Attachment A – FY 2020-21 Budget Development Policies & General Fund Allocation Policy

<u>Budget Development Policies</u>

<u>Bold italicized type denotes changes from prior year</u>

1.	**Accountability and Transparency:** Information about how public monies are spent and the outcomes they achieve are to be clear, transparent, and understandable.
a)	Budget information will include recommended expenditures and revenues presented by category (object level) at the department level. Sources of revenue will be identified as well as staffing trends.
b)	Oversight of spending, contracts, and grants will be maintained through quarterly financial reports and consistent program monitoring.
c)	Departmental staffing levels will be clearly identified and consistently calculated. To achieve this, and to ensure greater comparability of year-over-year changes within departments, extra help and contractor on payroll positions will be excluded from FTE calculations because these types of positions do not occupy authorized positions and often experience wide fluctuations during the fiscal year.
d)	Subject to CEO concurrence, departments may keep a reasonable number of authorized vacant unfunded positions for possible future needs. Unless otherwise arranged with the CEO's Office, this number should remain consistent from year-to-year.
e)	***Specific self-funded programs shall be moved out of the General Fund and into their own Special Revenue Funds. These are the Recorder program in the Clerk-Recorder-Assessor Department; Environmental Health Services in the Public Health Department; and all of Planning & Development, with the exception of the Long Range Planning division.***
2.	**Program-Based Budgeting:** Allocations from the General Fund to departments will be distributed according to Board policy direction, historical spending, and federal and State mandates.
a)	Allocate resources in a manner that supports Board strategic and programmatic priorities.
b)	Refer to **<u>General Fund Contribution Allocation Policy</u>** for allocation methodology.
3.	**Balanced Budget/Fiscal Stability:** A structurally-balanced budget (ongoing revenues equal to ongoing expenditures) for all County operating funds will be presented to the Board of Supervisors for scheduled public hearings.
a)	Fund ongoing operations with ongoing revenue. One-time revenues should be dedicated for one-time expenditures. Revenue sources with significant variability from year to year, or those with an unpredictable basis, should only use the stable portion, if any, for ongoing operations. The remainder should be used for one-time expenditures. In some cases, the use of one-time funds may be permitted to ease the transition to downsized or reorganized operations.
b)	Recommend organization-wide rebalancing strategies such as mandate relief, reorganizations, consolidations, reengineering, public-private partnerships, information technology innovations, and other efficiency efforts that can provide long-term cost savings to the County.
c)	Enhance revenue through efforts that stimulate economic vitality to result in an increased tax base.
d)	Ensure appropriate maximum reimbursement of federal and State programs and user fees that fully offset service costs as allowed by law.
e)	Program expansion requests must fully document the need, identify the requested funding source or reduction of funding elsewhere, and, if applicable, propose a method for monitoring the impact of an expansion, once implemented.

f) In order to allocate limited resources in a fiscally responsible manner, Departments shall assume salary savings of no less than 3%, or their 5-year average actual salary savings, whichever is lower, when developing their budget.

g) Where feasible, eliminate the practice of Central Service Departments (CEO, Human Resources, County Counsel, Auditor-Controller, and General Services) directly charging Special Revenue Funds for services provided, and instead incorporate these expenses into the Cost Allocation Plan. The CEO's Office will recommend an allocation of General Fund Contribution to offset the lost direct charge revenue in the Central Service Departments.

4. Identify and Mitigate Fiscal Risks: The County Executive Office, in coordination with County departments, will identify fiscal issues, events, and circumstances that pose significant risks and reduce the impact of those risks.

a) Future New Jail Operations – Consistent with the funding plan initiated in the FY 2011-12 Recommended Budget, a General Fund Contribution of $12.7 million will be recommended for future jail operations in the FY 2019-20 budget. Additionally, an ongoing request to increase this allocation each fiscal year will be recommended, until such time as the annual jail operations funding equals the incremental annual operating cost of the new facility, pursuant to the Board adopted funding plan for jail operations.

b) Other Post-Employment Benefits (OPEB) – On March 1, 2016, the Board adopted an OPEB funding plan. As a result, a consistent ongoing contribution rate of 4.0% of covered payroll will be utilized.

c) Behavioral Wellness Department Operations – In recent years, the demand for inpatient beds has been significantly increasing without corresponding funding. The need can vary significantly from month-to-month but, if this trend continues, it is likely that the department will require additional funding to address this community need. A minimum of $1 million will be maintained within the General Fund, to be available for behavioral health inpatient bed costs in excess of budget where there is no other available departmental funding.

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

a) A minimum $1 million annual strategic reserve contribution will be recommended, until the Strategic Reserve target has been met.

b) Non-General Fund operating funds, in consultation with the County Executive Office and the Auditor-Controller's Office, will maintain appropriate and prudent operating reserves.

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

a) Department budgets will identify major programs, services, and outcomes, and significant changes to service levels will be detailed and presented to the Board prior to budget hearings.

7. Capital and Infrastructure: Provide funding for necessary capital improvements and maintenance of existing facilities.

a) Capital Plans will identify necessary capital improvements and maintenance needs. Prioritization and funding strategies will be developed to address these needs through a Facilities Condition Assessment and ongoing Maintenance Management and Preservation Plans.

b) A minimum of $3.0 million will be recommended for capital improvements/refurbishments and infrastructure maintenance.

c) A minimum of $500,000 will be recommended for Americans with Disabilities Act improvements.

d) ***A minimum of $2,000,000 will be recommended for the Technology Replacement & Investment Fund to address critical countywide and multi-departmental information technology project needs.***

e) As discretionary revenues grow, 18% of the unallocated Discretionary General Fund Revenues will be committed for maintenance needs and will be allocated to Public Works, General Services and Parks during the budget development process based on existing needs and priorities.

f) Policy on prioritizing capital projects – A set of prioritization principles will be applied to all Capital Improvement Projects using the Government Finance Officers Association (GFOA) criteria as follows:

- **Priority I: Imperative (Must-do)** – Projects that cannot reasonably be postponed in order to avoid harmful or otherwise undesirable consequence. These projects correct a condition dangerous to public health or safety, satisfy a legal obligation, alleviate an emergency service disruption or deficiency, and prevent irreparable damage to a valuable public facility.

- **Priority II: Essential (Should-do)** – Projects that address clearly demonstrated needs or objectives. These projects rehabilitate or replace an obsolete public facility or attachment thereto, stimulate economic growth and private capital investment, reduce future operating and maintenance costs, and leverage available state or federal funding.

- **Priority III: Important (Could-do)** – Projects that benefit the community but may be delayed without detrimental effects to basic services. These projects provide a new or expanded level of service, promote intergovernmental cooperation, reduce energy consumption, or enhance cultural or natural resources.

- **Priority IV: Desirable (Other Year)** – Desirable projects that are not included within five-year program because of funding limitations.

General Fund Contribution Allocation Policy

Based on Budget Development Policy 2, Program-Based Budgeting
Allocations from the General Fund to departments will be distributed according to Board policy direction, historical spending, and federal and State mandates.

1. Each Department's base General Fund Contribution (GFC) for the Fiscal Year (FY) 2020-21 budget will be the contribution for FY 2019-20 Adjusted Budget. One-time funds granted in FY 2019-20 are not considered GFC.

2. Where not prohibited by law, departments must use all non-General Fund revenues, such as special revenues, grants, and agency funds, before using GFC. Unanticipated revenues should be used to eliminate departmental use of one-time funds for ongoing operations.

3. In general, the base GFC will be adjusted by an amount equal to a percentage of the impact of projected wage and employee benefit increases in FY 2020-21, where that percentage is the proportion of GFC that makes up of the department's total funding in FY 2019-20. For example, if the wage and benefit cost increases total $100, and the FY 2019-20 GFC makes up 30% of the department's total funding, then the GFC base would be increased by $30.

4. In the event that projected countywide general revenues do not meet the GFC allocation, departmental allocations will be reduced as necessary to balance the budget.

5. When submitted budgets reflect significant service level reductions from FY 2019-20 levels, departments will document service level impacts by program in order of severity, while identifying mandate levels and outcome measures.

6. Based on available funding, the CEO may recommend GFC allocations above the FY 2019-20 levels to address significant issues or structural imbalances within specific departments.

7. Any request for GFC in excess of the CEO's recommended allocation, and/or additional FTE above currently authorized levels, will be submitted as a budget expansion request. Expansion requests shall define the problem or issue to be addressed, provide data and applicable internal and/or external comparisons to illustrate how the requested expansion will help with the issue, and include a performance measure for tracking whether the expansion, if approved, is having the anticipated impact. Expansions based on the Department Renew '22 Plans, and that can point to evidence-based findings demonstrating their effectiveness, will receive priority consideration.

8. Special Revenue Funds will be evaluated at fiscal year-end, and appropriate adjustments may be made to the following year's GFC allocation.

9. Unallocated Discretionary General Fund Revenues will remain in the Unassigned Fund Balance account for future Board appropriation.