COUNTY OF MONTEREY

GENERAL FINANCIAL POLICIES

Fiscal Year 2026-2027

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1. PURPOSE AND BACKGROUND

The stewardship of public funds is one of the most significant responsibilities given to the officials and managers of the County of Monterey (County). The development and maintenance of prudent financial policies enable County officials to protect public interests, ensure transparency, and build trust. Financial policies define a shared understanding of how the County develops its financial practices and manages its resources to provide the best value to the community.

This document centralizes the County's financial policies to establish a framework for overall fiscal planning, management, and guidance. These policies are reviewed, updated, and brought before the Board of Supervisors (Board) as needed but at least annually for adoption. This continued review and adoption promotes sound financial management and helps maintain the County's stability, efficiency, and effectiveness by ensuring the Board's financial guidance is provided before all County actions. The policies also offer guidelines for evaluating both current activities and proposals for future programs and direct the County's financial resources toward meeting its objectives and strategic initiatives.

The policies provide general guidance in the management of the County's fiscal affairs and are to be used by all County departments to meet their obligation to operate in a financially prudent manner. The Recommended Budget adheres to these policies.

2. GENERAL FINANCIAL PHILOSOPHY

The financial policies provide a sufficient financial base and the resources necessary to support and sustain an adequate and responsible community service level to ensure public safety, enhance the physical infrastructure and environment, and improve and maintain the quality of life within our community.

The cornerstone and highest priority of the County's financial policies is fiscal integrity. It shall be the goal of the County to achieve a strong financial condition with the ability to:

a. Sustain adequate financial liquidity to meet normal operating and contingent obligations;
b. Provide an acceptable level of medical, social, law enforcement, and other protective services to assure public health and safety;
c. Ensure a sufficient financial base is maintained to withstand local and regional economic impacts;
d. Prudently plan, coordinate, review, and implement responsible community development and growth;
e. Foster the ability to adjust efficiently to the community's changing service requirements;
f. Maintain and improve infrastructure and capital assets;
g. Regularly review programs and operational methods to improve processes that result in higher productivity, eliminate repetitive and duplicative functions;
h. Encourage collaboration with other government entities, the private sector, and public-private partnerships where cost and risk are minimized in the delivery of services within the community;
i. Promote equitable sharing of costs by service users;
j. Ensure the legal use of financial resources through effective systems of internal controls;

k. Support sound financial management by providing accurate and timely information on the County's financial condition; and
l. Provide a framework for the wise and prudent use of debt financing and maintain a good credit rating in the financial community.

2.1 The Annual Budget

a. The County Administrative Office will recommend a balanced budget aligning annual expenditures with conservative revenue estimates to minimize the use of fund balance or other one-time financing sources for ongoing operating expenditures;
b. The County Administrative Office will consult with Department Heads and seek their input in developing the Recommended Budget through cooperative discussions and budget workshops;
c. The County Administrative Office will keep the Board apprised on the condition of the County's finances and emerging fiscal issues; and
d. Through the Board's Legislative Committee, the County will work with the California State Association of Counties (CSAC), state representatives, legislative advocates in the State Capitol, and other local government organizations to assure any state programs administered by the County are adequately funded and any realignment of state and county responsibilities are fiscally neutral.

3. ROLES AND FUNCTIONS

3.1 Role of County Administrative Office

The County Administrative Office, led by the County Administrative Officer, serves as the chief policy advisor to the Board of Supervisors (Board). The County Administrative Office promotes responsible resource allocation, strives to protect the County’s financial position and integrity, and provides independent analysis on policy issues. The County Administrative Officer is the fund manager for the General Fund and all other funds, and on behalf of the Board, the County Administrative Officer makes independent recommendations regarding all additional funds under their jurisdiction.

3.2 Principal Functions of the County Administrative Office

Principal functions of the County Administrative Office include:

a. Promoting continuous improvement of the structures, systems, processes, and effectiveness of programs;
b. Preparing the annual financial plan (Recommended Budget);
c. Working with departments to evaluate potential federal, state, and local budget impacts;
d. Developing financial forecasts;
e. Monitoring revenues and expenditures for conformance with the annual budget;
f. Recommending effective fiscal policies to carry out programs;
g. Verifying Board policies are consistently applied; and
h. Ensuring items brought before the Board are accurate, complete, fully justified, and reviewed by appropriate stakeholders.

3.3 Principal Functions of County Departments

Departments are considered the content experts for the functions they perform. They are responsible for:

a. Carrying out operations efficiently and cost-effectively while adhering to all county, state, and federal laws, regulations, and policies;
b. Preparing budgets and financial estimates with attention to accuracy based on their operational expertise, county, state, and federal funding changes, and economic indicators affecting revenues, expenditures, and service levels;
c. Reviewing, evaluating, and assessing potential federal and state budget issues that may impact local budgets;
d. Developing and performing financial forecasts;
e. Monitoring monthly revenue and expenditure performance and conformance with the annual budget;
f. Meeting the Board's strategic initiatives and its policies; and
g. Ensuring items brought before the Board are transparent, accurate, complete, fully justified, and reviewed by all appropriate stakeholders.

3.4 Principal Functions of the Budget Committee

The Budget Committee’s principal functions include receiving staff updates on financial issues affecting the County and providing recommendations to staff in developing and modifying the budget.

3.5 Principal Functions of the Capital Improvement Committee

The Capital Improvement Committee's principal functions are to review the status of projects and establish a priority between competing needs.

4. SERVICES AND FUND STRUCTURE

4.1 General Fund

The County provides a broad range of mandated and non-mandated government services. The cost of these services is accounted for in the General Fund, the County’s largest single fund. The General Fund is used to account for revenues and expenditures unless another fund has been created to account for a specific item, activity, or program.

4.2 Other Funds

Other governmental and proprietary funds that account for activities not provided by the General Fund are described below.

Other Governmental Funds

a. Special revenue funds are used to account for proceeds and expenditures from specific revenue sources to finance designated activities required by statute, regulation, ordinance, resolution, or board order.
b. Debt service funds are used to provide repayment of debt, such as Certificates of Participation (COPs), short-term borrowing, and other obligations.
c. Capital project funds are used for capital improvements and specified capital projects.

Proprietary Funds

a. Enterprise funds are financed and operated like private business enterprises whose services are primarily funded through user charges.
b. Internal service funds are used to account for any activity that provides goods or services to other funds, departments, or agencies of the County.

4.3 Major Funds

The County Administrative Officer or designee shall have the authority to determine funds that will be considered major funds for financial planning purposes. In addition to significant appropriations, factors that may be considered when designating major funds include political/social sensitivity of the activities financed from that fund, impact or potential impact of that fund on other programs or services, the significance of that fund on financing activities which are of high interest to the County and the public, and the existence of known uses or users of that information (e.g., bond rating companies, investors).

Major funds are as follows, but not limited to: 1) General Fund; 2) Natividad; 3) Facility Master Plan Projects; 4) Road Fund; 5) Library Fund; 6) Behavioral Health Fund; 7) Health and Welfare Realignment Fund; 8) Local Revenue Fund; and 9) Laguna Seca Recreation Area Fund.

5. OPERATING BUDGET

5.1 The County Budget

The Recommended Budget is the central financial planning document that embodies all County departments' goals, objectives, priorities, levels of service, and the associated operating revenue and expenditures. Appropriation authority is granted on the relationship between expected expenditures and revenue; therefore, appropriation authority is granted contingent on this relationship meeting the Recommended Budget. If revenues fall below expected amounts, the department must take all actions available to reestablish a revenue and expenditure relationship that conforms to the Recommended Budget.

The Recommended Budget shall be presented to the Board for adoption in June of each year and presented clearly for a general audience of the public. The Recommended Budget may be modified as approved by the Board during the fiscal year.

5.2 Balanced Budget

The County must adopt a *statutorily* balanced budget. A budget is *statutorily* balanced when the total estimated financing sources (beginning fund balance plus revenues) equal the total appropriations. At no time shall spending in a fiscal year exceed total current revenues plus any fund balance carryover from the prior year.

In addition to adopting a statutorily balanced budget, the County ensures the ongoing sustainability of its services by producing a *structurally* balanced budget. A *structurally* balanced budget matches total ongoing expenditures to the annual estimated revenues. In a *structurally* balanced budget, beginning fund balance may not be used as a financing source for ongoing expenditures. Departments have a fiscal objective to avoid using fund balance for operating purposes by aligning annual operating expenditures with annual operating revenues.

5.3 Ongoing Maintenance and Operations Needs

The County will adequately fund ongoing maintenance and operational needs with ongoing annual revenue. Without prior direction and approval by the Board and its Budget Committee, the use of one-time revenues or short-term borrowing is not allowed as a resource to finance ongoing maintenance and operational needs.

5.4 Adequate Maintenance of Capital Facilities and Equipment

The County shall establish as a primary fiscal responsibility the preservation, maintenance, future improvement and, when applicable, orderly replacement of the County's capital facilities and equipment.

5.5 CalPERS

The annual budget will provide adequate funding for all retirement systems. The County contracts with the California Public Employees' Retirement System (CalPERS) to provide retirement benefits under their defined benefit program. As a participant, the County is required to annually fund at a minimum the cost for retiree health benefits, otherwise known as Other Post-Employment Benefits (OPEB). To provide long-term funding for this benefit, the Board authorized joining CalPERS' California Employers' Retiree Benefit Trust (CERBT) and the pre-funding of the County's OPEB liabilities.

Due to its length, the Pension Liability Policy is separate from these policies and available online: https://www.countyofmonterey.gov/government/departments-a-h/administrative-office/budget-analysis/county-policies

5.6 Budget Deficits

Departments estimating a budget deficit shall prepare and submit a report to the Budget Committee that outlines the cause of the problem, the alternatives available to mitigate the projected budget deficit, and the department's recommended action. All additions to appropriations, transfers

between funds, major plans to reduce service levels, or plans to request funding from the contingencies' appropriation require approval by at least four Board members (4/5ths vote).

5.7 Appropriations and Transfers

This policy establishes appropriation control at the major expense category level within each budget unit, consistent with Section 29120 of the California Government Code. The County Administrative Officer (CAO), per Section 29092, is the designated administrator responsible for managing appropriation control, including transfers and revisions that do not increase the total appropriations of the budget unit.

Accordingly, once the budget is adopted, departments are not allowed to transfer between major expense categories within the same budget unit. The CAO has instituted system-based budgetary controls that limit total appropriations at the budget unit level and major expense category level. Major expense categories include, for example, Salaries and Employee Benefits, Services and Supplies, and Other Financing Uses.

Transfers of appropriations or movement of general fund contribution between budget units must be approved by Board resolution. Additionally, per Section 29125(a) of the California Government Code, operating transfers between funds are not considered transfers of appropriations because, under Section 29089 of the County Budget Act, fund-level transfers are specified in the budget and adopted by resolution.

5.8 Responsibility for Budget Management and Budgetary Control

The County shall maintain a budgetary control system to help it adhere to the budget. The County Administrative Office has budgetary control and authority over appropriations. The Auditor-Controller shall administer and maintain the system utilized for budgetary control. As the administrator of the budgetary control system, the Auditor-Controller shall notify the County Administrative Office when a department is reaching an appropriation limit. The Auditor-Controller shall seek guidance from the County Administrative Office on all issues relating to appropriation limits and controls.

County Officers and Department Heads have primary responsibility for managing departmental budgets by:

a. Providing accurate and timely budget estimates;
b. Monitoring revenues to ensure timely receipt in the amounts anticipated;
c. Ensuring that expenditures comply with the law, adopted resolutions, policies, and align appropriations relative to revenues;
d. Providing prompt notification to the County Administrative Office when either revenues or expenditures are not as anticipated; and
e. Preparing and justifying budget revisions when necessary.

5.9 Preparation of Financial Reports

The County Administrative Office annually prepares:

a. A Budget End-of-Year Report (BEYR) to retrospectively report on actual financial performance at a detail and summary level;
b. A current year estimate and three-year forecast to provide current year performance and forward-looking perspective to advise the Board on future challenges and provide a base for building the following year's Recommended Budget; and
c. Additional reports, as appropriate, to keep the Board informed on current financial performance and developments.

The Auditor-Controller's Office annually prepares:

a. An Annual Comprehensive Financial Report (ACFR) as required by the state, that reports on the County's financial position and activities beyond Generally Accepted Accounting Principles (GAAP) or state law requirements, to provide readers with a broader understanding of financial operations;
b. A Single Audit that reports federally funded County activities, in compliance with the U.S. Office of Management and Budget to assure the County's adherence to laws, regulations, contracts, and grants applicable to its major federal programs;
c. A Cost Allocation Plan schedule, as required by the U.S. Office of Management and Budget, that confirms and allocates the indirect costs of the County to operating and non-general county departments; and
d. The countywide annual Tax Rate Book.

The County Administrative Office has oversight and contract management over the external auditors reviewing the ACFR. External auditors shall report to the County Administrative Office on audit findings. The County Administrative Office will take audit findings thereafter to the Board.

5.10 Publication of Budget

The County Administrative Office shall publish annually a Recommended Budget document that satisfies nationally recognized standards for effective budget presentation. The Auditor-Controller shall annually publish an adopted budget document to meet State Controller's Office requirements.

5.11 County Budget Development

Budget development is an annual process incorporating the Board's priorities and weighing competing requests for County resources within expected fiscal constraints. The process begins with departments preparing "baseline" budgets proposing levels of service and staffing that can be carried out within expected resources (e.g., program revenues and general fund contributions). To the extent there are increased costs or reduced revenue, baseline budgets may indicate potential reductions in staffing or services to maintain budgetary balance if additional resources are not provided. Departments may submit "augmentation requests" for additional resources to mitigate potential impacts, increase staffing/services, or invest in infrastructure. The County Administrative Office evaluates baseline budgets and augmentation requests within the constraints of a balanced

budget and builds the annual Recommended Budget. Staff considers the following criteria in formulating recommendations for the annual budget and subsequent mid-year budget modifications:

a. Mandated by current law or Board policy;
b. Alignment with the County's strategic initiatives and priorities;
c. Consistent with community priorities expressed in forums, surveys, and other community engagement initiatives;
d. Necessary to maintain the current level of mission-critical services/operations;
e. Substantiation of compelling public need (e.g., health, safety, economic vitality, quality of life) that cannot be met within existing resources;
f. Likelihood of success based on prior performance, degree of planning/specificity, requested resources, and assumed timeline;
g. Leverages sustainable financial support from non-County sources;
h. Appropriate placement of responsibility (federal, state, or local);
i. Degree of urgency; and
j. Critical infrastructure investment to ensure productivity and continuity of operations.

Criteria in the listing are not exhaustive or in any particular order, nor are they mutually exclusive; funding recommendations may align with more than one criteria.

5.12 Establish Countywide Priorities

The Board has a continuous process of establishing countywide priorities for ensuing years. The Board implements these priorities in the Recommended Budget within the framework of the law. Understanding that elected officials and Department Heads are charged with the actual provision of services to the community, the Board shall set broad priorities to ensure flexibility for departments to concentrate on these priorities.

5.13 Authorization of Elected Officials

In determining service levels, the Board and County Administrative Office recognize that countywide elected officials have constitutional and/or statutorily created mandates and are accountable to the electorate. Although the Board adopts a budget for each department, elected officials will determine the services they will provide within the adopted budgetary constraints. These policies recognize that elected officials have independent constitutional and/or statutory powers to direct service levels and priorities within their departments. These powers are independent of the Board in part because these officials (like the Board) serve at the pleasure of the electorate. However, the Board is responsible for allocating appropriations to all departments.

5.14 Budget Adoption Level

Under the County Budget Act (California Government Code, Sections 29000 through 29144), the Board enacts the annual financial plan (the Adopted Budget) through the passage of a resolution. The resolution mandates the maximum authorized expenditures for the fiscal year and sets appropriation control at the appropriation unit level. An appropriation unit represents one or more budget units and defines the budgetary limits of those budget units. A budget unit represents a

program or group of programs providing a similar service. The assignment of an appropriation unit is guided by State Controller financial reporting requirements and/or County requirements. Pursuant to Section 29092 of the County Budget Act, the County Administrative Office is charged by the Board to monitor and make administrative decisions related to appropriation control.

5.15 Amendments to the Adopted Budget

Modifications to the Adopted Budget require approval by at least four Board members (4/5ths vote). Amendments to the Adopted Budget will be made in compliance with Board policies.

5.16 Budgetary Basis

The County uses the modified accrual basis of accounting following Generally Accepted Accounting Principles (GAAP). The budgetary basis is substantially the same as the modified accrual method of accounting that is used for financial reporting for all governmental funds except enterprise funds. The County currently has three enterprise funds which are budgeted based on a full accrual basis of accounting.

5.17 Capital Asset Definition

The County defines capital assets as assets with initial, individual costs of $5,000 or more and an estimated useful life greater than one year, except infrastructure, for which the threshold is set at $100,000. Capital assets include both tangible and intangible assets categorized by asset type for reporting purposes.

6. STRATEGIC PLANNING

6.1 Three-Year Forecast

The County uses a Three-Year Forecast strategic model to develop, initiate, and modify policies and budgets. The Three-Year Forecast demonstrates the County's ability to accomplish long-term goals by determining the potential budgetary impacts of current budget decisions. This approach allows the Board to be aware of the probable long-term outcomes of alternative decisions and to select the one that effectively serves the interests of the community within the financial resources of the County.

The Three-Year Forecast identifies fund balances, revenue patterns, expenditure trends, and cash requirements. It is neither a future budget, nor does it recommend services or programs. The Forecast is a guide to assist in making recommendations and building future budgets. The Forecast is designed to facilitate decision-making based on two fundamental questions: "What is the County’s financial future without change?" and "What path does the County wish to take for the future?"

The annual Three-Year Forecast is prepared in February by the County Administrative Office, with the subject matter expert assistance of departments. The timeframe allows departments to obtain prior year audited results and six months of actual financial data in the current fiscal year.

The Forecast serves as a current year estimate and three-year financial outlook for building next year's Recommended Budget.

7. REVENUE AND EXPENDITURE POLICIES

7.1 Revenue Diversification

A diversified and stable revenue system will be maintained to shelter community services from short and long-term fluctuations to the extent possible.

7.2 Revenue Estimates

Annual revenues are conservatively estimated as a basis for preparing the Recommended Budget. Estimates shall not be based on optimistically hoped-for events but analytical techniques that use historical data, economic trends and indicators, information available from the state and other governmental agencies, and other accepted standards. In general, revenue estimates shall not assume any growth rate that is not well documented. Real growth that occurs beyond budgeted revenue will be recognized through budgetary adjustments. Significant revenues will be estimated by the department that manages the program and then reviewed first by the County Administrative Office and subsequently by the Board's Budget Committee before the adoption of the Recommended Budget.

7.3 Current Revenues

Annual expenditures shall be balanced to ongoing annual revenues without the use of one-time financing. Deficit financing and borrowing will not be used to support ongoing County services and operations without explicit Board direction and approval. The Board shall be advised that interfund loans are required, or the use of non-appropriated funds is requested.

7.4 User Fees

The County charges user fees for various services when it is appropriate and permitted by law. Unless set by policy, regulation, or statute, user fees are established and maintained at the Board's discretion. Fees will generally be set at a level sufficient to cover both direct and indirect costs of the services provided. The service may be subsidized by the County as deemed necessary by the Board. Factors for subsidy consideration include whether a subsidy causes an inappropriate burden on taxpayers, the degree to which the service benefits a segment of the population, whether beneficiaries can pay the fee, and whether the service provides a broader benefit to the community.

All fees for services are reviewed as necessary and adjusted where appropriate. The full cost of providing a service is calculated to provide a basis for setting the charge or fee and incorporates direct and indirect costs, including operations and maintenance, overhead, charges for the use of capital facilities, as well as depreciation. Other factors for fee or charge adjustments may include the impact of inflation, other cost increases, the adequacy of the coverage of costs, current competitive rates, and contractual or statutory restrictions. Part of the decision-making process in establishing new services or increasing service levels should include an analysis of fees and user

charges and a desired cost-recovery threshold. Increases may be justified based on outside variables not considered during the baseline budget submissions (e.g., water levels, gas prices, economy).

7.5 One-Time Revenues

The use of one-time revenues for ongoing expenditures is discouraged. Unpredictable revenues are budgeted conservatively, and any amount collected over the budget is generally carried forward in the fund balance.

7.6 Revenues of a Limited or Indefinite Term

Revenues of a limited or indefinite term will generally be used for those limited or unlimited term functions associated with the revenue. If it cannot be done, the revenue is to be considered discretionary revenue. It may be used for one-time expenditures to ensure no ongoing service programs are lost when such revenues are reduced or discontinued.

7.7 Use of Discretionary General Fund Revenue

Departments shall maximize the use of non-General Fund discretionary revenue and minimize the need to use discretionary General Fund revenue to fund programs. The Board will prioritize the use of discretionary General Fund revenue through the annual budget process.

7.8 Maintaining Revenue and Expenditure Categories

The County will maintain revenue and expenditure categories per state statute and administrative regulation and operational needs.

a. Appropriation controls will be established for the major expenditure categories of "Salary and Employee Benefits", "Services and Supplies", "Other Charges", "Capital Assets", and "Other Finance Uses". Appropriations may not be used across appropriation categories without the express approval of the County Administrative Office. Appropriations will be controlled at the major expenditure category.

7.9 Outside Organization Contributions

Public Safety Sales Tax (Proposition 172)

Government Code Section 30052 requires Proposition 172 funds be placed into a special revenue fund and expended on such public safety services as sheriffs, fire, county district attorneys, and corrections.

The County has historically shared its Proposition 172 revenues with other agencies to help fund fire districts and offset costs to cities for emergency dispatch services. In the event of fiscal

constraints, the Board retains the authority to reduce allocations to other agencies upon findings that internal public safety programs would otherwise require program reductions. The County Administrative Office is charged with determining when a reduction to other agencies would be appropriate and obtaining authorization from the Board to begin those discussions.

Emergency Communications Users' Offset

The Emergency Communications Department receives five percent (5%) of Proposition 172 revenues. The current agreement with user agencies fixed their funding at five percent (5%) of the County's total Proposition 172 revenues for the most recently audited fiscal year (e.g., the FY 2024-25 allocation will be five percent (5%) of FY 2022-23 audited actuals). Overall, ten percent (10%) of Proposition 172 revenues are distributed for emergency communication operations.

Fire Agencies' Distribution

The County shares with the Association of Firefighters and Volunteer Fire Companies 9.13% of the County's Proposition 172 revenue of the most recently audited fiscal year. The various fire agencies allocate the Proposition 172 revenue amongst themselves via their own allocation formula.

Distributions to Sheriff, Probation, and District Attorney

After allocation to local fire agencies and Emergency Communications, 80.87% percent of Proposition 172 revenues are distributed to the Sheriff, Probation, and District Attorney departments as approved by the Board in the base year of FY 1995-96, with growth revenues distributed using the percentages listed below:

Department	% of Growth
Sheriff	61.2%
District Attorney	21.7%
Probation	17.1%

County Agency Distribution

The State Board of Equalization apportions Proposition 172 revenues to each county based on its proportionate share of statewide taxable sales. Due to the disbursement cycle of Proposition 172 revenues from the State Controller, each fiscal year's actual Proposition 172 revenues are not known until August of the following fiscal year.

Proposition 172 Distribution Formula

Agency	Prop. 172 Distribution
Local Fire Agencies	9.13%
Emergency Communications	10.0%
Other Public Safety County Departments	80.87%

Contributions from Transient Occupancy Tax (TOT)

Contributions to Economic Development Set Aside

The County has agreed to annual contributions to the Monterey County Convention and Visitors Bureau, the Arts Council for Monterey, the Monterey County Film Commission, and the Monterey County Business Council, respecting the value these organizations add to the community and their role related to the County Transient Occupancy Tax (TOT) revenues. This contribution is based on a shared percentage of total TOT revenues from the previously audited fiscal year. The Convention and Visitors Bureau receives a contribution equal to 5.03%, the Monterey County Business Council receives a contribution equal to 0.50%, the Monterey County Film Commission receives a contribution equal to 0.76%, and the Arts Council for Monterey receives a contribution equal to 1.58%, totaling a combined 7.87% contribution from the County's TOT revenues. In the event of fiscal constraints, the Board retains the authority to reduce its allocation to these outside agencies upon findings that internal countywide priority programs would otherwise require program reductions. The County Administrative Office is charged with determining when a reduction to outside agencies would be appropriate and obtaining authorization from the Board to begin those discussions.

Contributions to the Road Fund

The TOT contribution percentage for the Road Fund was established by the Board and is currently capped at twenty-five percent (25%) of total TOT revenue.

Annual Contributions

Organizations that are not part of the County, but receive contributions from the County, shall not have their appropriation carried forward from budget-cycle to budget-cycle unless authorized and directed by the Board. At the will of the Board, organizations receiving County contributions may be subject to annual review and presentation to the Board on the value and services provided to the community with County funds.

7.10 Appropriations for Contingencies

The County annually adopts an appropriation for contingencies to provide sufficient working capital and a margin of safety for unplanned operational needs. The contingency appropriation may be used at the discretion of and by the action of the Board. The contingency appropriation is utilized only after all other budget resources have been examined. The appropriation for operational contingencies shall be equal to one percent (1%) of estimated General Fund revenues unless expressly modified by the Board as part of the annual budget adoption.

7.11 Performance Measures

Departments shall develop key performance measures that address best practices, desired outcomes, Board strategic initiatives, and annual goals to ensure resource optimization and maximize results. Departments will pursue the most cost-effective means to achieve their performance measures. Performance measures provide the criteria that the Board and management uses to evaluate departmental requests for funding.

7.12 Procurement

Departments shall adhere to standard procurement guidelines that comply with state and federal policies and County procedures. Expenditures are a matter of public record; therefore purchases should be a prudent use of public funds. Procurement policies are published online: https://countyofmonterey.sharepoint.com/sites/Infonet/contracts-purchasing/documents-policies/procurement-policies

7.13 Payment for Goods from Prior Year

Goods and services ordered but not received before the end of the prior fiscal year will be paid from the current year's budgeted appropriations. The department's payment for goods and services to be received or used in the next year are not authorized for payment from current year funds unless the items are dues or maintenance agreements where recurring invoices for the next year are generally due before year-end.

8. FUND BALANCE AND RESERVE POLICIES

8.1 Use of Year-End Fund Balance

The fund balance is a measurement of available financial resources. It is the difference between total assets and total liabilities in each fund. The Board recognizes that the maintenance of fund balance is essential to preserving the County's financial integrity. The County's goal is to use fund balance as a source to finance one-time investments, reserves, and/or commitments. As a one-time financing source, any unbudgeted year-end fund balance will be used for non-recurring expenditures and only after the yearly audit and confirmation of the General Fund's fund balance.

Governmental Accounting Standards Board (GASB) Statement 54 distinguishes fund balance based on the relative strength of the constraints that control the purposes for which specified amounts can be spent. Beginning with the most restrictive constraints, fund balance amounts are reported in the following categories:

a. **Nonspendable fund balance –** amounts that are not in a spendable form (e.g., inventory) or are legally or contractually required to be maintained intact (e.g., permanent fund principal).

b. **Restricted fund balance –** amounts that can be spent only for the specific purposes stipulated by external parties, either constitutionally or through enabling legislation (e.g., grants or donations).

c. **Committed fund balance –** amounts that can only be used for the specific purposes determined by a formal action (resolution) of the Board. Commitments may be changed or lifted only by referring to the formal action that imposed the constraint originally (e.g., the Board's commitment in connection with future capital projects).

d. **Assigned fund balance –** amounts intended to be used for specific purposes. Intent can be expressed by the Board, or the County Administrative Officer, or designee.

e. **Unassigned fund balance –** includes all amounts not contained in other classifications and is the residual classification of the General Fund only. Unassigned amounts are available for any legal purpose.

8.2 Fund and Reserve Levels

Sufficient fund balance and reserve levels are a critical component of the County's overall financial management strategy. They are key factors in the ability to sustain service delivery and obtain external financing. Rating agencies analyze fund balance when considering the County's overall financial strength and creditworthiness. Adequate reserves enable flexible financial planning in developing future capital projects, dealing with unforeseen emergencies and changes in fiscal conditions. Each fund shall maintain a level of reserves, providing a positive fund balance throughout the fiscal year. In the event a fund anticipates going in a negative cash position, the fund manager shall immediately bring to the Budget Committee a report outlining the reason(s) along with a financial plan to ensure the fund regains a positive cash balance.

The County uses a strategic reserve policy to provide adequate fund balance throughout the year. All major County funds shall develop a reserve policy and fund a reserve in conformance with their industry's best practices. In the event such best practices are non-existent, the fund shall adopt the percentages as follows: an appropriation for operational contingencies equal to one percent (1%) of estimated annual revenue and a strategic reserve equal to ten percent (10%) of estimated annual revenue.

8.3 Committed Fund Balance – Strategic Reserve Fund

The County will commit a portion of the fund balance in the General Fund as a strategic reserve to provide the County with sufficient working capital and be used to fund settlement of legal judgments against the County in excess of reserves normally designated for litigation, for short-term revenue reductions due to economic downturns, for natural disasters as determined by the County Administrative Officer or Board, and for one-time-only state budget reductions that could not be addressed through the annual appropriations for contingencies in the General Fund. The County's goal is to maintain a strategic reserve equal to ten percent (10%) of the General Fund estimated revenues. The Natividad Medical Center (NMC) strategic reserve designation , is a sub-designation of the General Fund strategic reserve and does not count towards the County’s goal of maintaining a strategic reserve equal to 10%.

If the strategic reserve is utilized to provide temporary funding of unforeseen needs, the County shall take measures necessary to prevent its use in the following fiscal year by increasing General Fund revenues and/or decreasing expenditures to regain structural balance. The County shall also restore the strategic reserve to the minimum level of ten percent (10%) of General Fund estimated revenues within five fiscal years following the fiscal year in which the event occurred. The plan to restore the strategic reserve shall be included and highlighted in the County's Three-Year Forecast. Funds in excess of ten percent (10%) of the annual requirements may be retained in the strategic reserve or may be considered for other purposes, such as supplementing capital project funds or prepaying existing debt.

8.4 Assigned Fund Balance – Compensated Absences Assignment

The County will maintain a fund balance as a reserve assigned for Compensated Absences. Usage of the Compensated Absences Assignment is designed to cover the cost of retirement or resignation payouts of accrued employee liabilities (Vacation, Sick, and Comp Time) for departments who are not able to absorb these costs within their appropriated salary and benefits major expense category. The reserve balance shall be maintained at a minimum level of ten percent (10%) of the Compensated Absence Liability as delineated on the most recent Annual Comprehensive Financial Report for Governmental activities.

a. Compensated leave expenditures shall be paid from department budget units. If the department cannot cover the burden of compensated leave payouts due to retirements and/or separations, the department must submit a request to County Administrative Office (CAO) and include department budget reconciliation with end of year projections that provide proof the payment of compensated leave will cause the department to exceed the major expense appropriations of Salaries and Benefits. With approval of the CAO office, Subsequent board authority shall be requested to increase appropriations funded with release of the Compensated Absences Assignment.

8.5 Order of usage of Fund Balance

When multiple categories of fund balance are available for expenditure (e.g., a project is being funded partly by a grant, funds set aside by the Board, and unassigned fund balance), the County will start with the most restricted category and spend those funds first before moving down to the next fund balance category with available funds. General Fund usage shall be the funding of last resort.

9. INTERFUND LOANS

Interfund loans are the lending of cash from one County fund to another for a specific purpose and require repayment. Interfund loans are typically short-term in nature and constitute the allocation of cash between individual funds for working capital purposes.

Interfund loans may be made for the following reasons:

a. To offset timing differences in cash flow;
b. To offset timing differences between expenditures and reimbursements, typically associated with grant funding;
c. To provide funds for interim financing in conjunction with obtaining long-term financing; and/or
d. For short-term borrowing in place of external financing.

Interfund loans are not to be used to solve ongoing structural budget issues or hinder the accomplishment of any function or project for which the lending fund was established. Interfund loans are not to be used from fiscal year to fiscal year as a financing strategy. If a fund has a negative cash balance, the department must present the County Administrative Office with a plan for achieving a positive cash balance. A negative cash balance must be addressed in the fiscal year so that the fund reaches negative cash.

Interfund loan monies may only be used for the purpose identified in the authorizing resolution. Appropriate accounting records will be maintained to reflect the balances of loans in every fund affected by such transactions. A summary of all outstanding interfund loans will be included in the Annual Comprehensive Financial Report (ACFR).

9.1 Interfund Loan Terms

The Board must approve interfund loans by resolution. The resolution will include a planned schedule of repayment of the loan principal and set a reasonable interest rate to be paid to the lending fund if required by the lending fund's restrictions or regulations during the time the loan is outstanding. Repayment of an interfund loan shall be within the same fiscal year unless otherwise stated in a Board resolution. The County Administrative Office shall have authority for issuing temporary interfund loans for end-of-year purposes and report out these temporary interfund loans to the Board via memorandum.

9.2 Interfund Loan Interest

The following guidelines should be used in establishing the rate of interest:

a. Not lower than the "opportunity cost" if the funds were otherwise invested, such as the County Treasury Pooled Interest Rate;
b. Treasury yields or short-term bond yields for a similar term; and
c. Not higher than the external rate available to the County.

Interest is not required in the following circumstances:

a. The borrowing fund has no independent source of revenue other than the lending fund; or
b. The borrowing fund is generally funded by the lending fund; or
c. The lending fund is the General Fund, which, being unrestricted, can loan interest-free, except to a proprietary fund (such as one of enterprise funds below).

10. ENTERPRISE FUNDS

The County will establish enterprise funds for County services when:

a. The fund's operations are financed and operated like private business enterprises, where services provided are primarily funded through user charges; or
b. The Board determines that it is appropriate to conduct a periodic review of net income for capital maintenance, accountability, or other public policy purposes.

The County Administrative Office is the chief advisor to the Board in the creation of an enterprise fund. The County currently has three enterprise funds: 1) Natividad (fund 451); 2) Lake Resort (fund 452); 3) Laguna Seca Recreational Area (fund 453).

10.1 Expenses

Enterprise fund expenses and revenues will be established at sufficient levels to properly maintain the fund's infrastructure and provide significant capital development without requiring County fiscal intervention.

10.2 Rate Structure and Net Position

Each enterprise fund will maintain an adequate rate structure to cover the cost of all operations, including cash flow, capital replacement and maintenance, debt service if applicable, contingency funding, scheduled reserve contributions, and depreciation. Rates may be offset from the available net position only after these requirements are met.

10.3 Services

Enterprise fund services will establish and maintain reserves for general contingency and capital purposes consistent with those maintained for general governmental services.

10.4 Net Operating Revenues

The County will ensure that net operating revenues of the enterprise are sufficient to pay operating expenses, capital costs, and any debt service requirements where applicable, in compliance with the County's fiscal and debt policies.

10.5 Interest from Funds

Unless otherwise directed by statute, regulation, or resolution, interest will be allocated as discretionary financing for an enterprise fund.

10.6 Financial Monitoring and Reporting

The County Administrative Office and departments shall monitor revenues and expenses throughout the year to ensure conformity to adopted budgets. Enterprise funds shall provide the Budget Committee financial status reports on a semi-annual or quarterly basis. Financial reports shall contain a year-to-date summary of expenses, revenues, and cash positions, significant variances, comparisons to previous fiscal years' activity, trends for the current fiscal year, and financial impacts to the General Fund, if any.

11. INTERNAL SERVICE FUNDS

An internal service fund (ISF) is a centralized governmental service that provides services or products on a cost-reimbursement basis to other governmental units or external users with a break-

even motive. To qualify as an ISF, the predominant users of the services or products must be the government itself.

11.1 Use of Internal Service Funds

Risk Management

The Office of the County Counsel is responsible for managing the County's general liability (fund 475) and workers' compensation (fund 476) ISF funds. These ISFs shall function as funds for paying all judgments, settlements, and claims against the County. The General Liability ISF will reserve adequate funds to cover both excess insured events and events not covered by excess insurance coverage and provide for "recoverable" and "non-recoverable" losses. Funding for both ISFs shall be no less than the 70% confidence level funding as estimated in the annual actuarial reports, and fund 475 shall be inclusive of Property Insurance allocations

Human Resources – Benefits

The Human Resources Department is responsible for managing the County's Benefits ISF (fund 477). The ISF covers various benefit programs supported by contributions from the County, active employees, and retired employees. Programs include dental and vision benefits for employees and dependents, Employee Assistance Program, Long-Term Disability, Retiree Sick Leave Conversion, and other miscellaneous benefit programs.

Resource Planning

The County Administrative Office has administrative authority over all aspects of the Resource Planning ISF (fund 478). The Resources Planning ISF provides funds for capital projects that require replacement, maintenance, or upgrades during the asset's life. The fund serves to establish a capital funding process, generating funds over an asset's life, thereby minimizing fiscal impacts to operations.

The Resource Planning Fund’s respective sub-funds are the: 1) VAMP-Vehicle Asset Management Program; 2) ERP-Enterprise Resource Planning for Upgrades/Replacement; 3) BIR-Building Improvement and Replacement; and 4) EIR-Equipment Improvement and Replacement.

11.2 General Fund Transfers

In the event there is a large settlement that cannot be funded within the existing ISF reserve, the Office of the County Counsel may submit a request to the County Administrative Office for a transfer from the General Fund or such other fund as may be available and appropriate. Such a request will include, at a minimum, an analysis of the impact of the settlement on the reserve, alternatives for addressing the implications, and the advantages and disadvantages of each alternative.

11.3 Actuarial Studies

The County Counsel-managed ISFs and the Benefits ISF shall complete two annual actuarial studies. The first study will be completed using data through June 30th, and a second ("true-up")

actuarial study will be completed with data through December 31st. The June 30th study will be used to set department allocations for the upcoming fiscal year, while the December 31st study will be used for meeting its operational needs (e.g., purchasing excess insurance coverage). County Counsel will work throughout the year to obtain information on potential settlements that could impact reserve levels and provide this information to the actuary as part of the semi-annual actuarial valuation process.

12. CAPITAL FACILITIES AND IMPROVEMENT POLICIES

12.1 Capital Investments

The County is responsible for investing in the preservation, maintenance, and improvement of buildings, parks, roads, sewers, equipment, and other capital infrastructure. Strategic capital improvement plans, policies, and programs assess future needs and prevent emergencies to avoid major costs. Thus, the Board established the Capital Improvement Program, Five-Year Plan (CIP), which incorporates into the operating budget the fiscal impact of projects including design, construction, equipment, land purchases, and administration. The CIP is prepared and updated annually by the Public Works, Facilities, and Parks Department with review by the County Administrative Office.

Projects in excess of $100,000 that have an estimated useful life of at least five years and are non-recurring should be included in the CIP for consideration and countywide prioritization. Updates will regularly be made to all projects in various stages of implementation within the CIP and annual review of priorities, needs and staffing levels will be conducted. The CIP shall be consistent with the County's overall goals and objectives and coordinated with economic development infrastructure investments.

12.2 Enhanced Infrastructure Financing District

The Board supports economic development projects that benefit the community and will consider private investment and partnerships with jurisdictions that are interested in forming an Enhanced Infrastructure Financing District (EIFD). This allows collaboration and joint financing to capture increases in assessment and various revenue sources to reinvest the growth in value from large planning projects when an individual entity’s resources might otherwise be insufficient. Cooperation provides additional opportunities to issue bonds and attract state and federal grant funding. The EIFD policy outlines the Board’s criteria for evaluating proposals.

12.3 Financial Analysis of Funding Sources

Financial analysis of funding sources is conducted for all proposed major capital improvement projects. Operating and maintenance costs should be identified separately, to ensure that adequate funds will be available for ongoing expenses necessary to maximize useful life. Project scope and budget must be defined and submitted to the Board for approval before project funds can be expended.

12.4 Annual Capital Improvement Budget

The Board includes capital project funding during the annual budget process. In general, capital projects that have secured funding to progress in the first year of the CIP will be included in the Recommended Budget. The Board shall determine annual ongoing funding levels for each of the major project categories within the CIP. When considering the priority and funding of each capital project, the County shall consider the operating impacts (e.g., increased staff, facilities maintenance, and outside rentals) of the project.

12.5 Capital Project Reports

Capital projects shall provide the following reports:

a. Monthly updates of the drawdown schedule for debt-financed projects;
b. Quarterly reports to the County Administrative Office detailing quarterly forecasts of expenditures for the life of debt-financed projects;
c. Quarterly updates to the Capital Improvement and Budget committees on implemented capital projects that include the initial approved and modified budgets, expenditures to date, remaining budget and expenditures, original completion date, and if applicable, revised completion date and the phase (in a percentage) the project is toward completion;
d. Quarterly updates to the Budget Committee on capital funds interest accumulation; and
e. Semi-annual updates to the Capital Improvement and Budget committees on scheduled and unscheduled maintenance projects.

The County Administrative Office shall provide a quarterly report to the Capital Improvement and Budget committees regarding drawdown schedules for debt-financed projects.

13. DEBT MANAGEMENT

Due to its length and complexity, the Debt Management Policy is reviewed by the Board separately from these policies. The Debt Management Policies are published online: https://www.countyofmonterey.gov/government/departments-a-h/administrative-office/debt-management.

14. GRANT MANAGEMENT

The County recognizes that grant funding provides significant resources to enhance the ability to provide services and activities not otherwise available. Consideration will be given to whether grant activities further the County's mission, are part of the core functions of the department, benefit the community, and whether locally generated revenues will be required to support grant activities when grant funding is no longer available. Grants that do not meet these criteria shall be declined.

Departments are responsible for the continuous monitoring of the financial status of grants and compliance with all applicable federal, state, and local regulations, including procurement policies and procedures.

Any position changes related to grant funding must be approved by the Board and adequately classified by Human Resources. Departments are to promptly notify payroll of coding changes needed for those positions being charged to grants since grant codes may change each year. At the expiration of the grant, the position must be terminated unless funding has been identified within the department's budget for retention through attrition of vacant FTE, new grant revenue, OR an augmentation request has been approved by the Board prior to the expiration of the grant.

Departments are responsible for all aspects of the grant process, including planning for grant acquisition, preparing and submitting grant proposals, developing grant implementation plans, managing grant programs, preparing and providing reports to grantors, and adequately closing out grant projects. Department staff and the County Administrative Office will maintain a close working relationship concerning any grant activity to ensure a clear understanding of the project status.

The County manages a variety of programs, which depend on outside grants for partial or full funding. Grants that require a General Fund match or potential general funds to fulfill the grant requirements must be approved by the Board before the department can apply. In the event of reductions in such external funding amounts, the program service levels will be reduced, and additional County support shall not be provided to compensate for the decrease in outside funding unless approved and directed by the Board.

15. STATE AND FEDERAL PROGRAMS

The County shall operate state and federal programs based on the level of state funding provided and shall not backfill any state cuts with General Fund resources except when mandated, or local priorities dictate a need for a continuance.