# COUNTY BUDGET STRUCTURE

## PROPOSED BUDGET • FY 2019-20 & 2020-21

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### BUDGET SUMMARY

The following sections summarize the County's budget information. Included are an overview of the Proposed Budget's fund structure and description of the major funds. More information about individual department budgets can be found in the 'Departmental Budgets' section of the Proposed Budget document. Financial summaries are presented in a format required by the State of California (the "State") and can be found in the 'Budget Schedules' section of this document. Schedule 1 of the Budget Schedules section of this document provides a summary of all County funds. However, the budget document includes detailed information for fewer funds than are included in the County's Comprehensive Annual Financial Report (CAFR). For information pertaining to funds other than those included in the Proposed Budget document, such as trust funds, please refer to the County's CAFR which is available from the Auditor-Controller-Treasurer-Tax Collector's Office or on the County's website.

#### FUND STRUCTURE

The Proposed Budget is comprised of 131 separate funds which are used to finance a variety of County services. Each of these funds can be categorized as either governmental or proprietary. Governmental funds are used to account for most of the County's General government activities such as the General Fund and the Special Revenue Funds and proprietary funds such as internal service funds and enterprise funds are used to account for the County's services and programs which are similar to those often provided by the private sector. Special Districts represent independent County government units, generally established to perform a single specified service.

#### BASIS OF ACCOUNTING AND BUDGETING

Governmentwide, proprietary and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the fiscal year for which the taxes are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental Funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. Sales taxes, investment income, State and federal grants and charges for services are accrued at the end of the fiscal year if their receipt is anticipated within 180 days. Property taxes are accrued if they are collectible within 60 days after the end of the accounting period. Expenditures are generally recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, claims and judgments, are recorded only when payment is due. General capital asset acquisitions and general principal payments are reported as expenditures in governmental funds. Proceeds of general long-term debt and capital leases are reported as other financing sources.

Proprietary Funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the County's enterprise funds and internal service funds are charges to customers for services. Operating expenses for enterprise funds and internal service funds include the costs of services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

For governmentwide (governmental and business-type activities) and proprietary fund activities, the County applies all applicable Governmental Accounting Standards Board (GASB) pronouncements, as well as any applicable pronouncement of the Financial Accounting Standards Board (FASB), the Accounting Principles Board, or any Accounting Research Bulletins issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. The County has elected not to apply the FASB standards issued subsequent to November 30, 1989, in reporting business-type activities and proprietary funds. The GASB periodically updates its codification of the existing Governmental Accounting and Financial Reporting Standards, which, along with subsequent GASB pronouncements (Statements and Interpretations), constitutes Generally Accepted Accounting Principles (GAAP) for government agencies.

### General Fund

The General Fund includes expenditures and revenues associated with the delivery of services by County agencies funded mainly with property taxes, sales taxes, fees or charges for services, and available unrestricted fund balance.

### Special Revenue Funds

This group of funds is used to account for specific revenue sources legally restricted or committed to expenditures for a specific purpose. The budget is comprised of the Health Services Agency, Human Services Department, and Transportation and Department of Public Works, and their associated pass-through transfer funds.

### Less than Countywide Funds

Less than Countywide Funds account for Special Revenue Funds like County Fire and Library services.

### Internal Service Funds

The Internal Service Funds comprise the financing of County services between departments or programs, which includes Fleet Services, Information Services, Risk Management Services and the Department of Public Works.

### Enterprise Funds

Enterprise Funds represent operations financed and operated similar to a business enterprise and include water and sewer services.

### Special Districts

The majority of the Special Districts are included in the Department of Public Works budget and a detailed listing by fund is provided in the budget schedules in the Appendix.

### Capital Project Funds

The Capital Project funds are included in the Capital Projects section of the budget and a detailed listing by project is provided in the Appendix.

### Budget Policy

The County has adopted Budget Principles. The Budget Principles are designed to provide overall guidance in the preparation, adoption, implementation and evaluation of the annual budget. The budget principles can be found in the Appendix section. The major principles include:

- Encouraging public input;
- Balanced budgeting;
- Targeting the use of Fund Balance for one-time costs and cyclical rather than structural budgetary imbalances;
- Maintaining prudent reserves for cash flow, and for unforeseen or emergency events;
- Prioritizing funding decisions;
- Responding to changing conditions;
- Developing strategic approach to address unfunded liabilities;
- Maintaining a five-year Capital Improvement Program; and
- Seeking cost recovery.

The proposed budget incorporates recommendations reflecting these policies.

### Summary of County Revenues

The County's operations are funded through a variety of sources. Detailed information pertaining to financing sources can also be found in departmental budgets located in the 'Departmental Budgets' section of this document. Following is an overview of the County's various funding sources and a discussion of the allowable uses for each different type of revenue:

**State & Federal Revenue**

State and federal revenue is the County's single largest revenue source. The majority of these revenues are used to support statutory programs, such as health and welfare services and some criminal justice programs. These funds are generally restricted in use and are not available for discretionary purposes. State and federal revenue projections are based upon economic conditions at both the State and federal level. To prepare for changes in State and federal revenue streams, the County closely monitors budget activity and the programmatic and funding decisions that are being made at the State and federal level.

**Taxes**

Property taxes, sales tax, transient occupancy and other taxes are the County's second largest revenue source. Property tax levels are regulated by the State, and are collected and distributed to various governmental agencies by the County. Property Tax is the most important revenue source for the County. The formula for calculating property taxes is determined by Proposition 13 (the People's Initiative to Limit Property Taxation) which was passed by California voters in 1978. Proposition 13 sets the tax rate for real estate at one percent of a property's assessed value and limits changes to a property's assessed value based on the Consumer Price Index up to two percent each year. Property values are otherwise only reassessed upon a change of ownership or the completion of new construction. The County distributes property tax dollars to various government agencies and retains approximately 13% of the total property taxes collected, which is used to fund a variety of County programs and services. Property tax revenues are projected each year based on the total assessed value of the County which is estimated by taking into account inflationary factors such as the Consumer Price Index, new construction, sales activity, as well as the number of Proposition 8 (decline in value) assessments.

**Licenses, Permit Fees & Charges for Services**

Revenue in this category comes from fees that the County charges for a variety of specific services and activities. License revenues are received for activities including franchise fees paid by utilities, cable companies or trash haulers in order to do business within the County. Permit revenues are generated by charges for construction or inspection permits for building, electrical, plumbing or temporary use permits for holding events. Revenues are also generated by the collection of fees for value-added services that are not tax supported or might not otherwise be provided without fees and are used to fund those services. Revenue from licenses, permits, and charges for services is projected based on prior year levels, changes to the County's fee schedule and other trends such as construction activity or external economic factors which indicate demand for services.

**Fines, Forfeitures & Penalties**

Revenue from fines, forfeitures and penalties is generally received from court-ordered fees, other types of public safety violations (e.g. tickets) or penalties charged as the result of being late in making payments to the County (e.g. for property taxes or transient occupancy tax). Much like charges for services, revenue from fines, forfeitures and penalties is often used to fund enforcement activities. Revenue in this category is projected based on prior year levels and external economic conditions. Fine, forfeiture and penalty revenue tends to be counter cyclical, especially for penalties for late payments to the County. Changes in law enforcement priorities and staffing levels can also have an impact on the level of issuance and collection of fines, forfeitures and penalties.

**Interest Earnings**

Revenue in this category is received from the investment of County funds. The use of the revenue received from these sources is discretionary and is projected based upon prior year actual amounts. Estimates for revenues from interest earnings are based upon the projected treasury balance and current interest rates.

**Fund Balance Available (FBA) & Use of Reserves**

The Fund Balance Available is the portion of fund balance that is not reserved, encumbered or designated and therefore is available for financing a portion of the budgetary requirements for the upcoming fiscal year. The County has two types of reserves: general reserves and designations. General reserves are not designated for a specific purpose. They serve to stabilize the County's cash position prior to the receipt of property tax revenues and they provide protection against downturns in the economy or against major unexpected events. Designations are reserves that are set aside for specific purposes. These designations help provide for the County's long-term financial needs.

### Other Miscellaneous Revenues & Other Financing Sources

This category is a catch-all for revenues that do not fit into one of the major revenue categories discussed above. Revenues in this category come from a variety of sources including assessments, or revenue from reimbursement agreements or pass-through from trust funds. Other revenue sources vary from Department to Department and can be projected based upon either prior year actual amounts or from set annual costs such in the case of water or sewer assessments in County Service Areas.

### Summary of County Expenditures

The County's operating expenditures are diverse and vary by program and department. Detailed information about departmental expenditures can be found in the Departmental Budgets section of this document. Following is an overview of the County's major expenditure categories:

### Salaries & Benefits

This expenditure category accounts for the largest appropriation of County dollars. Salaries and benefits includes employee wages, the amount that the County appropriates for employee pensions, the County's contribution for life insurance and various health benefits for employees and their dependents, and other various employee benefits. Social security taxes, workers' compensation payments and unemployment insurance payments are also included in this expenditure category. Salary and benefit costs are driven by the number of County employees, negotiated labor agreements and the cost of employee benefits.

### Retirement program

The County provides retirement benefits, disability benefits, periodic cost-of-living adjustments, and death benefits to plan members and beneficiaries (the "Plans"). The Plans are part of CalPERS, an agent multiple-employer plan administered by CalPERS, which acts as a common investment and administrative agent for participating public employers within the State. Benefit provisions are established by State statute and by County contracts with employee bargaining groups. The Plans cover three separate employee groups – Miscellaneous, Safety and Safety Sheriff. Active members in the Plans are required to contribute a percent of their annual covered Salary. The contribution requirements of Plan members and the County are established by CalPERS and labor negotiations. The County's net pension liability for the Plans is measured as the total pension liability, less the pension plan's fiduciary net position. Details regarding the County's contributions by Plan and the Unfunded Pension Liability can be found in the County Financial Statements.

### Services & Supplies

Services and supplies is the County's second-largest expenditure category. Examples of services and supplies expenses include office supplies, computers and software purchases, maintenance contracts or other types of professional service contracts. The budget for services and supplies is driven by the cost of contracts, changes to the Consumer Price Index and the need for services and supplies which support County operations.

### Other Charges

This category includes a variety of smaller expenditure categories such as debt service payments and pass through expenses to other agencies and/or funds, and accounts for a significant portion of the County's total expenditures.

### Fixed Assets

Fixed asset costs make up the smallest portion of the County's total expenditures. They typically have a value of over $5,000 and include items like vehicles, copy machines, land or specialty equipment. The amount of fixed assets fluctuates from year to year based upon the age of equipment or vehicles and projects being carried out by departments.

#### INTRA-FUND TRANSFERS

Intra-Fund Transfers are interdepartmental cost allocations to offset the cost of services provided by various General Fund departments to other General Fund functions.

## GENERAL FUND

#### GENERAL FUND CASH FLOW

The County Budget's General Fund includes programs which are provided on a largely countywide basis (health care, welfare, courts and detention facilities) and municipal services to the unincorporated areas not otherwise included in a special district. The programs and services are financed primarily by the County's share of property taxes, revenues from the State and federal government, and charges for services provided.

General Fund expenditures tend to occur in equal amounts throughout the fiscal year. Conversely, receipts follow an uneven pattern, primarily as a result of secured property tax installment payment dates in December and April and from delays in payments from other governmental agencies, two of the largest sources of General Fund revenues. As a result, the County incurs short-term borrowing using a Tax and Revenue Anticipation Note (TRAN) to facilitate cash flow until all the property taxes are received.

#### GENERAL FUND REVENUE DETAILS

#### AD VALOREM PROPERTY TAXES

Taxes are levied for each fiscal year on taxable real and personal property which is situated in the County as of the preceding January 1. For assessment and collection purposes, property is classified either as "secured" or "unsecured," and is listed accordingly on the assessment roll. The "secured roll" is that part of the assessment roll containing State assessed property and real property having a tax lien which is sufficient, in the opinion of the assessor, to secure payment of the taxes. Other property is assessed on the "unsecured roll."

#### THE TEETER PLAN

The County has adopted an alternate procedure authorized in Chapter 3, Part 8, Division 1 of the Revenue and Taxation Code of the State of California (comprising Sections 4701 through 4717, inclusive) commonly referred to as the "Teeter Plan," for distribution of certain property tax levies on the secured roll. Pursuant to the Teeter Plan, the County adopted Resolution 541-93 on October 5, 1993 adopting the Teeter Plan. Generally, the Teeter Plan provides for a tax distribution procedure by which secured roll taxes are distributed to taxing agencies within the County included in the Teeter Plan on the basis of the tax levy, rather than on the basis of actual tax collections. The County then receives all future delinquent tax payments, penalties and interest, and a complex tax redemption distribution system for all participating taxing agencies is avoided. All taxing agencies within the County are participating in the Teeter Plan.

In addition, pursuant to the Teeter Plan, the County is required to establish a tax losses reserve fund to cover losses which may occur in the amount of tax liens as a result of special sales of tax-defaulted property (i.e., if the sale price of the property is less than the amount owed). The appropriate amount in the fund is determined by one of two methods: (1) an amount not less than 1% of the total amount of taxes and assessments levied on the secured roll for a particular year for entities participating in the Teeter Plan, or (2) an amount not less than 25% of the total delinquent secured taxes and assessments calculated as of the end of the fiscal year for entities participating in the Teeter Plan. The County's tax losses reserve fund is fully funded at two times in accordance with the County's most current election (on October 29, 2013) to be governed by the second alternative estimated at $5.8 million. Accordingly, any additional penalties and interest that otherwise would be credited to the tax losses reserve fund are available to be credited to the County's General Fund.

#### TRANSIENT OCCUPANCY TAXES

The County levies a transient occupancy tax on hotel and motel bills. In November 2012, voters set this tax rate at 11%.

#### SALES & USE TAXES

Sales tax is collected and distributed by the State Board of Equalization. Each local jurisdiction receives an amount equal to 1% of taxable sales within their jurisdiction.

On March 2, 2004, voters approved a bond initiative formally known as the "California Economic Recovery

Act." This act authorized the issuance of $15 billion in bonds to finance the 2002-03 and 2003-04 State budget deficits, which would be payable from a fund to be established by the redirection of tax revenues through the Triple Flip. Under the "Triple Flip," one-quarter of local governments' 1% share of the sales tax imposed on taxable transactions within their jurisdiction will be redirected to the State. In an effort to eliminate the adverse impact of the sales tax revenue redirection on local government, the legislation provides for property taxes in a previously established Educational Revenue Augmentation Fund (ERAF) to be redirected to local government. Because the ERAF monies were previously earmarked for schools, the legislation provides for schools to receive other state General Fund revenues. The swap of sales taxes for property taxes has terminated, with final adjustments being made during 2016-17.

#### Transaction Tax

In November 2018, voters approved a half cent transaction tax, known as Measure G, as an add on sales tax on taxable sales of goods in the unincorporated area. The collection began in April 1, 2019. Tax was established to fund specific programs and projects and maintain essential services.

#### Cannabis Business Tax

In November 2014, voters approved a tax of up to 10% on the gross sales of medical marijuana businesses in the unincorporated County. The initial year tax was established at 7%, and collection began in December 2014.

#### Property Tax In-Lieu of Motor Vehicle License Fee

The payments of property tax in-lieu of Motor Vehicle license fees ("VLF") are a State backfill from property tax revenues for a portion of the VLF fees collected statewide.

#### State & Federal Funds

A significant source of the County's revenues comes from State and federal funds. Payment of State funds depends on the adoption of the State budget, including the appropriations providing for local assistance. These revenues are shown in the statements as "intergovernmental revenues".
The significant categories of State aid include additional taxes in-lieu of VLF for a portion of fees realigned to the Health Services Agency, Proposition 172 (sales tax dedicated to public safety uses) and reimbursement for programs such as Aid to Families with Dependent Children, In-Home Supportive Services, Medi-Cal, food stamps, Short/Doyle medical and mental health services, AB 109 realignment, and AB 118 food programs. The significant categories of federal aid include various health programs, foster care programs, Aid to Families with Dependent Children, adoption assistance program, supplemental nutrition assistance program and child welfare programs.

## Debt Service

#### Short-Term Obligations

In four of the last five years, the County has issued $50,000,000 of Tax and Revenue Anticipation Notes. Since FY 2011-12, the County has issued $48,000,000 of tax and revenue anticipation notes for cash flow purposes. The notes for FY 2018-19 in the amount of $45,000,000, are due on July 1, 2019, and the County has made the required set-asides for such notes. All other notes have been repaid on their respective maturity dates.

#### Long-Term Obligations

General Obligation Debt. The County has no long-term general obligation bonded indebtedness outstanding and has never defaulted on any of its bonded indebtedness previously issued. The County has no authorized but unissued general obligation debt.

#### Lease Obligations

The County has made use of various lease arrangements with joint powers authorities to finance capital projects and purchase equipment through the issuance of Certificates of Participation and Lease Revenue Bonds. Upon expiration of these leases, title to the projects or equipment vests in the County. There are currently nine outstanding Certificates of Participation and Lease Revenue Bonds aggregating $82 million in principal amount. All issues are fixed-rate obligations. The County also leases other assets under both operating and capital leases. Details can be found in the Debt Service Budget.

## Financial Statements

The County's accounting policies conform to Generally Accepted Accounting Principles (GAAP) and reporting standards set forth by the State Controller. The audited financial statements also conform to the principles and standards for public financial reporting established by the National Council of Government Accounting and the Governmental Accounting Standards Board. The government-wide financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due. The County retained the certified public accounting firm of Brown Armstrong in Bakersfield, Calif., to examine the general purpose financial statements of the County as of and for the year ended June 30, 2016. Those Financial Statements can be found on the County's website.

## Fund Balance

The County believes that sound financial management principles require that sufficient funds be retained by the County to provide a stable financial base at all times. To retain this stable financial base, the County needs to maintain unrestricted fund balance sufficient to provide financial reserves for unanticipated expenditures and/or revenue shortfalls of an emergency nature. Committed, assigned and unassigned fund balances (described below under "Financial Statements - GASB Statement No. 54") are considered unrestricted.

The purpose of the County's fund balance policy is to maintain a prudent level of financial resources to protect against reducing service levels or raising taxes and fees because of temporary revenue shortfalls or unpredicted one-time expenditures.

The policy is designed to achieve and maintain committed and assigned fund balance categories of no less than 10% of the upcoming year's estimated General Fund budgetary revenues. Budgetary revenues have typically been 5-6% higher than actual revenues shown in its General Fund financial statements because the budget includes revenue from interdepartmental transfers that are eliminated in the preparation of the audited financial statements.

### GASB Statement No. 54

The County was required to implement GASB Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definition, for the Fiscal Year ending June 30, 2011. GASB No. 54 establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. The initial distinction that is made in reporting fund balance information is identifying amounts that are considered non-spendable, which are amounts that cannot be spent because they are either not spendable in form or legally or contractually required to be maintained intact. GASB No. 54 also provides for additional classification as "restricted," "committed," "assigned," and "unassigned" based on the relative strength of the constraints that control how specific amounts can be spent.

### Restricted

Restricted fund balance includes amounts with constraints placed on their use that are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments, or improved by law through constitutional provisions or enabling legislation. The County currently has only a minor amount of "Restricted" fund balance.

### Committed

Committed fund balance includes amounts that can only be used for a specific purpose determined by formal action of the Board of Supervisors and that remain binding unless removed in the same manner. The establishment of a "committed" fund balance requires (in accordance with the County's Fund Balance Policy) the passage of a resolution by a simple majority vote before June 30 of the applicable fiscal year.

The Board of Supervisors established a separate committed fund balance account known as the Reserve for Working Capital. Funding of the Reserve for Working Capital is established by resolution during the annual budget process. The purpose of the reserve is to assist the County in maintaining a minimal fund balance. In accordance with the County's Fund Balance Policy, any use of funds requires a four-fifths vote of the Board of Supervisors appropriating the funds and a resolution of the Board of Supervisors declaring a Fiscal Emergency.

The Board of Supervisors has also established a separate committed fund balance account known as the Reserve for Economic Uncertainty. Funding of the Reserve for Economic Uncertainty is established by resolution during the annual budget process. The reserve is to be used only during recessions or periods of economic distress as measured by periods of time when the local unemployment rate exceeds 8% and/or the rate of inflation exceeds the growth in property taxes. In accordance with the County's Fund Balance Policy, any use of funds requires a four-fifths vote of the Board of Supervisors appropriating the funds.

The Board of Supervisors has also established a separate committed fund balance account known as the Reserve for Natural Disasters. Funding of the Reserve for Natural Disasters is established by resolution during the annual budget process. The purpose of the Reserve is to fund extraordinary operating costs, legal costs and cash flow associated with delays in State and federal reimbursements for any natural disaster. In accordance with the County's Fund Balance Policy, any use of funds requires a four-fifths vote of the Board of Supervisors appropriating the funds.

**ASSIGNED**

Assigned fund balance includes amounts that are constrained by the County's intent to be used for specific purposes. In accordance with the County's Fund Balance Policy, the Board of Supervisors has the authority to assign funds for a specific purpose, or change or remove an assignment, with a simple majority vote.
The County Administrative Officer also has the authority to assign funds for specific purposes, and to change or remove the assignment, which action is to be reported to the Board of Supervisors at their next meeting. An appropriation of existing fund balance to eliminate a projected budgetary deficit in the subsequent year's budget may be classified as Assigned fund balance.
The Board of Supervisors has approved establishment of assigned fund balance for federally qualified health programs. The amount assigned is for revenue already recognized in the General Fund and assigned to mitigate risk associated with health's managed care programs, provide an audit reserve for disallowed costs under State or federal programs, and hold for possible future required repayments.

**RESERVES**

The 2018-19 Adopted Budget includes a total committed and assigned fund balance of $52,580,484 or 10% of budgetary revenues. Established Board policy identifies 10% of General Fund revenues as the County's optimal reserve target by FY 2021-22. Due to prior year budget to actual savings the County achieved this reserve target early in FY 2017-18 and is now maintaining the reserves at 10%. Based on the Proposed Budget 2019-20 revenues of $552 million, the projected 2019-20 year-end General Fund committed and assigned reserve goal is $55,222,058 million, or 10% of General Fund estimated revenues. For a breakdown of reserves see Schedules 3 and 4 under the Budget Schedules section. The complete Fund Balance Policy can be found in the Appendix Section.