



**SAN BERNARDINO COUNTY
POLICY MANUAL**

No. 05-01

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EFFECTIVE DATE June 11, 2024

POLICY: BUDGETING POLICY

APPROVED

DAWN ROWE
Chair, Board of Supervisors

POLICY STATEMENT AND PURPOSE

The purpose of the Budgeting Policy is to establish clear, uniform procedures for developing and maintaining a balanced budget in order to achieve financial continuity and stability.

DEPARTMENTS AFFECTED

All County Agencies, Departments, and Board-Governed Special Districts

POLICY AMPLIFICATION

The objective of the Budgeting Policy is to help ensure San Bernardino County has adequate resources to meet its basic financial obligations, and to serve as a vehicle to help the County achieve financial continuity and stability. This policy will serve as a guide for the County Administrative Office (CAO) when preparing budget plans and budget reports for Board of Supervisors (Board) approval.

Balanced Budget

To obtain a balanced budget, total revenues, including carry-over fund balances, will equal the total fund appropriation and reserves. The annual operating budget will be structurally balanced upon adoption by the Board. One-time funds will not be used to fund ongoing operational costs, except within the context of a larger plan to balance ongoing revenues and expenses over a multi-year period, as detailed under "Use of One-Time Funding Sources". Significant budget variances and recommended actions will be reported via budget reports to the Board.

Long Range Planning

As part of the annual budget process, the County will prepare a multi-year forecast of financial operations for the general fund. This forecast includes changes in costs to maintain current service levels and costs related to new programs or program enhancements. The County will project major revenues and expenditures of the general fund, and report significant findings and recommendations to the Board.

Appropriation Changes

An operating budget is adopted each fiscal year for all Governmental Funds. Expenditures are controlled at the appropriation unit level (i.e. salaries and benefits, services and supplies, fixed assets, etc.) within budget units. Departments are expected to maintain expenditures within budget authority as adopted by the Board. Any increase in appropriation in a budget unit after adoption of the budget shall be included in budget reports and must be approved by a four-fifths vote of the Board. Transfers of appropriation within the same budget unit may be approved by the CAO depending upon the appropriation unit, unless noted below:

Transfers of Salaries and Benefits Appropriation:

- Transfers out are required to be included in budget reports for Board approval.

Transfers of Fixed Asset Appropriation:

- Transfers in and out among the different fixed asset appropriation units (410, 420, 430, 440, 450, 465, 470, and 490) are approved by the CAO - Finance and Administration as long as the total fixed asset appropriation does not increase.
- Transfers out of Fixed Asset Appropriation –
 - Transfers out increasing a non-fixed asset appropriation unit within individual Capital Improvement Program (CIP) project budgets are approved by the CAO - Finance and Administration, as long as the total project budget does not increase.
 - Transfers out increasing a non-fixed asset appropriation unit are required to be included in budget reports for Board approval, except within the CIP, detailed above.

- Transfers in of Fixed Asset Appropriation -
 - Transfers in from a non-fixed asset appropriation unit to fund a unit value less than \$50,000 may be approved by the CAO - Finance and Administration.
 - Transfers in from a non-fixed asset appropriation unit to fund a unit value of \$50,000 or more are required to be included in budget reports for Board approval.

Transfers impacting Operating Transfers Out Appropriation:

- Any changes to Operating Transfers Out are required to be included in budget reports for Board approval.

Use of One-Time Funding Sources

The appropriation of carry-over fund balances and other one-time funding sources must be managed with care. These sources are most appropriately used to fund one-time expenses such as capital expenditures, start-up costs for new programs, or to supplement the general purpose reserve to attain the 20% target level as defined in the County's Fund Balance and Reserve Policy (02-19). A goal is to invest one-time moneys in a way that increases ongoing revenues and/or reduced ongoing expenses.

It is the policy of the County that one-time funds will not be used to fund ongoing operational costs, except within the context of a larger plan to balance ongoing revenues and costs over a multi-year period. Such a plan could involve short-term use of one-time funds to preserve essential public services where longer-term financial forecasts demonstrate the near-term future potential for ongoing revenues to fund those services.

Revenue Forecasting

Because of the complexity of the County budget, realistic projections of revenue are crucial to accurate budgeting. Revenue forecasting will be undertaken annually through a review of local historical revenue trends and analysis of federal, state, and local economic projections. Specifically in regard to those revenues that tend to be most volatile and sensitive to changes in the economy, forecasting will involve analysis of economic, demographic, business cycle and other factors which might impact those revenues. These unpredictable revenues, including, but not limited to, interest income and fees, will be estimated and budgeted conservatively. Revenue forecasts will not be based on straight-line assumptions.

Property Tax Revenue Stabilization

The County's discretionary revenue primarily comes from property taxes. Revenue growth rates can vary dramatically from year to year due to fluctuations in the economy and housing market. These fluctuations can result in insufficient revenue growth to fund increases in required governmental services during slow economic periods. This policy expands on the current policy (02-10) of establishing ongoing set-aside contingencies for future County needs by appropriating anticipated property tax revenue growth, in excess of the lesser of 8% or of the average annualized rate of growth of actual revenues, to an ongoing revenue stabilization set-aside contingency. This ongoing revenue stabilization set-aside contingency will be made available for allocation in years when property tax revenue is anticipated to increase at a rate less than the average annualized rate of growth of actual revenues. For purposes of this paragraph, property tax revenue is defined as Current Secured (the current 1% general tax levy on locally assessed secured property on the assessment roll) and Vehicle License Fee (VLF)/Property Tax Swap (the County's "vehicle license fee adjustment amount" as defined in Section 97.70 of the Revenue and Taxation Code) received by the County general fund. The average annualized rate of growth of actual revenues will be calculated using the most recent 15 years' worth of data.

Any unspent money from this ongoing revenue stabilization contingency set-aside in a given year will be used to prepay or defease debt in the subsequent year, fund large County projects, supplement reserves or fund any other one-time costs the Board may direct.

Prop 172 Revenue Stabilization

The County's Prop 172 Sales Tax revenue can only be used for local public safety activities and is allocated to the Sheriff, District Attorney and Probation Departments. Revenue growth rates can vary dramatically from year to year due to fluctuations in the economy and retail spending. These fluctuations can result in insufficient revenue growth to fund increases in required public safety activities. When this occurs, the County general fund may temporarily allocate financial resources away from other important County programs as a backfill to offset the Prop 172 revenue shortfall. The County will set-aside contingencies and any Prop 172 revenue in excess of the lesser of 8% or of the average annualized rate of growth of actual revenues, to an ongoing Prop 172 revenue stabilization set-aside contingency. This ongoing Prop 172 revenue stabilization set-aside contingency will only be used to fund Prop 172 base restoration or the cost to maintain current services in years when Prop 172 revenue is anticipated to increase at a rate less than the average annualized rate of growth of actual revenues. The average annualized rate of growth of actual revenues will be calculated using the most recent 15 years' worth of data.

Any one-time unspent money from this ongoing Prop 172 revenue stabilization contingency set-aside or other available one-time Prop 172 amounts that falls into fund balance at the end of the fiscal year will be used as follows: first, to reduce the amount contributed by the County General Fund from its discretionary revenue sources until such time as the prior General Fund backfills of Prop 172 shortfalls are recouped, and second, to address one-time costs for public safety activities.

Encumbrances

An encumbrance is not an expenditure or a liability but merely a reserve of appropriation in a given fiscal year. Expenditures and/or liabilities are recorded when, and if, goods are actually provided or services are actually rendered.

Encumbrances will remain in the originating year for multi-year non-recurring projects, grant funded projects, purchase of fixed assets with extensive leave time, and projects deemed necessary by the CAO. Each December, departments are required to justify previous fiscal year's encumbrances and either cancel the encumbrance or roll forward the encumbrance. If the department decides to roll forward the encumbrance, the amount to be spent in the new fiscal year must be re-budgeted as an appropriation and therefore use new fiscal year funding sources.

Program Efficiency and Performance Measurement

Efficiency and economy in the delivery of County services is a top priority. The County integrated performance measures within the budget. County departments will be encouraged to make productivity improvements within service delivery areas.

Retirement System Funding

Careful management of financial resources available to pay retirement costs is critical to the County's long-term financial health. Accordingly, for any savings resulting from negative Unfunded Accrued Actuarial Liability (UAAL) contribution rates, the Board will first consider setting aside these savings in a reserve for reduction of any existing pension obligation bonds or as a reserve against future rate increases.

Risk Management Self-Insurance Funds

Annually, the County will recommend premiums for all Risk Management self-insurance programs to achieve or maintain an 80% confidence level within each fund, as determined by a yearly actuarial review, including any additional recommended set-aside to ensure adequate available funding. If funding levels drop below the 80% confidence level, future premiums will be recommended to achieve an 80% confidence level within a period of five years.

Grant Funding

The County will aggressively pursue opportunities for federal, state or local grant funding including private foundations. An aggressive policy of pursuing opportunities for federal or state grants provides citizens with the assurance that the County is striving to obtain all state and federal funds to which it is entitled – thereby reducing dependence on local taxpayers' funds. However, prior to applying for, and accepting such intergovernmental aid, the County will consider the current and future implications of either accepting or rejecting the grant. That consideration shall include:

1. The amount of matching local funds required.
2. In-kind services to be provided.
3. Length of grant, and whether the County is required to continue the service after the grant has ended.
4. Related operating expenses.

The County shall also assess the merits of any individual grant program as if it were funded with local tax dollars.

Use of Variable Rate Interest Savings

Covenants in debt instruments require conservative budgeting of variable rate interest expense. When amounts budgeted for variable rate interest expense for such debt instruments exceed actual interest expense for the year, such savings will be used in the succeeding fiscal year to reduce the total outstanding principal amount of long-term debt. This policy will apply only to interest savings/debt instruments that are paid from discretionary revenue sources of the County's general fund.

Use of Savings from Interest Rate Swap Agreements Associated with the Issuance of Debt

It is the policy of the Board that any benefit realized on interest rate swap agreements where the swap payment received by the County and the actual debt service payment due from the County are not equal per the terms of the swap agreement, be retained as a contingency to offset the County share of any future increases in debt service caused by the swap agreement. This contingency amount will not exceed \$5 million dollars per interest rate swap agreement. The contingency will be retained in the fund that is responsible for payments under the swap.

Intent to Recover Full Cost of Service

The full cost of service should be calculated for all County services to provide a basis for setting fees or charges. Full cost should include direct and indirect costs. This calculation is recommended to be reviewed and updated annually and required to be reviewed and updated every three years.

LEAD DEPARTMENT

County Administrative Office – Finance and Administration

APPROVAL HISTORY

Adopted August 22, 2006 (Item No. 71)

Amended June 15, 2012 (Item No. 1); January 7, 2020 (Item No. 17); June 11, 2024 (Item No. XX)

REVIEW DATES

June 11, 2029