

GUIDE TO BUDGET

A GUIDE TO THE BUTTE COUNTY PROPOSED BUDGET

The intent of this Guide is to explain the basic concepts of how Butte County government plans and accounts for its finances in order to meet its stewardship obligation over the public's money. Butte County government provides for the basic safety, health, and welfare of its citizens by providing a variety of services to the public. The County provides a wide variety of social, health, environmental, public safety, and other services making it a challenge for the County to keep its citizens informed and involved in the business of government. Hopefully, this Guide will make it easier to understand how at least some of the County's financial activities work.

WHAT IS THE BUDGET?

The annual budget of Butte County government is a statement of the financial policy and plan of the County for the fiscal year. The budget document presents, in detail, the financial plan for the County, including its various sources of revenue (resources) and the allocation of these resources to the various programs of the County. The Board of Supervisors adopts the budget by passing a Resolution making an appropriation of funds.

WHAT IS AN APPROPRIATION?

An appropriation is the common term for the authorization granted by the Board of Supervisors to make expenditures and to incur obligations for specific purposes. An appropriation is usually time limited and must be expended or obligated before that deadline.

WHAT ARE REVENUES?

The income received through taxes, licenses and permits, grants from other governments, charges for services, fines and forfeits, and other miscellaneous sources are revenues. We also refer to these dollars as financial resources.

WHAT ARE EXPENDITURES?

Expenditures occur when the County buys goods and services and pays its employees. Expenditures can be categorized into three types: operating expenditures, capital expenditures, and debt service expenditures. Operating expenditures are the day-to-day spending on salaries, supplies, utilities, services, and contracts. Capital expenditures are generally for acquisition of major assets such as land and buildings or for the construction of buildings and other improvements. Debt expenditures repay borrowed money and interest on that borrowed money.

WHAT IS A FUND?

The County is financially organized into many separate fiscal and accounting entities known as funds. Each fund is a separate division for accounting and budgeting purposes. The fund accounting process allows the County to budget and account for revenues that are restricted by law or policy to a specific use or purpose in accordance with nationally recognized rules of governmental accounting and budgeting.

The County budget consists of many funds. Each fund can be viewed as a separate checking account to be used for a specific purpose. All funds of the County fall into one of six major categories. Following is a brief description of these six fund categories.

General Fund: The General Fund finances most services that the County provides. This includes law enforcement and other criminal justice, community development and land use planning, elections and voter registration, juvenile services, and administration. The General Fund is basically a "catch-all" for accounting for County operations that do not have to be accounted for in a different fund.

Special Revenue Funds: Special revenue funds are used to account for revenues that must be

used by law for specific purposes. An example is the Road Fund where the transportation allocations and taxes received from the State are accounted for and which must be used only for roads and bridges.

Capital Projects Funds: The Capital Project Funds are used to account for the acquisition or construction of major capital facilities or equipment.

Enterprise Funds: Enterprise funds are established to account for operations that are financed and operated in a manner similar to private businesses with the intent that the cost of goods or services provided will be recovered primarily through user charges. Enterprise Funds, as an example, are used to finance and account for all costs related to the Butte County landfill.

Internal Service Funds: Internal service funds are used by the County to account for the financing of goods or services provided by one department or agency to other departments or agencies of the County on a cost reimbursement basis. An example of an internal service fund is the Workers Compensation Fund.

Debt Service Funds: Debt service funds are used by the County to account for the accumulation of resources for, and the repayment of, money borrowed and the interest on these debts.

WHY USE FUNDS?

Reason 1: Fund accounting is required by the State. California State law governs how counties and cities in the State will account for their revenues and expenditures. All cities and counties are audited annually to ensure that they have followed the accounting rules.

Reason 2: Whenever a city or county receives dollars from the State or Federal government in the form of a grant, the city or county must account for those dollars in the manner proscribed by the State or United States governments. Again, audits are conducted to ensure that these accounting rules are followed.

Reason 3: Whenever a local government goes to the financial market to borrow money, the local government must provide financial statements that show, in accordance with national accounting standards, the financial condition of the local government. Financial institutions and investors will loan money to the local government only if the local government can demonstrate through its financial statements that it can repay the debt.

Reason 4: The County, like all other local governments nationwide, uses fund accounting because this system of accounting is the standard proscribed by national organizations that are associations of accountants and finance professionals from cities and counties all over the country. The principles used to account for businesses, called Generally Accepted Accounting Principles (GAAP), are established by the Financial Accounting Standards Board (FASB). Similarly, principles used to account for local government finances are established by the Governmental Accounting Standards Board (GASB).

WHAT IS A TRANSFER?

Interfund operating transfers represent subsidies and contributions provided to operating funds, debt service funds, and capital project funds from another fund with no corresponding debt or promise to repay. An example of operating transfers is the transfer of funds from the General Fund to the Library Fund in order to account for specific library funds and the contribution of discretionary revenue towards library operations. Another example is the transfer of funds from the General Fund and other operating funds to the Debt Service Fund for the purpose of accounting for debt payments on the County's Pension Obligation Bonds.

WHAT IS A FUND BALANCE?

Fund balance is the difference between the assets and liabilities of the fund. It is good financial policy to have a reasonable amount of fund balance for emergencies and to carry the fund through slack times in

revenue collections. In a given year, if revenues exceed expenditures, the fund balance will increase, if expenditures exceed revenues, then the fund balance will decrease.

ACCOUNTING FOR TAX DOLLARS

It is the responsibility of the County Auditor-Controller to account for the receipt and expenditure of all County funds. The County Auditor-Controller annually issues what is referred to as the Comprehensive Annual Financial Report (CAFR) to show the financial condition of every County fund and details of each fund's revenues and expenditures during the fiscal year. Where the CAFR shows what actually happened financially and is published after the end of the fiscal year, the budget document shows how the County plans to spend the revenues that it receives during the fiscal year.

A BALANCED BUDGET

By law, each separate fund must have a balanced budget. This means that the revenues, including fund balance carryovers, must equal the appropriations and reserves. So, for each fund, the budget spells out where the dollars are coming from and how they will be spent.

THE OPERATING BUDGET – SERVICES TO THE PUBLIC

The majority of services provided by the County to its citizens are accounted for in operating funds, which are predominantly the General Fund, Welfare Fund, Child Support Services Fund, Road Fund, Water Fund, Fire Fund, and Library Fund.

The expenditure budget for all funds is itemized into categories, often called line items but sometimes referred to as major objects, objects, accounts, and subaccounts, depending on the level of detail. These line item categories are used to account for expenditures made. However, for budgeting and planning allocations, the major object level of detail is used. The various line items are grouped into several major object categories. These are:

Salaries and Benefits: This is the amount paid for personal services rendered by employees in accordance with the rates, hours, terms, and conditions authorized by law or stated in employment agreements. This category includes overtime, vacation and sick pay, health insurance, retirement, social security, and unemployment insurance.

Services and Supplies: This category of expenditures is for services other than those provided by County personnel that are needed by the County. Such services may be provided by another governmental agency or by private business organizations, including professional services, insurance, utilities, advertising, etc. This category includes articles and commodities purchased for consumption or resale, such as office and operating supplies.

Other Charges: This category is used to segregate intergovernmental purchases of specialized services typically performed by other departments or other levels of government. This category includes payments to the State for mental health institutionalization and youth placements in California Youth Authority facilities. This category also includes expenditures made to other funds or departments for services rendered. Services provided by other funds to the General Fund include insurance, information services, telecommunications, equipment usage, and miscellaneous services.

Capital Assets: This category of expenditures is for acquisition of, rights to, or additions to capital assets, such as land, buildings, improvements, and machinery and equipment.

Other Financing Uses: This category of expenditures represents contributions to other funds for operating subsidies (i.e. transfers).

GLOSSARY OF BUDGET TERMS

Account	A line item classification of expenditure or revenue. Example: "Office Expense" is an account in the category of "Services & Supplies."
Appropriation	An authorization granted by the Board of Supervisors to make expenditures and to incur obligations for specific purposes. An appropriation is usually time limited and must be expended or obligated before that deadline.
Assessed Valuation	A value set upon real estate or other property as a basis for levying taxes.
Authorized Positions	Positions approved by Board of Supervisors and provided for in the County Salary Ordinance.
Available Financing	All the monies available for financing the budget (current property taxes, other revenues, and fund balance, except for reserves).
Available Fund Balance	The amount of fund balance available for financing expenditures and other funding requirements after deducting encumbrances and reserves.
Budget	The planning and controlling document for financial operation with estimates of proposed expenditures and revenues for a given period of time, usually one year.
Budget Unit	The lowest entity in the budget hierarchy that includes all accounts for which a legal appropriation is approved by the Board of Supervisors. A department or agency may have one or more budget units assigned to it. Each budget unit is a collection of line item accounts necessary to fund a certain division or set of goal-related functions.
Budgeted Positions	The number of <i>full-time equivalent</i> positions to be funded in the budget months (12 months, 261 days and 2080 hours all equal 1.00 budgeted position).
Capital Projects	The County's acquisition or construction of and improvements to buildings and land assets.
COLA	Cost-of-living adjustment.

GLOSSARY OF BUDGET TERMS

Contingency	An amount appropriated for unforeseen expenditure requirements. A contingency budget may occur for each special fund.
County Service Area (CSA)	A special district created to provide a variety of services, such as street lighting and drainage.
County Wide Funds	The operating funds of the County accounting for expenditures and revenues for County Wide activities.
Department	An organizational unit of County government used to group programs of a like nature under the direction of an elected or appointed county official.
Discretionary Program or Service	Any program or service where the Board of Supervisors may exercise its freedom of choice with respect to the level of spending or the type of service or program provided.
Educational Revenue Augmentation Fund	The fund through which county, city and special districts' property tax revenues are allocated, as prescribed by State law, to schools.
Encumbrance	Funds designated but not yet spent for a specific purpose, usually backed by a purchase order, contract, or other commitment, which are chargeable to an appropriation.
Enterprise Fund	Established to account for the expenditures and means of financing of an activity which is predominantly self-supported by user charges. Example: Neal Road Landfill Management Fund.
Expenditure	The use of funds for a specific purpose.
Expenditure Transfer	A transfer of costs from or to departments in other operating funds or to budget units within the same fund.
Extra Help	Work to be performed on less than a year-round basis to cover seasonal peak work loads or emergency work loads of limited duration, necessary long-term sick leave relief, and other situations involving fluctuating staff. Extra help can be used where no authorized position exists, but where funding exists to cover the cost.
Final Budget	Final approved spending plan for a fiscal year. The Board of Supervisors is required to adopt a final budget each fiscal year within a specific time period.

GLOSSARY OF BUDGET TERMS

Fiscal Year	Twelve-month period for which a budget is prepared. Butte County's fiscal year is July 1 through June 30 of each year.
Fish & Game Fund	Accounts for all the fish and game fines collected by the courts. Expenditures from this fund are for game and wildlife propagation.
Fixed Asset	An asset of long-term character such as land, buildings, certain furniture and other equipment with a cost greater than \$5,000.
Full-time Equivalent	The number of <i>full-time equivalent</i> positions to be funded in the budget (12 months, 260 days and 2080 hours all equal 1.00 budgeted position).
Function	A group of related budget units and programs aimed at accomplishing a major service for which County government is responsible. These designations are made by the State Controller. Example: "Public Protection" is a function.
Fund	Independent fiscal and accounting entity in which expenditures and available financing balance. Funds may contain one or more budget units.
Fund Balance	The amount of dollar resources remaining in a fund at year's end. Usually this is the difference between total expenditures and total resources of a fund. A portion of this balance may be available to finance the next year's budget.
General Fund	The main operating fund providing general county-wide services.
General Purpose Revenue	Property taxes and non-program revenues not restricted for a specific purpose.
Grant	A contribution from one governmental unit to another usually made for a specific purpose and time period.
Internal Service Fund (ISF)	Consists of organizations created to perform specified services for other County departments on a cost for service basis. The services performed are charged to the using department. Example: Workers Compensation.
Interfund Transfer	A transfer made between budget units in different funds for services rendered and received. The service rendering budget unit shows these transfers as revenue, as opposed to expense reduction.

GLOSSARY OF BUDGET TERMS

<i>Intrafund Transfer</i>	Refers to a transfer made between budget units within the same fund for services rendered and received.
<i>Library Fund</i>	Accounts for revenues to and expenditures by the Libraries.
<i>Maintenance of Effort</i>	Refers to federal or state statutory or regulatory program requirements that the County must maintain to participate in a program and/or to receive funding for a program.
<i>Major Object of Expenditure</i>	Unique identification number and title for an expenditure category or means of financing. Example: Salaries & Employee Benefits.
<i>Mandated Program/ Service</i>	A program or service required by federal or state government that the county is legally obligated to carry out.
<i>Proposed Budget</i>	The working document of department requests and Chief Administrative Office recommendations for revenues and expenditures for the upcoming fiscal year.
<i>Purchase Order</i>	Authorizes the delivery of specific goods or services, and incurrence of debt for them.
<i>Realignment Revenue</i>	Funds from vehicle license fee and sales tax revenues collected by the state and allocated to counties. These funds are "a backfill" of the loss of State General Fund support for health, social services and youth correction programs.
<i>Real Property</i>	Land, structures and capital improvements.
<i>Reserve</i>	An amount set aside from the County's operating funds to meet emergency expenditure requirements, capital funding or insurance and liability requirements.
<i>Restricted Revenue</i>	Funds restricted by legal or contractual requirements for specific uses.
<i>Revenue</i>	Funds received from various sources and treated as income to the County which are used to finance expenditures. Examples: property taxes and sales taxes.
<i>Road Fund</i>	Accounts for expenditures on road, street, and bridge construction and improvement projects.

GLOSSARY OF BUDGET TERMS

Salaries and Employee Benefits	A major expense to account for the total cost of compensating county employees. Included in this object are regular salaries, extra help salaries, overtime, standby and callback pay; the county's share of health, dental, retirement, social security and workers' compensation costs.
Salary Savings	That percentage or dollar amount of salaries which can be expected to be saved due to vacancies.
Secured Taxes	Taxes levied on real property in the County, which are "secured" by property liens.
Services & Supplies	A major classification of objects of expenditures which provide for the operating expenses of County departments other than personnel, fixed assets or other charges.
Special District	A unit of local government generally organized to perform a single function. Special districts are governed either by the Board of Supervisors or locally elected or appointed boards, and their operations are accounted for in separate funds.
Tax Levy	The amount of tax dollars billed to taxpayers based on the imposition of the tax rate on the assessed valuation of property.
Tax Rate	The rate per one hundred dollars of the assessed valuation necessary to produce the tax levy.
Unincorporated Area	The areas of the County outside city limits. Some county services are provided only in the unincorporated areas of the County. Example: Sheriff's patrol.
Unrestricted Revenue	Funds not restricted by legal or contractual requirements for specific uses. The amount of general purpose revenue remaining after covering the cost of unfunded state mandated programs.
Unsecured Tax	A tax on properties such as office furniture, equipment, and boats that are not located on property owned by the assessee.