

MONO COUNTY

BUDGET POLICY

(adopted May 2011, revised April 2021)

INTRODUCTION

The most crucial policy setting action the Mono County Board of Supervisors performs every year is the adoption of a balanced budget. The budget development process takes months and requires collaboration from all its operating departments as well as the Board of Supervisors to propose an integrated spending plan that delivers public services for twelve months. The process includes an estimate of taxpayer resources available for appropriation. These revenues set the limit for required and discretionary spending that support public service delivery efforts. The budget communicates to our citizens their government's priorities for meeting community needs. Yet, budgetary decision-making must support only those efforts that are sustainable and fiscally responsible. The budget focuses all County efforts and ultimately drives employee behavior and decision making.

A budget policy is a shared understanding establishing goals aimed at allocating public resources that efficiently and effectively provide services to citizens and visitors within the County. While not all our shared goals are achievable every fiscal year, the existence of such goals serve to guide the Board of Supervisors in its decision-making. One of Mono County's Strategic Goals is to be fiscally resilient. This demonstrates the importance of financial sustainability beyond adopting a balanced budget as required by law in the County Budget Act. Instead, Mono County aims to adopt a structurally balanced budget where recurring revenues are equal to recurring spending. Once achieved, annual budget surpluses will fund reserves and one-time expenditures. Mono County's objective is to achieve and maintain explicit reserve balances equal to 25% of average General Fund spending.

The County of Mono developed its budget policy out of the experiences of the last three decades. We recognize that maintaining a conservative budget approach and prudently addressing unfunded liabilities while also ensuring the fiscal sustainability of the County's workforce and rebuilding adequate reserves are vital to sound fiscal management and achieving the Mono County Mission: to support all our communities by providing superior services while protecting our unique rural environment.

I. BALANCED BUDGET

- A. The County is required by state law to adopt a budget that is balanced. This means that total appropriations (or annual spending) cannot be more than estimated resources, which includes beginning fund balance plus anticipated revenues). This is the minimum criteria for budget adoption.
- B. The County's goal is to adopt a structurally balanced budget which means that ongoing revenues are at least equal to ongoing spending. This ensures continuation of current services despite cyclical downturns in revenue streams. The elimination of reliance on

MONO COUNTY

BUDGET POLICY

(adopted May 2011, revised April 2021)

fund balance to legally balance the budget is a key step towards achieving fiscal resilience.

II. RESERVE BALANCES

Establishing and maintaining adequate reserve balances ensures the County retains the fiscal ability to maintain essential public services when events such as cyclical economic downturns cause temporary revenue losses. Given Mono County's tourism-based economy, the recommended minimum level of reserve balances is 25% of average annual general fund spending. Additional specific reserve accounts should be established as the need for future resources arises to pay for long-term capital, facility, and infrastructure projects.

- A. Establish and maintain a general reserve balance of at least 10% of the average annual general fund expenditures. The purpose of the general reserve balance is to provide spending resources in case of emergencies, as enumerated in Government Code Section 29127 of the County Budget Act. The general reserve is to be carried forward in the budget from year to year. Except in cases of legally declared emergencies, the general reserve is established, cancelled, increased or decreased only at the time the budget is adopted.
- B. Establish and maintain an economic stabilization balance of at least 15% of the average annual general fund expenditures. The purpose of the economic stabilization balance is to provide resources to support the workforce and the delivery of essential public services during an economic downturn having a negative effect on the County's revenues.
- C. When the fiscal year budget permits, the Board will consider placing prior year unspent expenditure contingencies and any portion of the prior year fund balance in the economic stabilization reserve.
- D. As resources become available, the Board of Supervisors will establish additional reserve accounts for the purpose of accumulating funds for specific long-term purposes such as retirement of long-term debt, paying down unfunded liabilities, paying for facility improvements, and funding infrastructure replacement or expansion projects.

III. EXPENDITURE CONTINGENCY ACCOUNT

Each budget shall establish an appropriation for expenditure contingencies at a minimum level of 1% of the budgeted general fund expenditures (but not to exceed 10% of total appropriations) in each fiscal year for unanticipated expenditures. All expenditures from the contingency account are at the discretion of the CAO and Board of Supervisors. As required by State law, any transfer of contingency to another budget unit within the General Fund requires a 4/5ths vote of the Board of Supervisors. For more detail on the

MONO COUNTY

BUDGET POLICY

(adopted May 2011, revised April 2021)

expenditure contingency appropriation, please see the General Fund Contingency Appropriation Policy.

IV. GENERAL FUND CONTINGENCY APPROPRIATION POLICY

It is observed that the absence of a specific General Fund (GF) Contingency Appropriation policy contributes to over-estimating of budgeted expenditure amounts and leads to a widening gap between fiscal year budgeted appropriations and actual expenditures where budgeted appropriations at the account level exceed actual expenditures by more than five percent. It is also believed this situation artificially increases the GF structural budget deficit and impacts the Board of Supervisors (BOS) financing decisions. While the County's past budget policy requires adoption of a GF Contingency Appropriation account at a minimum level of 1% of the budgeted GF expenditures, it provides no guidance about the use of this contingency balance during the fiscal year.

This General Fund Contingency Appropriation policy is designed to provide GF departments with the framework to tighten budgetary cost controls at the account level for the purpose of achieving a structurally balanced budget. The objective is to establish and maintain a GF contingency appropriation in each year's budget to accommodate unexpected increases in expenditures, which could not have reasonably been anticipated at the time the budget was developed. It is to provide a margin of safety and a source of temporary funding to GF departments to encourage an attitude of cost control within each account. It is further intended to promote collaborative teamwork in managing the finances of the County's GF.

This section of the policy has five elements as noted below:

1. Scope
2. Compliance with applicable Government Code (GC) sections
3. Establishing the contingency appropriation
4. Use of the contingency appropriation

1. Scope

This policy applies only to the County's General Fund.

The contingency appropriation is not a contingency reserve. A contingency reserve is a budgetary provision setting aside a portion of the GF fund balance (carryover) for an identified purpose. It is not a financing source in the County's annual budget. This policy directs the creation of a contingency appropriation in the County's annual budget and equals the amount which is set aside each year to be appropriated for that year's unforeseen expenditure requirements.

MONO COUNTY

BUDGET POLICY

(adopted May 2011, revised April 2021)

2. Compliance with Applicable Government Code Sections

The County shall adhere to the County Budget Act (Act) which is referenced in GC 29000 through GC 29144, and is also included in Appendix B of the County Budget Guide (2010 Edition, Revision #1) issued by the California State Controller's Office. This policy is to be consistent with all provisions of the Act affecting appropriations for contingencies which are restated in this section. This section is provided as a summary only and not meant to be a full recitation of the County Budget Act or laws governing county budgets.

GC 29006: The adopted budget shall include, at a minimum, estimated or actual amounts by fund for ... (d) appropriations for contingencies.

GC 29084: The budget may contain an appropriation(s) for contingencies in such amounts as the BOS deems sufficient.

GC 29125: Transfers and revisions to appropriation for contingencies is made by formal action of the BOS, by a four-fifths vote.

GC 29126: For any appropriation in whole or in part that is not needed, the Board of Supervisors may cancel the unneeded appropriation and transfer the amount to appropriation for contingencies.

3. Establishing the Contingency Appropriation

Subject to BOS approval, the County will establish a GF contingency appropriation with each budget cycle using the guidelines provided in this section.

The amount of the GF contingency appropriation is targeted at a minimum of 1% but no more than 10% of budgeted GF expenditures (not including this GF contingency appropriation).

The GF contingency appropriation will be established and/or adjusted with each budget cycle, will be included as a separate department of the GF budget, and the balance left in the contingency appropriation at the end of each fiscal year will terminate and lapse as a contribution to GF carryover fund balance.

The GF contingency appropriation cannot be more than the following for each budget year:

Total GF funding sources
Less all other GF appropriations
Plus amounts available from GF unassigned fund balance.

MONO COUNTY

BUDGET POLICY

(adopted May 2011, revised April 2021)

In times of declining revenues and/or budget deficits, the BOS may temporarily eliminate or reduce the GF contingency appropriation until the fiscal crisis is resolved.

The amount of the contingency appropriation may be adjusted by 4/5ths vote of the BOS at any time during the fiscal year after the adoption of the County's final budget.

4. Use of the Contingency Appropriation

Only GF departments may request use of the contingency appropriation.

The department initiates a request for use of the contingency appropriation in either of two ways:

- By submitting an individual agenda item through the County's agenda software program which must be reviewed by the CAO, County Counsel, and the Finance Department prior to being placed on the Board's agenda. The agenda transmittal must include a statement by the department justifying the use of the contingency appropriation consistent with this policy.
- By requesting the use of the contingency appropriation, as instructed, during the mid-year (or other intra-period) budget review process. The Department must document their justification for the use of the contingency appropriation consistent with this policy.

Transfer from the contingency appropriation must be approved by the BOS with a 4/5ths vote prior to recording the requested transfer.

Use of the contingency appropriation is allowed for the following reasons and circumstances:

- Unforeseen expenditures that could not have been anticipated at the time the annual budget was adopted.
- When the department is impacted by legislative changes not known at the time of budget development and which has a negative impact on the department's expenditures (ie..increases expenditures).
- Increases in expenditures necessary to maintain current service levels.
- Economic events that increase vendor costs such as utility rate increases or an increase in a vendor's rates.
- Unanticipated operational changes.

MONO COUNTY

BUDGET POLICY

(adopted May 2011, revised April 2021)

Use of contingency should not be used to fund new expenditures of an on-going nature.

Prior to requesting use of the contingency appropriation, the department must have:

- No unanticipated revenue that has not been appropriated.
- No other appropriations within its own budget which can be reallocated to cover the budget shortfall.
- No other appropriation available in another fund that it controls that can be legally applied to cover the budget shortfall.

V. FUND BALANCES

Government Accounting Standards Board (GASB) Statement Number 54 requires the County to segregate fund balances into five basic categories. These categories are:

1. *Nonspendable fund balance* (such as inventories or prepaid expenditures) is used for amounts that are not in spendable form to segregate them in fund balance so that it cannot be appropriated.
2. *Restricted fund balance* (such as creditors, grant providers or contributors) is used for amounts restricted to specific purposes by external parties.
3. *Committed fund balance* (to cover commitments the Board of Supervisors has made) is used for amounts determined by formal action (i.e., resolution) of the Board of Supervisors to be used for a specific purpose.
4. *Assigned fund balance* (such as covering deficit fund balances) is used for amounts intended to for a specific purpose and can be established by the Board or the CAO.
5. *Unassigned fund balance* (everything not included in the other types of fund balance).

Restricted, committed, assigned, and unassigned fund balance amounts together constitute spendable fund balance and these amounts are available for appropriation and use in balancing next year's budget.

The Finance Director is responsible for segregating each fund balance by category and amount and informing the CAO and the Board of Supervisors of the amount of spendable fund balance available for use in balancing the budget for the upcoming year.

VI. STRATEGIC PLANNING

The County uses a strategic planning process for setting priorities and making budgetary decisions. This allows development, initiation, and funding of new or revised programs over a five-year period, in sync with a comprehensive planning process that establishes

MONO COUNTY

BUDGET POLICY

(adopted May 2011, revised April 2021)

the Board's priorities for satisfying long-term community needs. All new or revised services are evaluated within the framework of the five-year strategic plan. The strategic plan is updated every year to span a five-year period.

VII. FISCAL MANAGEMENT

Mono County uses fiscal management principles to ensure resiliency by:

1. Maintaining a conservative budgeting approach. This means to limit budget deficits whenever possible. Concerning revenues, it requires forecasting that is not overly optimistically but instead relies on accepted analytical methodologies such as historical trends and economic indicators as the basis for estimating revenues. Concerning expenditures, it requires limiting spending amounts based on work plans to continue delivery of existing public services.
2. Annually consider reduction of long-term debt and unfunded liabilities.
3. Establish an equitable basis for allocating internal costs to all service users.
4. Review fees periodically. Fees should be calculated to include all actual costs of providing the service, including overhead. Only the Board of Supervisors can decide to set a fee at less than its cost to provide the service. Adjust and establish new fees as needed.
5. Incorporate long-term financial planning into the budget cycle to guide financial decision-making.

VIII. INFRASTRUCTURE AND FACILITIES

Consider contributions from the general fund, grants and state/federal allocations, annually or whenever available, for the improvement of county infrastructure and facilities. Incorporate plans to improve infrastructure and facilities into long-term plans and prioritize setting aside funds to pay for these projects (but also see the County Debt Policy about borrowing to pay for large projects). Work with regional partners to reduce County costs for maintaining and improving the County infrastructure and facilities which is shared with other jurisdictions.

Plan for new facilities only if operating and maintenance costs for those facilities are fully recognized and accounted for in multi-year financial plans. Provide adequate routine maintenance each year to avoid the higher cost of deferred maintenance.

MONO COUNTY

BUDGET POLICY

(adopted May 2011, revised April 2021)

VIII. NEW SERVICES

Add new services only after identifying a need (see section on strategic planning) and only when adequate resources for staffing and on-going operational funding are available in multi-year financial plans.

IX. GUIDELINES FOR OPERATIONAL EFFICIENCIES

1. Provide County services in the most cost effective and operationally efficient manner.
2. When program funding is cut or eliminated, reduce, or eliminate the program accordingly, unless otherwise mandated.
3. Provide staffing levels that consider multi-year needs, reasonable workload per employee, and minimize the possibility of layoffs or furloughs resulting from inadequate revenues.
4. For special projects or certain expertise in the short-term, utilize temporary employees (not to exceed 1,000 hours) and consultants.
5. Utilize community expertise on a voluntary basis, as appropriate.
6. Ensure that fee-supported services are staffed appropriately to render the services for which customers have paid. Minimize the use of subsidies to support continuation of such services.
7. Work through partnerships, JPA's, and regional relationships to share costs for local programs whenever possible.

X. EMPLOYEE DEVELOPMENT

Attract and retain competent employees for the County work force by compensating employees fairly (consistent with smaller rural counties), provide adequate training opportunities, ensure safe working conditions, and maintain a professional work environment. For additional policy direction, see the Compensation Philosophy Statement adopted by the Board of Supervisors.

XI. ECONOMIC DEVELOPMENT

Achieve organized, sustainable community development for the communities and citizens of Mono County through the budget process by providing an expanded and diversified economic base while preserving our scenic beauty, open space, small town charm and historical assets.

MONO COUNTY

BUDGET POLICY

(adopted May 2011, revised April 2021)

XII. BUDGET DEVELOPMENT

- A. The County will utilize a targeted “base-year” operating budget where the budget team estimates resources available, costs out workforce and non-discretionary spending, and communicates with operating departments about their share of the remaining General Fund spendable resources. A base year budget incorporates the following elements:
1. The same staffing levels and the same allocated classifications as prior year's adopted budget.
 2. The same level of supplies, materials, and services as purchased in prior years, increased to account for known price increases.
 3. Replacement, in-kind, of capital equipment not to exceed \$10,000
- B. The County will utilize a process to approve additions over and above the targeted “base-year” budget by considering a list of policy items. Policy items are defined as follows:
1. Additional allocation of staff.
 2. Reclassification of existing staff to higher classifications or salary range (other than promotions within approved series classifications).
 3. Supplies, materials or services, \$1,000 above base year budget, excluding known price increases.
 4. Any new capital equipment more than \$5,000 that are not replacement items.
 5. Any capital improvement projects identified in the capital improvement plan.
- C. The Board, CAO and Department Heads will consider both resources and priorities in determining which policy items to fund. Priorities are determined by the strategic planning process.
- D. The role of department heads is to develop a fiscally responsible department budget consistent with past spending patterns and within the resources anticipated available for spending, in a timely fashion and to submit the operating budget and policy items to the CAO and Finance Director.

MONO COUNTY

BUDGET POLICY

(adopted May 2011, revised April 2021)

- E. The role of the Finance Director is to work with departments and consider departmental budgets for submission into the County's proposed budget. The Finance Director will involve the CAO on both the expenditure and the revenue estimates for submission to the Board for approval.
- F. The role of the CAO is as the County's chief budget officer who recommends the budget to the Board of Supervisors.
- G. The Board will consider the budget and provide direction to staff.
- H. The general budget development timeline includes:
 - 1. Establish budget calendar – January
 - 2. Develop base budget, estimate discretionary revenues, and cost internal services and workforce amounts – February
 - 3. Strategic planning and development of the capital improvement plan – February
 - 4. Departments submit their proposed budgets and meet one-on-one with the budget development team – April
 - 5. Budget workshop and development of the recommended budget – May
 - 6. Public hearing and budget adoption – by June 30