Fund – Mandatory Contingencies or the General Fund - Uncertainties Contingencies until allocated for a specific purpose by the Board, by a four-fifths vote.

#### Unassigned Fund Balance – General Purpose Reserve

An adequate amount of General Purpose Reserve is essential to the financial strength and flexibility of the County. The General Purpose Reserve has no identified contingent liability or specific future use. It is intended for unanticipated major emergencies; to allow a transition period when key economic indicators point to recession likely to substantially reduce county revenues and increase safety net expenditures; and to ensure the County's ability to make debt service payments in periods of declining general purpose revenues. The County shall establish an unassigned fund balance designated as General Purpose Reserve for the General Fund targeted at 20% of locally funded appropriation based on adopted budget. Locally funded appropriation are those funded by countywide discretionary revenue, such as unrestricted property tax, sales tax, interest income, and other revenues not linked to specific programs, and by ongoing operating transfers in. The unassigned fund balance designated as General Purpose Reserve shall be built up with one-time sources until the established target is achieved. In the event the locally funded appropriation declines from the previous fiscal year, the General Purpose Reserve shall have no downward adjustments. Increases to the General Purpose Reserve generally are only made once at the beginning of the fiscal year.

#### Unassigned Fund Balance – Mandatory Contingencies

The County shall also maintain Mandatory Contingencies at a minimum of 1.5% of locally funded appropriation based on adopted budget. The amount needed to fund the Mandatory Contingencies for the succeeding fiscal year will be categorized as unassigned fund balance. In the event the locally funded appropriation declines from the previous fiscal year, the Mandatory Contingencies shall have no downward adjustments. Increases to the Mandatory Contingencies generally are only made once at the beginning of the fiscal year.

#### Unassigned Fund Balance – Uncertainties Contingencies

The remaining unassigned fund balance amount not allocated to the General Purpose Reserve or Mandatory Contingencies will be included in Uncertainties Contingencies.

#### Unassigned Fund Balance Spend Down

Use of unassigned fund balance will be limited to nonrecurring expenditures, debt reduction, one-time capital costs or emergency situations (such as economic conditions or natural disasters). The County generally will use the Uncertainties Contingencies first, then the Mandatory Contingencies and finally the General Purpose Reserve allocation when using the unassigned fund balance.

The County recognizes that unforeseen events may cause the use of unassigned fund balance which will result in it falling below the established minimum. However, if this occurs, or is expected to occur within the five year



planning cycle, the budget balancing strategies will be invoked to determine corrective actions. When necessary, the following budget balancing strategies will be used in order of priority: 1) Seek other revenue opportunities, including new service fees or increase existing fees; 2) Reduce expenditures through improved productivity; 3) Reduce or eliminate services; 4) Reduce employee salaries and benefits. After evaluating and implementing where possible the above budget balancing strategies, the unassigned fund balance may be used as a temporary fix to address an ongoing budget gap if incorporated in a multi-year plan to balance ongoing revenues and expenses. A planned draw down of unassigned fund balance generally should not exceed 3% of locally funded appropriation in a given fiscal year.

#### Unassigned Fund Balance Replenish Procedures

Generally before the unassigned fund balance can be withdrawn below the target, a replenishment plan must be adopted. The unassigned fund balance shall be built up with one-time sources until the established target is achieved/replenished. One-time sources will be used to replenish reserves before using for one-time, non-emergency expenses.

### **DEBT POLICY**

The objective of the County's Debt management policy is to minimize the amount of outstanding debt necessary to fulfill its infrastructure and economic development responsibilities, and maintain the County's ability to incur present and future debt at minimal interest rates. The use of debt shall not endanger the County's ability to finance essential County services. The County recognizes that capital markets change and unforeseen circumstances may occur resulting in situations that are not covered by this policy. In such situations, flexibility to modify certain policy requirements may be necessary to achieve policy goals.

#### General

Debt will not be used to finance ongoing operational costs. However, debt may be used, where economically efficient, to reduce or eliminate current long-term operational liabilities. Whenever possible, the County shall pursue alternative sources of funding, when cost effective, in order to minimize the level of debt.

#### Types of Debt

General Obligation Bonds (property tax supported) usage will be evaluated first since it is the least costly debt. Public support will be assessed for ballot placement due to the costs involved for an election. Revenue Bonds/Certificates of Participation may be considered for use where General Obligation Bonds are not practical. Short-term borrowing, such as commercial paper, bond anticipation notes, and lines of credit, will be considered as interim funding sources in anticipation of long-term financing.

#### Issuance

The County may elect to issue bonds/certificates of participation as variable rate instruments to provide flexibility and/or to attempt to achieve interest savings. There are guidelines to be considered when issuing variable rate debt: 1) Economic and cash flow projections for variable rate issues shall be calculated at the then applicable fixed rate. 2) The County will first consider structuring the principal and interest repayments related to the entire project for which the debt will be issued on an approximately equal annual basis over the life of the borrowing. 3) Total variable rate debt shall be limited to no more than 25% of total debt outstanding. 4) No less than annually, analysis of each outstanding variable rate bond issue shall be undertaken to determine the advisability of converting the issue to fixed-rate debt. 5) Variable rate bonds shall be structured to protect the County to the greatest extent possible against cyclical interest rate fluctuations.

#### Management

County financial management policies shall be designed to maintain a balanced relationship between debt service requirements and current operating costs, encourage growth of the tax base, actively seek alternative funding sources, minimize interest costs and maximize investment returns. In accordance with this principle, the following must be considered: 1) The County shall issue bonds with terms no longer than the economic useful life of the project. 2) The County shall obtain secured guarantees for bonds supported by a dedicated revenue source to the extent possible. 3) The County shall also obtain assurances of project viability and guarantees of completion prior to the issuance of bonds. 4) The County shall invest the proceeds of bond/certificates of participation sales to conform to State and County requirements to maximize investment security and earnings. 5) The County shall establish affordability guidelines in order to preserve credit quality, which may be suspended for emergency purposes, or because of unusual circumstances.



### **CAPITAL BUDGET POLICY**

The objective of the Capital Budget policy is to ensure that the County maintains its public infrastructure in the most cost efficient manner. The County's capital budget will include as complete, reliable, and attainable cost estimates as possible.

Project cost estimates for the Capital Budget should be based upon a thorough analysis of the project and are expected to be as reliable as the level of detail known about the project. The plan for funding projected staffing, operation and maintenance, and utility costs must be identified as part of the approval process for each capital project. All Capital Budget proposals shall be formulated and presented to the Board of Supervisors within the framework of a general capital budget in conjunction with the operating County General Fund Budget. Capital projects will not be budgeted unless there are reasonable expectations that resources will be available to pay for them. Capital projects which are not encumbered or completed during the fiscal year will be re-budgeted or carried over to the next fiscal year, except as reported to and subsequently approved by the Board. All re-budgeted capital projects will be so noted in the Adopted Capital Budget. Similarly, multi-year projects with unencumbered or unexpended funds will be carried over to the subsequent year(s).

Periodic financial reports will be prepared to enable the County Administrative Office to monitor/manage the capital budget and compare actual program revenues and expenditures with budgeted amounts. The Board may take necessary action, including increasing appropriation or revenue, to maintain a balanced Capital Budget. Major capital assets will be inventoried and assessed on an annual basis to project long-term equipment replacement and maintenance needs.

### **INVESTMENT POLICY**

The Investment Policy is prepared in accordance with California State Law, reviewed annually by the County's Treasury Oversight Committee and approved by the Board of Supervisors. The policy establishes cash management and investment guidelines for the County Treasurer, who is responsible for the management of the County Treasury Pool, which consists of the pooled monies held on behalf of the County, school districts, community college districts, and certain special districts within the county.

It is the policy of the County Treasurer to invest public funds in a manner which will preserve the safety and liquidity of all investments within the County investment pool while obtaining a reasonable return within established investment guidelines. The portfolio should be actively managed in a manner that is responsive to the public trust and consistent with state law. The County investment pool will be guided by the following principles, in order of importance 1) The primary objective of the County Treasurer when investing public funds is to safeguard investment principal; 2) The secondary objective is to maintain sufficient liquidity to ensure that funds are available to meet daily cash flow requirements; 3) The third objective is to achieve a reasonable rate of return or yield consistent with these objectives.

The Investment Policy contains a requirement that 40% of the County investment pool should be invested in securities maturing in one year or less, and the entire portfolio should maintain a duration-to-maturity of less than 1.5 years. Investments of the County pool are placed in those securities authorized by various sections of the California Government Code and the County's Investment Policy, which include obligations of the United States Treasury, agencies of the United States Government, local bond issues, bankers acceptances, commercial paper of prime quality, certificates of deposit (both collateralized and negotiable), repurchase and reverse repurchase agreements, medium term corporate notes, and shares of beneficial interest in diversified management companies (mutual funds). Investments in repurchase agreements cannot exceed a term of 180 days and the security underlying the agreement shall be valued at 102% or greater of the funds borrowed against the security.

With respect to reverse repurchase agreements, the Investment Policy provides for a maximum maturity of 92 days (unless the reserve repurchase agreement includes a written guarantee of a minimum earning or spread for the entire period of such agreement) and a limitation on the total amount of reverse repurchase agreements to 10% of the total investments in the County pool. Securities lending transactions are considered reverse repurchase agreements for purposes of this limitation.

