RESOLUTION - ACTION REQUESTED 2020-211

MEETING: April 28, 2020

TO: The Board of Supervisors

FROM: Dallin Kimble, County Administrative Officer

RE: Adopt a County Budget and Financial Management Policy

RECOMMENDATION AND JUSTIFICATION:
Adopt a County Budget and Financial Management Policy.

Financial policies are a key element of long-term fiscal health. Strong financial can help an organization, like Mariposa County, accomplish its strategic priorities through a professional, objective and predictable approach that incorporates legal requirements and best practices while extending equal access and treatment to all involved. Establishing fiscal policy prior to the difficult budget decisions need to be made helps an organization to strategically navigate those difficult decisions.

The attached policy lays out the legal requirements for the budget process and who is responsible for each step. It identifies key budgeting principles and the process for developing a budget in Mariposa County. Finally, it addresses a variety of details including how to use fund balances, an aspiration toward long-term planning and what controls are in place to monitor budget use.

Some changes from current practice included in this policy are:

1. Empowering the County Administrative Officer (CAO) and Auditor to move funds within a budget without additional Board action. This would encourage flexibility for department heads to use full-time salary savings, for example, to support a temporary helper or contract to complete necessary work in a timely fashion.

2. A stated preference for strategic, rather than incremental, budgeting practices.

3. A requirement to use ongoing revenues for ongoing expenses.

4. Use of prescriptive budget balancing strategies in a priority order.

5. A requirement for each department to develop performance metrics for community impact (effectiveness, efficiency and equity) and customer service (quality).

6. An encouragement to consider technology, shared solutions and contracted services before adding staff or filling a vacant positions.
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7. A requirement to maintain an adequate reserve.

8. Modified budget development practice to allow the auditor and CAO to project basic and routine operational expenses (salaries and benefits, insurance, utilities, communications, technical hardware and software, fleet vehicle expenses and fuel, building rent, office expenses and facility maintenance expenses) for each budget. In cooperation with departments, this practice simplifies budget development while minimizing the extra contingency dollars throughout. Discretionary expenses including professional services, training, travel and fixed asset acquisition would continue to be requested annually by each department.

9. Prescription of fund balance use for rebuilding reserves, capital expenditure and other one-time uses.


The draft policy lays a foundation for healthy fiscal management, including the development of long-term financial plans and more frequent reporting that will follow the anticipated implementation of new financial software. Staff recommends thorough review and approval of the policy.

BACKGROUND AND HISTORY OF BOARD ACTIONS:
The Board considered this policy on April 21, 2020, when it requested additional provisions which are now being brought to the Board.

County adopted a Fee Policy on October 2, 2018 (2018-480). A General Fund Reserve policy is also anticipated to be heard at the April 21, 2020 meeting.

ALTERNATIVES AND CONSEQUENCES OF NEGATIVE ACTION:
Amend the policy. The Board may approve the policy with desired amendments.

Do not approve the policy. This is not required by law, so there are no substantive negative consequences of this decision, but it may be more difficult to establish consistent practices and staff will be required to return to the Board more regularly for routine direction.

ATTACHMENTS:
Amended Financial Management Policy  (PDF)

RESULT: ADOPTED BY CONSENT VOTE [UNANIMOUS]
MOVER: Marshall Long, District III Supervisor
SECONDER: Rosemarie Smallcombe, District I Supervisor
AYES: Smallcombe, Jones, Long, Cann, Menetrey
A. **LEGAL BASIS**
The Mariposa County (County) Board of Supervisors (Board) has the authority and responsibility to adopt and oversee implementation of a budget approving the use of public funds for the operation of all County functions, as provided for in Sections 29000 et seq. of the California Government Code. The policies adopted by the Board shall not be contrary to those established under state statute. However, the Board may add to the information required, or show it in more detail, providing the financial information is clearly and completely set forth.

B. **APPLICABILITY**
The following policies apply to all County officials and employees in elected offices, divisions, departments, and special districts on behalf of whom the Board is required to adopt an annual budget.

C. **PURPOSE**
1. To promote financial stability and long-term planning,
2. To promote quality and consistency through the establishment of minimum requirements for preparation, management, content and timeframes of the County budget process, and
3. To provide a context to guide decisions during the budget process and throughout the fiscal year.

D. **BUDGET REQUIREMENTS AND TIMELINE**
The following requirements are stipulated in detail in the County Budget Act (Government Code Section 29000 through 29144) and summarized below.
1. The recommended, adopted, and final budgets must be balanced. Expenditures cannot be greater than the total anticipated spendable resources.
2. The adopted budget 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 of the non-spendable, restricted, committed, assigned and unassigned funds.
   b. Additional revenue shall be classified by source as prescribed by the Auditor. For comparative purposes the amounts of revenue shall be shown as follows:
      • On an actual basis for the fiscal year two years prior to the budget year.
      • On an actual basis, except for those sources that can only be estimated, for the fiscal year prior to the budget year.
      • On an estimated basis for the budget year, as submitted by those persons responsible.
      • On an estimated basis for the budget year, as approved, or as adopted, by the Board.
   c. Appropriations for each budget unit, classified by the fund or funds from which financed, by the objects of expenditure, intrafund transfers, and transfers-out as prescribed by the Auditor. For comparative purposes the amounts of appropriations shall be shown as outlined in D.2.b. (above) for revenue.
   d. Appropriations for contingencies.
   e. Provisions for non-spendable, restricted, committed, and assigned fund balances.
D. **BUDGET REQUIREMENTS AND TIMELINE** (continued)

3. There shall be a schedule in or supporting the adopted budget document or separate ordinance or resolution, setting for each budget unit the following data for each position:
   a. Salary rate or range, as applicable.
   b. Total allocated positions approved by the Board.

4. Departments may find it necessary to amend their budgets due to a change in estimates, change in economy, program changes, grant modifications, accounting changes, correction of budget errors, unanticipated revenue, etc. The budget adopted by the Board of Supervisors and submitted to the State may be amended during the fiscal year within the parameters listed below (per Government Code §29125 and §29130):

<table>
<thead>
<tr>
<th>Type of budget amendment</th>
<th>Official/s authorized to approve amendment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Transfers between any appropriation line within an object</td>
<td>Department Head</td>
</tr>
<tr>
<td>Transfers between objects or categories within the same budget unit up to $50,000*</td>
<td>County Administrative Officer with concurrence of the Auditor</td>
</tr>
<tr>
<td>Transfers between objects or categories within the same budget unit above $50,000</td>
<td>Board of Supervisors</td>
</tr>
<tr>
<td>Transfers between budget units</td>
<td>Board of Supervisors by four-fifths vote</td>
</tr>
<tr>
<td>Increase of staffing levels including transfer of positions from one department to another</td>
<td>Board of Supervisors</td>
</tr>
<tr>
<td>Transfer from appropriations for contingencies to a budget unit</td>
<td>Board of Supervisors by four-fifths vote</td>
</tr>
<tr>
<td>Designations and reserves no longer required for the purpose for which intended (excluding general reserve, balance sheet reserves, and reserve for encumbrances).</td>
<td>Board of Supervisors by four-fifths vote</td>
</tr>
<tr>
<td>Unanticipated revenue, including amounts in excess of estimated revenues or not specifically included in the budget.</td>
<td>Board of Supervisors by four-fifths vote</td>
</tr>
<tr>
<td>Administrative corrections and revisions with a net county impact of less than $1,000</td>
<td>Auditor</td>
</tr>
<tr>
<td>All other adjustments</td>
<td>Board of Supervisors by four-fifths vote</td>
</tr>
</tbody>
</table>

*Transfers approved by the County Administrative Officer shall not change existing Board direction and will be reported to the Board within 30 days. Controversial items will be referred to the Board directly.
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D. **BUDGET REQUIREMENTS AND TIMELINE** (continued)

5. County officials will fulfill the following duties within the time frame listed below, which is consistent with legal requirements and with additional modifications in keeping with desired Mariposa County best practices:

<table>
<thead>
<tr>
<th>Official Responsible</th>
<th>Government Code Section</th>
<th>Completion Date</th>
<th>Event</th>
</tr>
</thead>
<tbody>
<tr>
<td>All County Officials</td>
<td>§29040</td>
<td>March 31</td>
<td>Provide an itemized request detailing estimates of required revenue and uses for units administered</td>
</tr>
<tr>
<td>CAO</td>
<td>§29040</td>
<td>January 31</td>
<td>Prescribe procedures for submitting requests</td>
</tr>
<tr>
<td></td>
<td>§29042</td>
<td>March 31</td>
<td>Receive budget requests from officials</td>
</tr>
<tr>
<td></td>
<td>§29045</td>
<td>March 31</td>
<td>Create budget requests when official responsible has not done so</td>
</tr>
<tr>
<td></td>
<td>§29060</td>
<td>April 30</td>
<td>Compile and present budget requests to the Board of Supervisors</td>
</tr>
<tr>
<td></td>
<td>§29061</td>
<td>May 31</td>
<td>Meet with all Board members to review budget recommendations</td>
</tr>
<tr>
<td></td>
<td>§29083 and §29062</td>
<td>June 30</td>
<td>Submit the recommended budget to the Board and revise the recommended budget to reflect changes made by the Board</td>
</tr>
<tr>
<td>Board of Supervisors</td>
<td>§29064</td>
<td>April 30</td>
<td>Receive presentations from Department Heads on requested budgets</td>
</tr>
<tr>
<td></td>
<td>§29065</td>
<td>June (10 days before Board Meeting)</td>
<td>Make the recommended budget available to the general public</td>
</tr>
<tr>
<td></td>
<td>§29080</td>
<td>June (10 days before Board Meeting)</td>
<td>Publish notice that the budget is available and to announce public hearings</td>
</tr>
<tr>
<td></td>
<td>§29063</td>
<td>June 30</td>
<td>Make revisions, reductions and additions to budget requests</td>
</tr>
<tr>
<td></td>
<td>§29080</td>
<td>June 30</td>
<td>Conduct public hearing 10 days after published notice</td>
</tr>
<tr>
<td></td>
<td>§29088</td>
<td>June 30</td>
<td>Approve the adopted budget by resolution</td>
</tr>
<tr>
<td>Auditor</td>
<td>§29043</td>
<td>March 31</td>
<td>Provide estimates for bonded debt service requirements</td>
</tr>
<tr>
<td></td>
<td>§29044</td>
<td>Throughout the budgeting process</td>
<td>Provide financial statements, data, and recommendations for the estimated revenue and uses to the requesting official</td>
</tr>
<tr>
<td></td>
<td>§29093</td>
<td>December 1</td>
<td>File a copy of the adopted budget in the office of the clerk of the board and the office of the State Controller.</td>
</tr>
</tbody>
</table>
E. BUDGET PRINCIPLES

The following will guide our budget and finance decisions:

1. **Link budget to long-range plans** - Each annual budget shall serve to connect successive budgets into a coherent strategy to realize long-term goals. The budget will be consistent with other long-term plans such as a strategic plan, a long-term financial plan, General Plan, and capital improvement plan.

2. **Regularly examine past spending patterns** - Incremental budgeting should be used sparingly and each budget should include a critical review of past spending patterns.

3. **Prioritize community services** - Budget decisions are based on prioritization of services and the priority will be linked to the strategic plan, organizational goals and departmental initiatives.

4. **Assign costs specifically to users of services** - Costs should be equitably matched with beneficiaries following guidelines in the User Fee Cost Recovery Policy.

5. **Ongoing expenditures** - Ongoing expenses are never funded by a non-recurring revenue source.

6. **Fund liabilities** - The annual budget should fund at least the current portion of long-term liabilities, capital investments, asset maintenance, pension, other post-employment benefits (OPEB) and compensated absences.

7. **Prioritization of budget-balancing strategies** - The following guidelines and strategies should be used when deciding on budget cuts:
   a. Eliminate services with low contribution to long-term goals
   b. Reduce expenditures by improving productivity
   c. Eliminate proposed new initiatives with high net County cost
   d. Seek grant funding and postpone expenditures until obtained
   e. Postpone reserve contributions for asset maintenance and replacement costs, etc.
   f. Employee furloughs or salary reductions
   g. Employee lay offs (part-time first then full-time employees)
   h. Emergency inter-fund loans
   i. Use of General Fund reserve

8. **Resolve structural budget deficits** - Through development of a long-range budget reduction plan, correct structural deficits where expenditures are growing more rapidly than revenues.

9. **Funding new priorities, outcomes, programs and/or positions** - All new initiatives which require new positions, expenditures, and/or investments shall be evaluated based on the following criteria:
   a. **Net County Cost** - The portion of the new expenditures requiring general fund revenue should be minimized by: increasing other revenue sources such as state and federal reimbursement; introducing new expenditures on a temporary basis by contracting for services or hiring part-time staff; and/or minimizing initial costs. New initiatives with low or no Net County Costs will
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...be prioritized.

b. Strategic priority – A new initiative that has been identified in a County strategic plan or that addresses an emergent, urgent issue in the County will be prioritized.

E. BUDGET PRINCIPLES (continued)

c. Measurable results – Initiatives for which measurable results can be obtained and reported will be prioritized.

d. Special funds - Special fund balances should be utilized to fund Net County Cost increase requests, one time expenditures and fixed asset investments.

10. Performance measurement - All departments shall develop performance measures that measure community impact (effectiveness, efficiency and equity) and customer service (quality). This will provide data regarding the public value of an initiative, service, or program. Adding public value means contributing both to what the public most values and also to what adds value to the public sphere.

11. New positions or filling vacant positions - New positions should be requested only after the following alternatives have been considered and deemed untenable. The total number of permanent full-time/part-time employees on the payroll shall not exceed the total number of positions authorized by the Board in the employee allocation schedule in the adopted budget.

a. Technology – Technology shall be used to meet increased workload demands. Online services, software integration, and technology upgrades should enable County leaders to streamline operations and reduce or eliminate some time-consuming activities like redundant data entry and shadow system tracking.

b. Shared support – Opportunities to utilize existing positions with available capacity and similar skills in other departments or divisions should be thoroughly explored.

c. Contracted services - Opportunities to contract for services with regional agency, for-profit, and nonprofit partners when appropriate and allowable should be thoroughly explored.

10. Reserve - The budget shall fund reserves and contingencies consistent with the Reserve Policy.

F. BUDGET DEVELOPMENT PROCESS

The following process reflects the County’s desired transition to performance-based budgeting. Budget formulation, adoption, and execution involve year-round monitoring and analysis on the part of many people including department heads, department fiscal staff, county administration and auditor staff, the Board of Supervisors, and members of the community. Each year the budget development process will include, at a minimum, the following elements:

1. Strategic goals and priorities for the coming year as developed by the Board of Supervisors in cooperation with department heads and the county administrative officer.

2. Budget instructions and forms detailing priorities and the required design and timeline of budget
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submissions and presentations are developed and distributed (administration and auditor).

3. Community input from public hearings, town hall meetings, surveys and/or advisory groups (all staff).

F. BUDGET DEVELOPMENT PROCESS (continued)

4. Accurate revenue projections are the foundation of a budget that is both fiscally sound and enables the greatest amount of productivity. Trends, patterns, indexes, property valuation, growth, and other factors will be analyzed and applied to the preparation of detailed projections (all staff).

5. Projections for County-wide, ongoing, regular operational expenses, including but not limited to salaries and benefits for existing staff, insurance, utilities, communications, technical hardware and software, fleet vehicle expenses and fuel, building rent, office expenses and facility maintenance expenses (auditor and administration).

6. Funds are set aside to meet liabilities including necessary reserves and contingencies (administration).

7. A ten-year capital improvement plan is developed and maintained on an annual basis. Funds are set aside to ensure capital investments can be achieved (all staff).

8. Identification of additional discretionary costs of priorities identified in the strategic planning process such as professional services, training, travel costs not related to fleet vehicle usage, fixed asset acquisition, and professional association memberships (department heads and administration).

9. Budgets are reviewed for accuracy, content and compliance with established priorities and policies (all staff).

10. Budgets including performance metrics are presented as requests to the Board of Supervisors in a public meeting (department heads and administration).

11. Requested budgets are revised as necessary to ensure alignment with strategic priorities and a balanced overall budget (administration and department heads).

12. Revised requested budgets are presented as a recommendation to the Board of Supervisors in a public meeting that is appropriately noticed as a public hearing to consider the final budget and capital improvement plan (administration).

13. The final budget and capital improvement plan are adopted (Board of Supervisors).

G. POLICIES FOR SPECIAL ITEMS

1. Internal Service Fund - Internal service funds (ISF) account for the financing of goods and services provided by one department or agency to other departments or agencies of the County on a cost reimbursement basis. Any ISF created will be self-supporting and designed to provide services more conveniently or at a lower cost. Fees should be calculated using a measure of the full cost of the goods or services.
H. FUND BALANCE
Fund balance represents working capital that can either be used as a liquidity reserve or for spending in future years. The following policies will guide decisions regarding fund balances:

1. Fund balances anticipated at the end of a fiscal year will be budgeted as the beginning fund balance for that fund for the upcoming fiscal year.
2. The committed but unencumbered balance of multi-year, revolving projects and/or contracts anticipated not to be completed by August 30 must be budgeted again in the subsequent fiscal year for the project or contract to continue to be funded.
3. Cash balances remaining in any fund at year-end and not appropriated in the adopted budget will stay in that fund for subsequent years.
4. When contributions to reserves and contingencies have been met in accordance with policy and an additional fund balance carryforward exists, funds may be used for non-recurring, specific purpose, discretionary uses upon approval of the Board during adopted budget hearings. Funds may be set aside for multiple years if needed to fund the proposed purpose.

I. CONTINGENCY APPROPRIATIONS AND RESERVES
Contingency appropriations provide the first line of defense against uncertainty and are budgeted to cover minor unanticipated needs of a non-recurring nature that may arise throughout the year or to provide for small increases in service delivery costs that were not anticipated during budget development. Budgeted contingency level is set at a minimum of 1% of estimated revenue for that fund. Funds for which contingencies should be considered are general fund, public safety funds, public works funds including roads and special districts, and health and human services funds in which the County is subject to the most revenue and expenditure vulnerability.

Reserves allow the County to respond to unexpected issues and guard against major interruptions to revenue or operations. All reserves should be established and maintained according to the applicable county policies.

J. FINANCIAL PLANNING
The county administrative officer and auditor will develop and annually update a Long-Term Financial Plan (LTFP) including a long-range (minimum of five years) financial forecast. This forecast will provide a long-term overview of revenue, operating expense, and capital activity. The LTFP will provide the fiscal link to the County’s Strategic Plan and will:

1. Ensure priorities aimed at achieving Board goals are funded
2. Ensure the County maintains financial sustainability
3. Ensure the County has sufficient long term information to guide financial decisions
4. Ensure the County has sufficient resources to provide core programs and services
5. Ensure potential risks to on-going operations are identified, planned for, and communicated on a
K. **BUDGET CONTROL AND ACCOUNTABILITY**

In order to maintain the financial stability of the County it is necessary for Officials and Department Heads to review and control expenditures such that the rate of expenditure does not exceed the approved budget. Staff recommendations on the Board agenda should include disclosure of both the short-term and long-term fiscal impact of the recommended action when appropriate. All amendments to the adopted budget will be made in a manner consistent with the requirements of California Government Code.

Departments are expected to monitor all budget units for their department. The County Administrative Officer will submit an overview report of the budget to actual, both revenue and expense, on a quarterly basis. Any significant changes will be described in detail with any necessary recommended corrective actions. Should the Auditor realize a financial problem exists or trends warrant closer analysis, he/she is required to inform the Board and County Administrative Officer as soon as the situation is detected. If a deficit seems forthcoming, the Board will reduce appropriations or increase revenues.

The County Administrative Officer and Auditor are responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the County are protected from loss, theft, or misuse and to ensure that adequate accounting data are compiled to allow for the preparation of financial statements in conformity with generally accepted accounting principles. The internal control structure is designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that: (1) the cost of control should not exceed the benefits likely to be derived; and (2) the valuation of costs and benefits requires estimates and judgments by the County Administrator.